

BEAUTIFUL HEALTHY REFRESHING

for people and the planet



ANNIVERSARY

About this Report

Report Overview

LG H&H has shared its sustainability management activities on an annual basis through its CSR Report since 2009, and this report is the 10th CSR Report. The CSR Report is used as a communication channel that transparently discloses the company's performance and reflects stakeholders' opinions of business activities.

Scope

The reporting period of this Report is from January 1 to December 31, 2018, and it partially contains data pertaining to the past three years from 2016 to compare changes in trends. Certain data from 2019 is included, depending on its timeliness and importance. The scope of this report encompasses the headquarters of LG H&H and its domestic and overseas subsidiaries, including Coca-Cola Beverage, HAITAI htb, and THEFACESHOP. We noted if the scope of certain data is different.

Standard and Principle

This Report was developed based on the Core Option of the GRI (Global Reporting Initiative) Standards. The SASB (Sustainability Accounting Standards Board) Standard, the Ten Principles of UNGC (United Nations Global Compact), and the UN SDGs (UN Sustainable Development Goals) were also considered.

Assurance

The objectivity and accuracy of the content, data, and standards of the Report were verified by an independent assurance agency, Lloyd's Register Korea, in accordance with the agency's verification protocol based on the three principles (comprehensiveness, materiality and responsiveness) of AA1000AS (2008). The assurance report can be found on pp. 110-111.

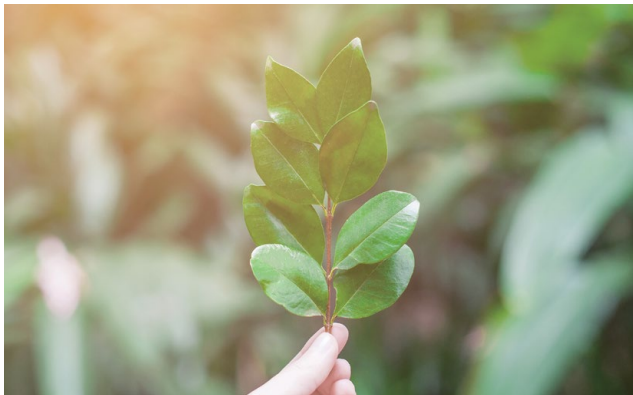
Inquiries

If you have any further questions about this report, please feel free to reach us via the following contact details.

LG H&H CSR Team

- Tel 02-6924-6927
- Website www.lghnh.com
- E-mail lgcsr@lghnh.com

2018 LG HOUSEHOLD & HEALTH CARE CSR REPORT



● Overview

CEO Message	02
Company Overview	04
Business Overview	06
Economic Value Creation	12

● Focus Issues & Business Cases

Create Customer Value	16
Developing Products with Social Value	30
Expanding to the Global Market	40
10th Anniversary	
10 Years of Traces of LG H&H	44
10th Anniversary of CSR Report	46

● Sustainable Management

CSR Strategy & Roadmap	50
Sustainability Value Chain	52
Employee Value	54
Customer Satisfaction	60
Social Contribution	62
Environment and Safety Management	68
Win-win Growth	76

● Governance

Governance	84
Risk Management	86
Jeong-Do Management	90
Stakeholder Engagement	92
Materiality Test	94

● Appendix

Economic Performance	100
Environmental Performance	102
Social Performance	104
GRI Index	107
UNGC & SASB	109
Independent Assurance Statement	110
GHG Emissions Verification Statement	112
Tax Policy	115

CEO Message



Leading the market and pursuing sustainable growth
to create a company that is “small but sparkling like a gem”

Greetings to our valued customers,

This year, LG H&H celebrates the 10th anniversary of its CSR report. We extend our deepest gratitude for your unwavering support and enthusiasm for our products.

Looking back on 2018, we achieved good results amid challenges. Since its launch 15 years ago, sales of The History of Whoo reached KRW 2 trillion, becoming one of the world's best premium cosmetic brands as a single brand. Following the path of the History of Whoo, we are excited that Sum37° and O HUI are fast moving to join the ranks of premium brands.

In terms of household goods business, holding the No.1 position in the domestic market does not mean we rest on our laurels or settle for status quo. We are constantly at work to set new standards for quality and make improvements in the way we operate. We have refined our business structure with the goal of achieving medium-and long-term sustainable growth rather than growth driven by short-term expansion. We have laid the foundation for expanding our overseas business, which is essential in further advancing our premium brands. The beverage business has also continued to grow, paving the way for limitless possibilities.

Such notable achievements make us think about the future of our company. A company that is 'small but sparkling like a gem' is the image that I envision for the future of the company. In 2019, we will lead the market and pursue sustainable growth to become a company that shines in every aspect of our business scope. In realizing our aspirations, we will focus on the following three key areas.

First, we will strengthen trust, or the basis for becoming 'a company that sparkles like a gem'.

Mira Kim, a writer said, "Trust is what we feel when we find a strawberry at the bottom of the box that is bigger than those on the top." Are we selling the best-quality products? Are our products truly effective? Do we sell safe products? Do we provide distinctive satisfaction and pride to our customers who use our products? To continue serving as a trusted company, we will constantly ask these questions to accomplish the results that exceed our customer's expectations across all aspects of our business.

Second, we will not miss a beat.

Historian Arnold Toynbee said "Half of success comes from a desperate situation near death, while half of failures comes from nostalgia of the golden age." Our achievements will not lead us to complacency we will apply the highest degree of thoroughness, discipline, and rigor in our operation and processes.

Third, we will constantly improve our business structure and the way of we operate.

Improving our business structure is not a one-time endeavor that can generate material results in the short term. It is an outcome achieved through continued and concerted effort. Group leaders and its members will work closely to identify high value-added business. Once identified, we will allocate resources to those business areas with the aim of leading the market.

In celebration of our 10th anniversary, we prepared our 2018 CSR Report with special features. We provided transparent information of our activities in sustainability and performances that we have pledged to our customers, suppliers, local community and employees.

Moreover, we included information on the safety and reliability of our products, which are a major concern of our customers. We also included our contributions in creating value in the social and environmental sectors and how we have expanded our global reach. In particular, we prepared content covering our 10-year journey. The wisdom we obtained in the past decade will help architect our future growth trajectory.

Recently, investors have demanded environmental, social and governance initiatives to be integrated into management strategies and those efforts to be disclosed. LG H&H, as a global leader in sustainability, will continue to comply with the 10 principles set forth by the UN Global Compact, and create a better future by pursuing corporate social responsibility with unparalleled vigor.

Your continued support is greatly appreciated.

Thank you.

June 2019

Suk Cha, CEO & Vice Chairman

차 석 용

Company Overview

Since its foundation in 1947, under the vision to become a top lifestyle company actualizing the beauty and dreams of its consumers, LG H&H has permeated every aspect of daily life and helped consumers live beautiful, healthy, and refreshing lives. Based in our Gwanghwamun Headquarters in Seoul, Korea, our subsidiaries are located in China, Japan, Vietnam, Taiwan, the United States, and Canada. We strive to provide distinct value across our entire business scope ranging from product manufacturing and packaging, the way we conduct our tasks, to marketing strategies and sales methods.

Company Profile

Company Name	LG Household & Health Care Ltd.
Address	LG Gwanghwamun Building, 58, Saemunan-ro, Jongno-gu, Seoul, South Korea
Foundation	Jan 1947
CEO	Suk Cha
Business Type	Cosmetics, household goods, beverages

Global Network

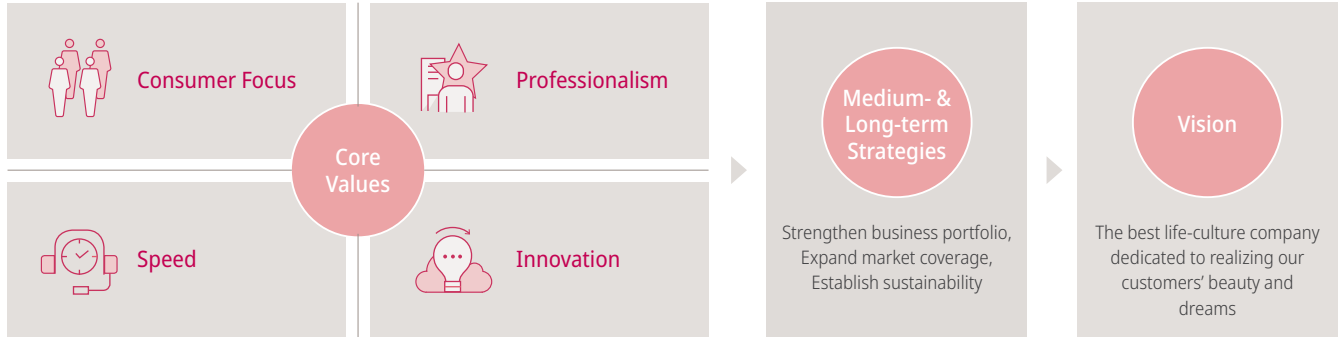
We strive to become a global cosmetics, household product and beverage company.



Number of countries where we have an overseas subsidiary

61 countries

Medium- & Long-term Strategies



Major Domestic and Overseas Subsidiaries

Domestic (Unit: %)					
Domestic	Location (HQ)	Share	Domestic	Location (HQ)	Share
Coca-Cola Beverage	Yongsan, Korea	90	FMG	Chuncheon, Korea	70
THEFACESHOP	Seoul, Korea	100	Bright World	Cheongju, Korea	100
HAITAI htb	Seoul, Korea	100	BM LAB	Daejeon, Korea	70
Hankook Beverage	Namwon, Korea	100	LG Farouk Co.	Seoul, Korea	50
CNP Cosmetics	Seoul, Korea	100	Tai Guk Pharm Co., Ltd.	Buyeo, Chungcheongnam-do	92.7
K&I	Seoul, Korea	100			

Overseas (Unit: %)		
Overseas Subsidiaries	Location (HQ)	Share
LG Household & Health Care Trading (Shanghai)	Shanghai, China	100
Beijing LG Household Chemical	Beijing, China	78
Hangzhou LG Cosmetics	Hangzhou, China	100
LG Household & Health Care Cosmetics R&D (Shanghai) Co., Ltd.	Shanghai, China	100
THEFACESHOP(Shanghai) Co., Ltd	Shanghai, China	100
Ginza Stefany Inc.	Tokyo, Japan	100
Everlife Co., Ltd.	Fukuoka, Japan	100
Toiletory Japan Inc.	Osaka, Japan	70
LG Vina Cosmetics Company Limited	Ho Chi Minh, Vietnam	60
LG Household & Health Care America Inc.	New Jersey, United States	100
LG Household & Health Care (Taiwan) Ltd.	Taipei, Taiwan	100
LG H&H HK LIMITED	Hong Kong	80
TFS Singapore Private Limited	Singapore	100
Fruits & Passion Boutiques Inc.	Quebec, Canada	100
LG Household & Health Care Malaysia Sdn. Bhd	Malaysia	100

Domestic Business Sites			
LG H&H	Headquarters in Seoul	HAITAI htb	Business site in Cheorwon
	Business site in Cheongju		Business site in Pyeongchang
	R&D campus in Daejeon		Business site in Cheonan
	Business site in Naju		Business site in Iksan
	Business site in Ulsan	THEFACESHOP	Business site in Incheon
	Business site in Onsan	FMG	Business site in Chuncheon
Coca-Cola Beverage	Magok LG Science park	Hankook Beverage	Business site in Namwon
	Business site in Yeosu	Tai Guk Pharm Co., Ltd.	Business site in Buyeo
	Business site in Gwangju		Business site in Hyangnam
	Business site in Yongsan		Business site in Gochang

BUSINESS OVERVIEW

BEAUTIFUL

BEAUTIFUL DIVISION

We aim to one of the world's highest quality brand portfolio to help customers actualize their dream of healthy beauty. To expand our global reach, we will stabilize and accelerate our overseas operations in the markets we have already entered, while expanding our business in the regions where we do not have a presence.

Sum37°

Ranked No.1 in the category of Korean premium skin care brands most loved by Chinese consumers for three consecutive years(Su:m37°)

*Survey data from 2018 Korea Marketing Association, People's Daily Online

2019 Best of Best Cosmetics by Singles Magazine (Losec Summa Elixir Essence Secrétá)

Winner of Antiaging Category by ELLE Korea Beauty Award 2018 (Losec Summa Elixir Essence Secrétá)

A cosmetic product with naturally fermented ingredients made with time and effort to fundamentally revitalize your skin

Belif

Ranked No.1 in the moisturizing cream category

*Based on the Kantar Worldpanel Survey as of 3Q in 2018 (department store channels)

A leading global product that is sold every 20 seconds

*Based on internal sales data in 2017

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

Ranked **1st**

Ranked **1st**

KRW **2** trillion

The History of Whoo

First Korean brand to achieve KRW 2 trillion in annual sales

Ranked No.1 in the domestic prestige anti-wrinkle functional essence category for eight consecutive years (Representative product of The History of Whoo)

*Based on the Kantar Worldpanel Survey as of Jan 2011 to Dec 2018

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

Satisfaction level among flight attendants

96%

O HUI

Ranked No.1 in the Antiaging Category at the 2018 Beautiful Super Cosmetic Awards

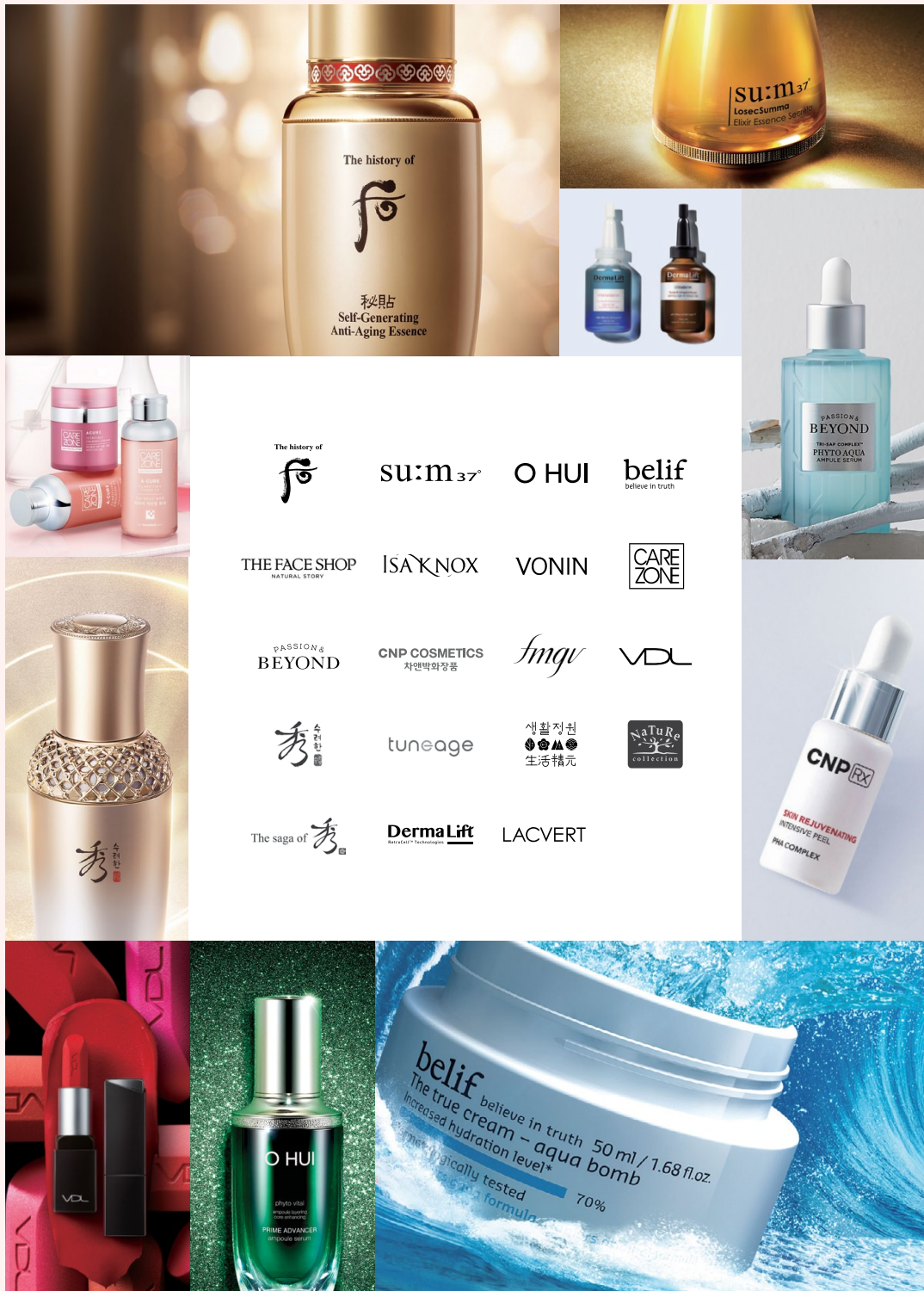
Satisfaction level among flight attendants 96%

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

A science-based cosmetic brand that helps women unlock timeless beauty



| LIVE YOUR DREAM CHANGE YOUR LIFE |



BUSINESS OVERVIEW

HEALTHY

HEALTHY DIVISION

We continue to reinforce our growth engines by creating new values in the household goods division with products loved and trusted by customers and enter the rapidly-growing health supplement market.

We will raise safety standards for all our products and continue to make premium products with new high-functioning ingredients, creating a convenient and healthy lifestyle.

TECH

Ranked **1st**

Ranked No.1 for 10 consecutive years

*Survey data from Nielsen, domestic market

Top laundry detergent brand in the Korean market that provides best laundry solution.



Ranked **1st**

Elastine

Ranked No.1 for 15 consecutive years

*Survey data from Nielsen, domestic market

"Elastine brings the benefits of skincare to your hair"
- Total hair product brand



ON:THE BODY

Ranked **1st**

Ranked No.1, 2018 Body Wash MS

*Survey data from Nielsen, domestic market

Tone up your skin by showing.
Functional body skincare brand



Ranked **1st**

PERIOE

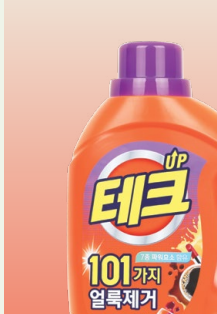
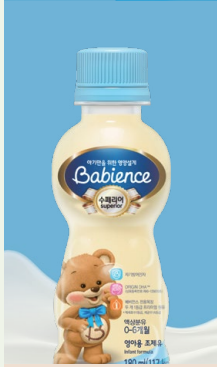
Ranked No.1 for 28 consecutive years

*Survey data from Nielsen, domestic market

A leading national total oral health care brand in Korea



| FOR YOUR HEALTHY LIFE |



BUSINESS OVERVIEW

REFRESHING

REFRESHING DIVISION

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

TORETA & POWERADE

A low-calorie sports drink with electrolytes
For good health and immediate hydration

Sports drink with electrolytes for good health and quick hydration

Minute Maid

Ranked first in the global market

*Based on the category of beverages containing 1-100% fruit juice, Global sales data as of 2017

Global juice brand with 75 years of tradition

Ranked **1st**

Ranked **1st**

Coca-Cola

Ranked first in the global market
*The category of carbonated soft drinks, Nielsen 2017 sales data.

Ranked as one of the most influential brand in the global market
*Based on 2018 Interbrand

The most loved carbonated drink brand for over 130 years

GangWon PyeongChangSoo

Official mineral water of the 2018 PyeongChang Winter Olympics

Mineral water brand that offers the true purity of water

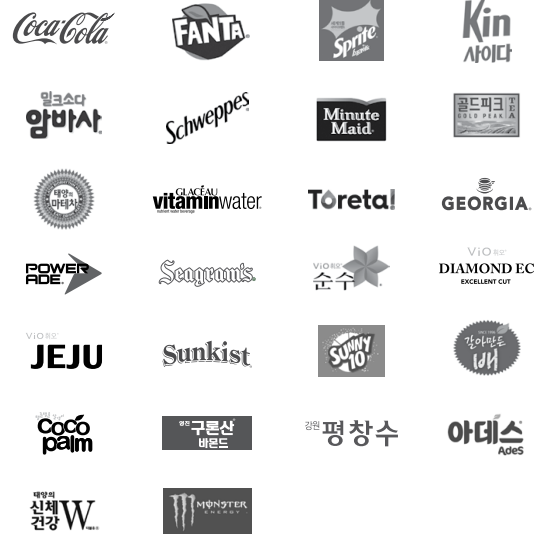
SINCE **1963**

Guronsan

Invigorating drink brand with 55 years of tradition



| FOR YOUR REFRESHING LIFE |



Economic Value Creation

Financial Performance in 2018

Financial Highlights

A robust growth in cosmetic products, along with stable growth in household goods and beverages, enabled LG H&H to generate a record KRW 6.7 trillion in sales in 2018. We also delivered the strongest operating profit and net profit during the term. Our balanced portfolio comprised of cosmetics, household goods and beverages allowed us to achieve solid quarterly sales and operating profit amid a number of challenges in the domestic and overseas markets. Furthermore, since its launch 15 years ago, our luxury brand The History of Whoo registered KRW 2 trillion in annual sales, or record sales for a Korean single cosmetic brand. We were able to secure a business structure that can withstand potential external shocks and deliver sustainable growth by building our capacity in premium cosmetics and household goods brands. In 2018, LG H&H recorded a net profit of KRW 0.6923 trillion on sales of KRW 6.7475 trillion. Operating profit stood at KRW 1.0393 trillion during the term.

Debt Ratio and Credit Rating

Our debt ratio was 46.8%, a decrease from 55.1% late last year. We achieved a credit rating of AA+, rated by Korea Investors Service, Nice Information Service, and Korea Ratings.

2018 Business Performance

Looking back on 2018, we achieved good results amid challenges. Our outstanding results and high growth were driven by our differentiated luxury cosmetic business and favorable market conditions in China. The History of Whoo, our luxury brand, generated KRW 1 trillion in sales in the shortest time frame since its launch. The History of Whoo joined the ranks of global premium brands after its annual sales reached KRW 2 trillion, which is a milestone for a Korean single cosmetic brand. In the household goods division, we continued to develop premium brands and refined the business structure to achieve medium- and long-term sustainable growth. In the beverage division, we were able to further strengthen the foundation of our business with steady growth.

Beauty Division

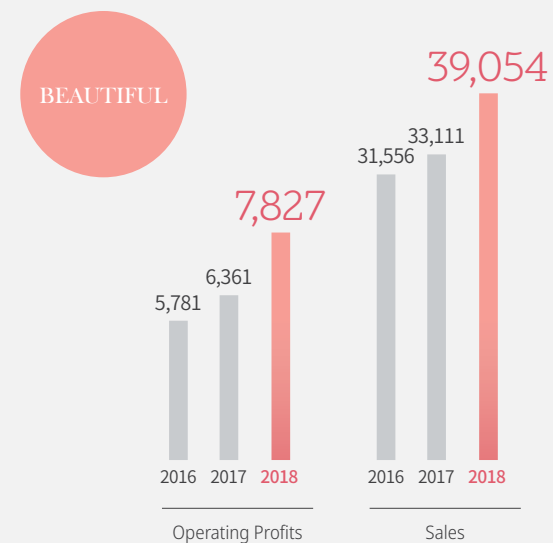
2018 Business Performance

Despite difficult times at home and abroad, The History of Whoo became a true global brand by expanding sales in duty-free shops and overseas markets. Following the growth trajectory of The History of Whoo, Su:m37° and O HUI achieved strong sales growth, contributing to the overall performance of the Beauty Division. Extreme competition and rapid changes in distribution channels weighed down the premium cosmetics industry. As a measure to offset the negative impact, we realigned our stores with our nature collection and allocated marketing resources to our major brands. Furthermore, we expanded our global reach by launching a subsidiary in Thailand and the acquisition of an additional subsidiary in Japan.

2019 Business Plan

We will expand the global reach of our cosmetics business beyond China and Japan by accelerating our presence in Southeast Asia, Europe and North America. We will strengthen the capacity of The History of Whoo with the aim of making it one of the world's top 10 cosmetic brands, while actively promoting Su:m37°, O HUI and belif as our next-generation luxury brands. In the premium market, we will strengthen the competitiveness of our major brands by strategically responding to the changes in distribution channels.

Operating Profit and Sales by Division (Unit: KRW 100 million)



Healthy Division

2018 Business Performance

Delivering premium products and identifying new business opportunities enabled us to maintain the No. 1 position in the domestic market amid a slump in the household goods market and extreme competition in the online and offline distribution channels. As a measure to offset the limitations of the domestic market, we expanded our overseas business for long-term growth, while tightening our quality control processes to bolster consumer confidence.

2019 Business Plan

We expect the market to be stagnant in 2019. In such market environment, we will advance our business by securing growth engines. We will also build unrivaled market leadership by developing our premium brands. In terms of overseas business, we will pioneer new markets with our differentiated products in not only China and Japan but also in Southeast Asia and North America.

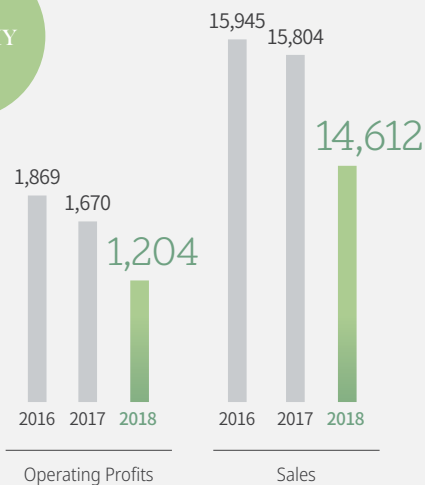
Refreshing Division

2018 Business Performance

We reinforced our brand position through successful marketing activities including the PyeongChang 2018 Olympic Games as well as products developed by collaborating with BTS, a K-pop boyband, and KaKao Friends. We also launched and stabilized the sales of almond beverage Ades, the first of its kind in the market. Introduction of Ades to the market has allowed us to diversify and expand our beverage category. In terms of our mineral water business, we identified a new water source, increasing the possibility of diversifying our business portfolio.

2019 Business Plan

We will increase our capacity in the carbonated beverage category to achieve unrivaled position in market share and continue to develop new products to further strengthen competitiveness of the non-carbonated beverage category. Identification of a new water source and continuing to build premium products will help us achieve sustainable growth and diversify our portfolio for each brand and beverage category.





16

CREATE
CUSTOMER VALUE

30

DEVELOPING PRODUCTS WITH
SOCIAL VALUE



FOCUS ISSUES & BUSINESS CASES

40

EXPANDING TO THE
GLOBAL MARKET

44

10TH ANNIVERSARY

01

CREATE CUSTOMER VALUE

Background

Consumers' patterns of claiming rights are changing due to increasingly various and complex products. In the past, such violations would occur when products did not meet their original functions. Today, the right to safety has become an important component of customer value, with product defects and toxic substances in products potentially harming the lives and physical health of consumers. This has led companies to procure raw materials and adopt production processes that take into account the health and safety of consumers. Protection of consumers translates into creating customer value.

Principle & Strategy

LG H&H is a company that produces a wide range of products for daily life that directly and indirectly affect the human body. The company is committed to delivering true customer value by developing technologies and products centered around the health and safety of customers. We have instituted a strict company-wide system and management structure to ensure the safety of our products.

Category	Major Activities			Plan for 2019
	Index	2017	2018	
Secure safety and quality in the six major categories	Apply the Safe Quality Certification Assessment System	Developed the system	Tested 13 business sites	<ul style="list-style-type: none"> Set the test standards from the perspective of 4M (Man, Material, Machine, Method) and record them, establish the quantification system of the work standards and records, and strengthen the verification of field implementation capacity Quantifying the emotional quality and reflecting the result in the design stage verification: Sight, touch, hearing, taste and smell
	Conduct the Q-gate verification for new materials, subsidiary materials and formula		100%	
	Achieve zero complaint against new products	1.14ppm	0.64ppm	
Reduce waste and loss and upgrade the work process	Rationalize SKU ¹⁾	11,156 cases	7,760 cases	<ul style="list-style-type: none"> Implement S&OP²⁾ in a systematic way and run the invariable period : Product planning invariable period Manage stock turnover period in real-time based on the product level (S, A, B, C) and unit Reduce stock turnover period in all business divisions: 35 days by 2019, 21 days by 2020 Develop core users of RPA³⁾ Paxata⁴⁾ in each group (34 employees)
	Implement tasks to reduce waste and loss		21 tasks	
	Implement tasks to upgrade the work process		54 tasks	
Operate the management system for preventing risk factors	Analyze the safety of harmful substances in advance		25,419 types	<ul style="list-style-type: none"> Build a real-time automated monitoring system of safety-related information (utilize RPA) Establish the standard documents related to quality, environment and safety at each business site, reflect the result in the design stage for facility investment review, and include it in the order specifications as essential data
	Monitor safety covers for operational parts of equipment		Inspected and managed 9,182 locations	
	Improve detection of harmful substances		Identified and improved 9,519 cases	

1) SKU (Stock Keeping Unit): Stock management unit by product

2) S&OP (Sales and Operation Planning): Plan for sales and production

3) RPA (Robotic Process Automation): A system where a software robot automatically proceeds simple and repetitive work processes following preset rules

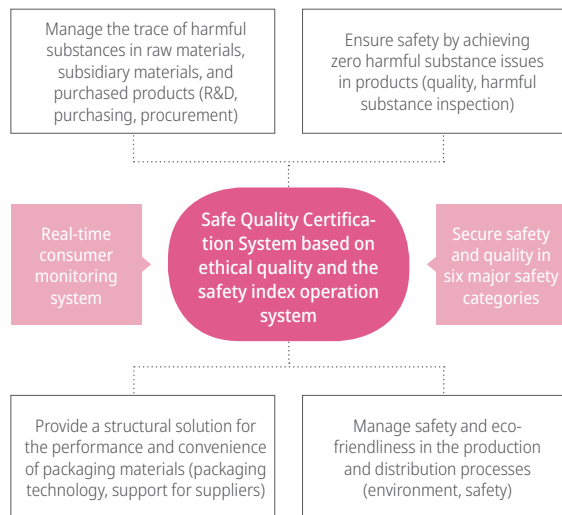
4) Paxata: A data processing platform that swiftly and easily pre-treats large amount of data

Management System for Building Trust with Consumers

Consumer Reassurance Center

In 2017, LG H&H established the Consumer Reassurance Center to manage the safety and quality of our products across all processes including product development to the actual use of products by consumers. Since the launch of the Center, the company has been pursuing to provide safe and reliable products that consumers can trust. Chief among the Center's achievements include securing safety and quality in six major safety categories*, reducing waste and loss, improving work processes, and preventing and managing risk factors in advance. In 2019, we will institute rigorous activities with the aim of achieving zero-alien-substances that may occur in production processes. We believe such diligence will allow us to serve as a consumer-oriented company that promotes consumer safety.

*Law compliance / Safety against harmful substances / Effects and functions / Safety of contents / Quality of subsidiary materials / Convenience for users



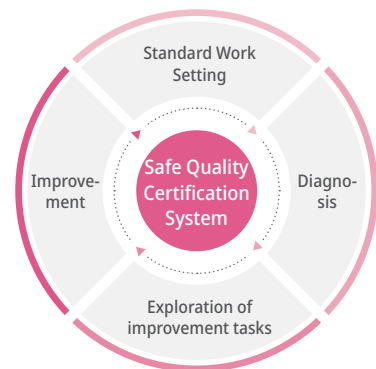
Operation of Safe Quality Certification System

LG H&H set safe quality as a top priority goal. We have developed and managed our unique quality system. The company established the Safe Quality Certification System that assesses the quality level across all processes from production to actual use. We have applied quality standards that are stricter than relevant regulations. With this System, we manage 4M in a strict and systematic method.

Operational Structure of Safe Quality Certification System

STEP. 01 Standard work setting	· Set the standard work process for tasks and production line related to CTQ ¹⁾ (Critical To Quality), CTP ²⁾ (Critical To Process), and 4M ³⁾ (Man, Material, Machine, Method)
STEP. 02 Diagnosis	· Rate each of the production processes and provide certification based on the quality management level assessment in accordance with the evaluation system reflecting regulations, certification criteria, and ethical standards
STEP. 03 Achievement of GAP	· Achieve GAP based on the quality management standards · Come up with measures to overcome GAP issues
STEP. 04 Improvement	· Initiate tasks to overcome GAP issues

- 1) CTQ (Critical To Quality): Factors that have a critical impact on quality
- 2) CTP (Critical To Process): Management items of the process that decide the quality level
- 3) 4M (Man, Material, Machine, Method): Factors that have a direct impact on quality



Safe Quality Certification Assessment Level

The Safe Quality Certification is classified into five levels (1 Crown to 5 Crowns) depending on the score (safe practice, safe satisfaction, safe impression), and is granted to a production line that scores over 650.



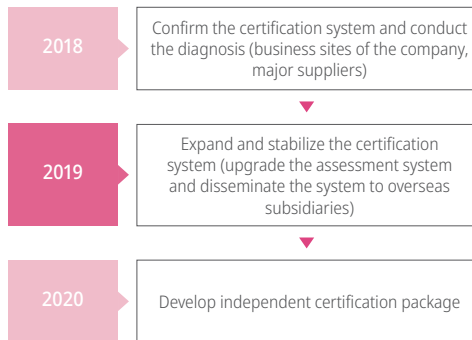
01

CREATE CUSTOMER VALUE

Safe Quality Diagnosis

In 2018, we organized a diagnosis team at each of our 13 business sites and conducted the Safe Quality Diagnosis twice, in the first half (March to May) and second half (September to October) of the year. Every two weeks, we monitored the progress on improvement tasks identified in the diagnosis. We identified 778 cases of improvement tasks in the first half of the year and 623 cases in the second half of the year.

Safe Quality Certification Roadmap

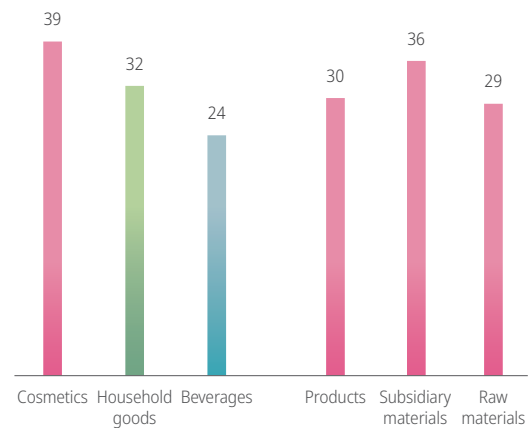


Safe Quality Certification System for Suppliers

As a measure to eliminate any blind spots in quality management, we apply the Safe Quality Certification System to our suppliers for a systematic verification. In 2018, we organized a diagnosis team and conducted diagnosis on 95 suppliers. In the diagnosis, we set six major safety categories, selected CTP and 4M management items for each line, evaluated the work (test) sheet standards, and recorded documents for each process. We identified 941 improvement tasks from the diagnosis and supplemented weak points by monitoring the implementation of improvement tasks. By running the Safe Quality Certification System to our suppliers, we help them build their own improvement capacity. We also operate technical support activities to prevent quality-related risks that may emerge in suppliers.



Target Suppliers for the Safe Quality Certification Assessment (Unit: Number of Company)



*Target suppliers that account for the top 80% based on the amount of purchase



Bolstering of the Operation of the Harmful Substances Analysis Lab.

Since the establishment of the Harmful Substance Analysis Lab. under the Safety Assessment Division in January 2017, LG H&H has swiftly provided accurate harmful substance verification data throughout all processes. In 2018, we completed the verification of over 25,000 samples, including raw materials, new products, and mass-produced products as well as the total inspection of color points. For each lot, we conducted an analysis more than twice a year on high-risk products and raw materials. In addition, we invested in analysis equipment and constantly updated the harmful substance management guide to prevent the use of harmful substances in products. Our primary goal is to ensure that we offer safe quality products to our consumers by achieving zero-harmful-substance-risk throughout the entire company.

Number of Employees in Charge of Harmful Substance Analysis (Unit: Person)



Number of Samples for Harmful Substance Verification

(Products, Lab. Products, Raw Materials, Subsidiary Materials) (Unit: Number)

Category	2017	2018
Cosmetics	12,411	15,509
Household goods	4,278	7,282
Food and beverages	1,044	2,628
Total	17,733	25,419

*Conduct total inspection of the first products manufactured (A-lot) each year, and verify samples with risk of harmful substances for each lot

Usage of Harmful Substances Analysis Equipment

Organic harmful substances	Inorganic harmful substances
Preservative, formaldehyde, 1,4-Dioxane, phthalates, volatile organic compounds, etc.	Arsenic, lead, mercury, cadmium, antimony, uranium, etc.

Investment in Analysis Equipment (Unit: KRW 100 million)

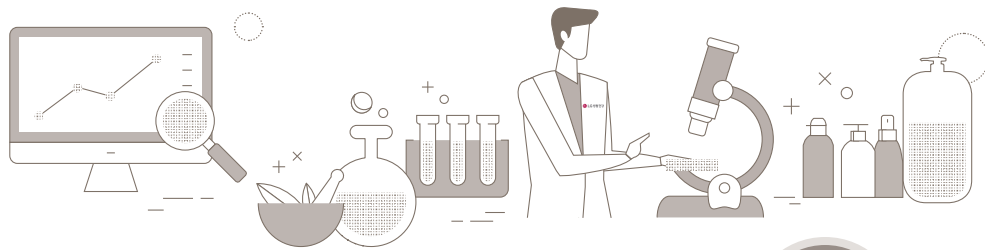
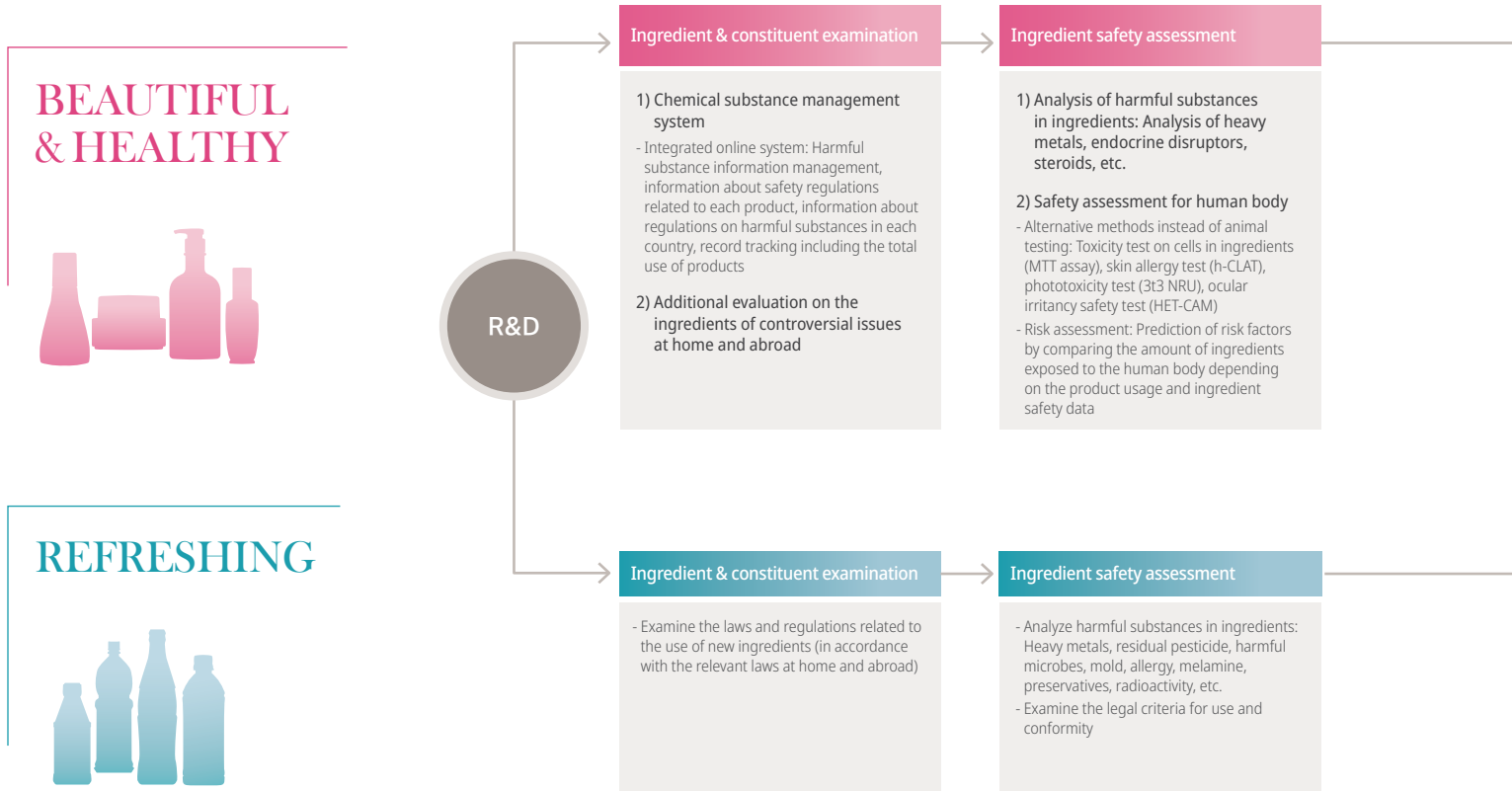
Analysis equipment	2017	2018
ICP/MS radiation detector such as HPLC, LC/MS GC and GC/MS	22.5	2.3

*Established the Harmful Substance Analysis Lab. In 2017

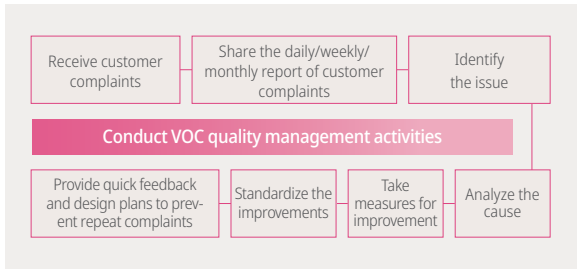
CASE: Provide Suppliers with Support to Ensure Safe Quality by Hiring Retired, Skilled Former Employees

LG H&H supports retired employees to transfer their know-how and experience obtained while working for the company to its suppliers. In particular, most of their activities are aimed at reinforcing the capacity of suppliers by transferring techniques for work procedure documents and work standardization, stabilizing the management of manufacturing and hygiene. They also assist in presenting the direction of diagnosis, improving management for suppliers, and finding solutions to unreasonable items. Furthermore, they provide training for problem-solving methods and finding successful outcomes. Through these efforts, we expect to enhance the work efficiency of suppliers by reducing labor costs and utilizing accumulated know-how. We also pursue mutual growth with suppliers by improving their quality level, thereby providing the best value for our customers.

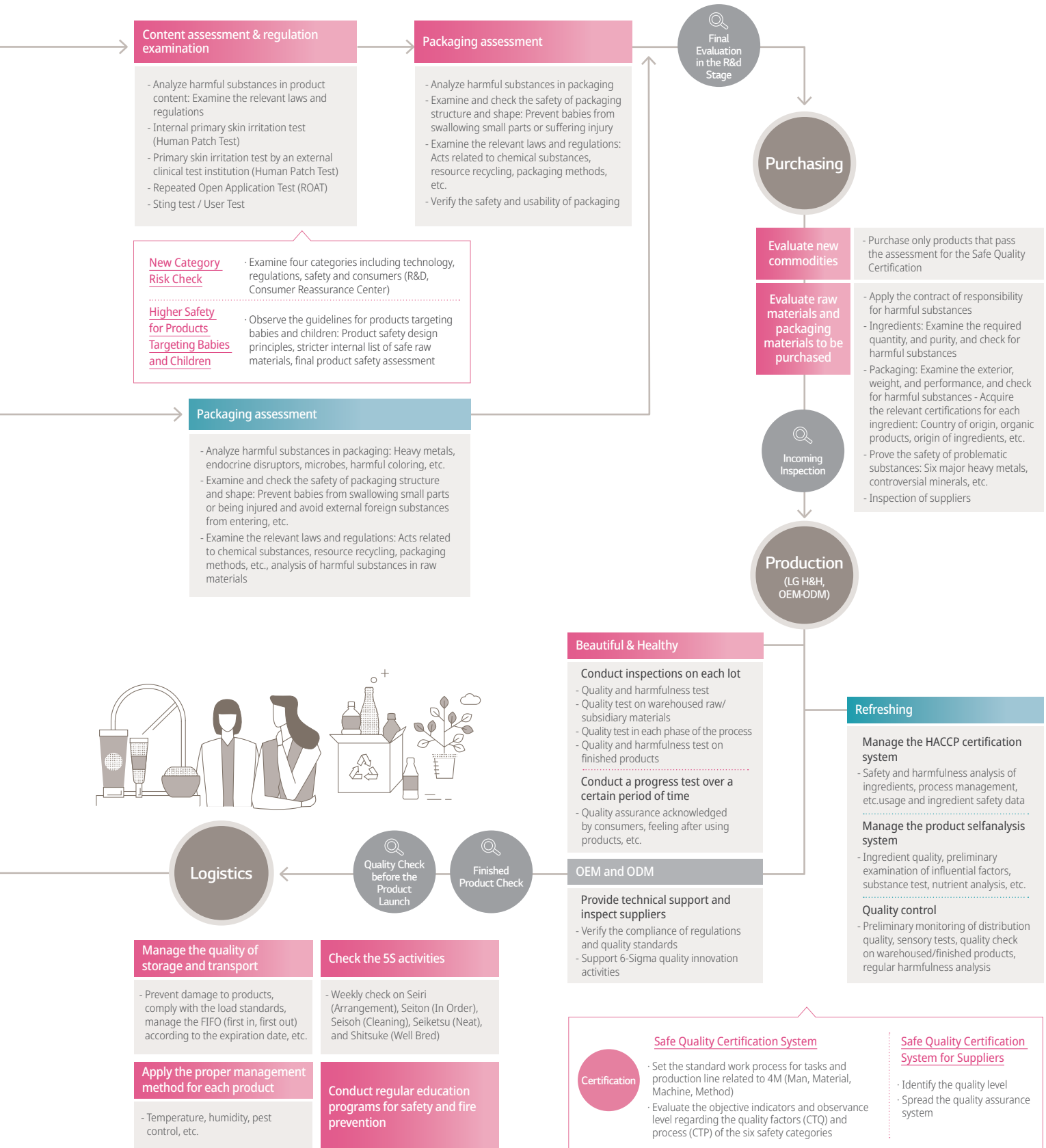
Product Life-Cycle Safety Management Process



- Apply easily recyclable raw materials
- Collect used containers in cooperation with recycling-related institutions
- Apply biomass-based containers



- Ethical advertisements in accordance with the ethical declaration for labeling and advertising**
- Established the ethical declaration for labeling and advertising
 - Examine ethical labeling and advertising



01 CREATE CUSTOMER VALUE

Product Development Focusing on Consumer Safety

Zero Microplastics

Microplastics has emerged as a social concern and measures to reduce their consumption is widely discussed around the world. Since LG H&H provides a variety of household goods, we are working to reduce microplastics as a proactive response to the latest trend. In September 2018, at the forum for Improvement Measures for the Management of Microplastics, we pledged not use any microplastics in our products. Subsequent to our pledge, we found microplastics in our concentrated fabric softener products. We developed and launched fabric softeners without microplastics. Now, we produce and sell microplastic-free products. We are taking a leadership position in the industry by taking the initiative in reducing the use of microplastics.



Disclosure of All Contents of Household Goods with Chemicals

In February 2017, LG H&H entered into the Voluntary Agreement on Safety Management of Chemical Household Goods with relevant government institutions including the Ministry of Environment and the Ministry of Food and Drug Safety. Placing a priority on product safety management and increasing the safety level for consumers with a system that monitors damages to consumers, the agreement is aimed at disclosing all contents of household goods with chemical substances. Those products include cleaning agents, laundry detergents and air fresheners that can expose their chemical substances to users. As of 2018, we have disclosed the contents, functions and harmful substances of 241 products (28 products as of 2017) on our website and that of the Ministry of Environment. By disclosing all product ingredients, we strive to strengthen trust with consumers as a transparent and responsible company.





As LG H&H provides a variety of household goods, the company is proactively and responsibly addressing these issues.

CASE: Microplastics-free Fabric Softener

Fragrance capsules, developed to keep the scent of fabric softener for a long time, consist of substances with raw materials that include microplastics. However, it has yet to be proven that all fragrance capsule products contain microplastics. Washing laundry using products containing microplastics are passed through the sewage system and may pollute the aquatic ecosystem, including drinking water, fish, shellfish, bay salt and seaweed, ultimately affecting human beings who consume products sourced from the aquatic ecosystem. As a response to address these concerns, LG H&H introduced AURA, a microplastics-free, highly-concentrated fabric softener with a long-lasting mild scent. AURA is free of petroleum-based surfactants, 11 types of preservatives and 10 types of allergens.



CASE: Functional Products to Remove Fine Dust

In response to consumer concerns on the ramifications posed by fine dust in daily lives, LG H&H launched a number of functional products that eliminate fine dust including functional detergent, fabric softener and cleaning wipes. Renewed in 2018, Fiji Power Gel is a liquid detergent that removes contaminants and fine dust between fibers with finer bubbles. We introduced a new fabric softener to our Saffron brand that incorporates flower vinegar, which forms a shield on the surface of fabric during the rinsing stage. We also released disposable wet sweeping wipes embossed with large ring-shaped patterns and disposable electrostatic dry wipes embossed with diamond-shaped patterns. These sheets are designed to trap fine dust particles that are difficult to remove.



01 CREATE CUSTOMER VALUE



Customer Value Creation with Innovative Products

A Gentle Dead Skin Cell Turnover Technology

AHA(Alpha-Hydroxy Acid), one of the key substances used to remove dead skin cells, has an outstanding effect on skin tone and texture. However, AHA may cause skin irritation. LG H&H developed an amino-acid and lecithin-based formula, which is gentle for irritant-prone skin and has an efficacy comparable to AHA on real skin pH. Amino acid removes calcium required for cohesion of dead skin cells and weakens the build-up of dead skin cells. The lecithin-based formula enables amino acids to permeate the dead skin layer more effectively. This accelerates the cycle of exfoliating dead skin cells and forming new cells, thereby improving overall skin tone and texture. This technology is applied to various skin care products including essence, facial masks and body wash products. Our major products include O HUI Prime Advancer Ampoule Serum, belif Age Knockdown Bomb, O HUI The First Geniture Ampoule Mask, and ON:THE BODY Veilment Natural Spa Body Wash.

01 O HUI Prime Advancer Ampoule Serum **02** belif Age Knockdown Bomb **03** O HUI The First Geniture Ampoule Mask **04** ON:THE BODY Veilment Natural Spa Body Wash



CASE: O HUI Prime Advancer

We developed O HUI Prime Advancer to help consumers maintain healthy skin condition even in changes in the environment. The Prime Advancer strengthens the skin's core, protecting the skin from changes in the climate and external environment. A survey conducted among flight attendants, who are often exposed to changes in the environment, showed that 98% were satisfied with overall performance of the product, with 95% respondents indicating that they would recommend the product to their colleagues.

CASE: belif Youth Creator – Age Knockdown Bomb

The loss of skin elasticity is one of key factors that causes the skin to age. LG H&H launched Youth Creator – Age Knockdown Bomb improves the elasticity of the skin that has lost its vitality. With gentle, amino acid serine content, this total anti-aging elasticity serum improves skin texture by making it smoother, while combating aging from a slew of free radicals from the city environment with its antioxidant features. The product is competitively priced and maintains a high satisfaction level with its efficacy, ranking it among other top luxury brands.

**CASE:** The History of Whoo Bichup 3-Step Mask

The History of Whoo launched Bichup 3-Step Mask, which maximizes the moisturizing and anti-aging effect of the product when used along with Bichup Soon Hwan Essence, one of the best-sellers of The History of Whoo brand that has long been loved by consumers. This mask is fortified with the active ingredients of Bichup Soon Hwan Essence. It contains a herbal concentrate called Gongjin Bidan and the content, called Haeulhwan, is particularly effective for circulation, reduction of water retention, balancing ki (energy) and revitalization of the skin. With these ingredients, the mask can be used as the first item after washing your face. This facial mask completes a set of essence, cream and mask of The History of Whoo brand and increases consumer satisfaction level with its synergistic moisturizing and anti-aging effects.

**CASE:** Su:m37° Losec Summa

There are a growing number of factors causing skin irritation, so we developed the 'Losec Summa' line, which harmoniously combines Eastern and Western fermentation secret formulas to enhance the vitality of skin and make it elastic and beautiful in any environment. Losec Summa products energize the power deep inside your skin to make it beautiful with remarkable gloss and vitality. After its successful launch in Korea, the attendance of major media outlets and influencers at the launch event in China attracted a great deal of attention to Losec Summa. The product has received a lot of praise for its quick absorption and nutritional elements, and it is expected to become a leading luxury brand in China.

LG H&H developed an amino-acid and lecithin-based formula that is hypoallergenic equal to the effect of AHA on the pH of real skin.

CASE: O HUI The First Geniture

Our skin stem cell research over the past decade has discovered the fundamental cause of skin aging. Based on our research, we developed 'The First Geniture', which is a solution for various skin-related concerns. The First Geniture awakens the young potential inside your skin to restore lively sensitivity, improving its vitality and elasticity. Signature 29 Cell, The First's unique advanced content for skin vitality, along with The First Geniture's leading product, Ampoule Advanced, helps users tackle aging skin. Their effect on improving the evenness, tone, elasticity, texture and gloss of skin has been proven, and they are now leading products in the antiaging cosmetics market.



01

CREATE CUSTOMER VALUE



CASE: Wash Your Feet – ON:THE BODY
Cotton Foot Shampoo

An increasing number of consumers care about their feet, but there are still many people who find washing their feet—the basics of feet care—a bit of a bother. ON:THE BODY Cotton Foot Shampoo remarkably gets rid of the annoyance and uncomfortableness of washing your feet. With this product, you do not have to make soap bubbles with your hands to wash your feet. You can just spray micro-bubbles on your feet, rub your feet without your hands, and then rinse them with water. The product effectively washes off germs, while the patented body odor masking agent gets rid of foot odors. It is a truly innovative product with functions and contents taken into consideration as well as an easy and convenient cleaning process. The product is gaining particular attention as an essential item in winter, when your feet become sweaty due to thick socks and shoes.

CASE: Homestar Max Stove Hood Cleaner

We developed the Homestar Max Stove Hood Cleaner to address the difficulties in cleaning stove hood filters and easily remove stains. The product has three cleaning elements for permeating, soaking and removing stains, and it effectively gets rid of tough stains. Its long-lasting, plentiful bubbles reach all corners of stove hood filters. Users only need to rinse the filters to finish their cleaning – no scrubbing required. The product maximizes user convenience and its superb cleaning power ensures thorough cleaning. The Homestar Max Stove Hood Cleaner has become one of the leading cleaners for stove hood filters, achieving sales of over 150,000 products in the six months since its launch.





CASE: Makeup Shield Yellow Dust Mask (KF80)

While the consumption of masks is growing due to yellow dust and fine dust, many consumers complain about their inconvenience and are reluctant to wear a mask because it can damage their makeup. LG H&H developed Makeup Shield Yellow Dust Mask, a sanitary aid approved by the Ministry of Food and Drug Safety that prevents makeup from being removed. We used a skin-tested, low-density embossing lining to avoid makeup from staining the lining of the mask. We also used an antistatic fine-dust-blocking filter along with adjustable ear loops to ensure the masks fit faces of any shape.



CASE: Bubble Body Wash & Foam Shampoo

When you take a shower, you need to use a towel to make bubbles and then rinse them off. This process is an inconvenience and causes hygiene issues when storing towels in a humid bathroom. With 'Veilment Natural Spa Bubble Body Wash', you can just pump the product three times to make around 100 million elastic bubbles. This ensures you can use plentiful bubbles without a towel and makes for a more convenient showering experience. This innovative product removes the need for a towel and improves your skin.

'Elastine Celluv Botanique Energy Foam Shampoo' reduces damage to the hair caused when you rub your hair to make bubbles. It also helps you care for your hair. The product has double the density of micro-bubbles compared to existing products and provides nutrients to the hard-to-reach scalp. This improves your hair condition because it cleans out the dirt around pores, dead skin cells, and excess sebum and moisturizes your skin.



01

CREATE CUSTOMER VALUE

Open Innovation

LG H&H fosters open innovation activities that are aimed at introducing technologies and ideas required for R&D and commercialization from outside knowledge bases and also work to share our own knowledge with external stakeholders. We promote constant interactions and cooperation with domestic and overseas research institutes, universities, ventures and suppliers to ensure we are using outside knowledge to develop a wide-range of products.



2003
Intensive Nutritive Cream



2005
Hwanyujinaek Essence & Hwanyugo Cream



2008
Self-Generating Anti-Aging Essence



2010
Radiant Regeneration Cream



2017
Ultimate Rejuvenating Emulsion



2018
Whoo Bichup Soon Hwan Mask

CASE: Strengthening Capabilities in Dermatology and Technology of Korean Medicine

Our technology uses Korean medicine developed through open innovation has been adopted into the products of The History of Whoo, a leading royal cosmetic brand that uses traditional Korean medicine. The brand is a long-held favorite of middle-aged women concerned with aging skin and made KRW 2 trillion in sales as a single brand in 2018.

2003-2005

Through ongoing open innovation activities, LG H&H not only produces concepts based on Korean medicine, but also embeds advanced Korean medicine technology into all of its products.

2006-2016

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

2017

In 2017, LG H&H conducted a survey and medical examination by Korean medicine doctors and the Korean Medicine Research Society. We are able to create the standard for distinguishing skin characteristics through these efforts. We also established a Korean medicine ingredients management system with OBM Lab, a company specialized in ingredients for Korean medicine extracts, to handle the production process and analytical markers for identifying components and boosting the efficiency of extracts.

2018

In 2018, we cooperated with the Useful Plant Resources Center at the Korea National Arboretum to develop a technology to propagate Korean medicine raw materials that our company imports. These technological development activities will enable us to produce raw materials in Korea and increase consumer trust in our products. We also established and donated R&D facilities worth KRW 200 million for in-depth technology development cooperation with the Korea National Arboretum.

Consumer Health Improvement Products

Development of Guidelines for Safety of Products for Babies and Children

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of products targeting babies and children, as well as raw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reactions. Thanks to these stringent safety guidelines, we are achieving our philosophy of developing safe products that mothers can use without any safety concerns.

LG H&H is accomplishing its philosophy of developing safe products based on its stringent safety guidelines.



CASE: Babience Kindermilch

According to the National Health and Nutrition Survey conducted by the Ministry of Health and Welfare, the average protein consumption of babies aged one to two years old is over twice the recommended amount, while their consumption of calcium and potassium is below the recommended level. In order to address such a nutritional imbalance among babies, LG H&H developed Kindermilch, a convenient and nutritious refreshment product. One bottle of Kindermilch has reduced amounts of protein with added calcium and potassium that meets the recommended daily consumption for babies. The product also contains zinc and vitamin D, which are useful for improving immunity, along with fiber for intestinal health. This product is sterilized through the temperature bacteria-free charging so that consumers can use it anytime and anywhere. We conduct tests to detect microorganisms, such as colon bacillus, general germs and bacteria, and have implemented a strict quality assurance process to control harmful substances, such as endocrine disruptors, heavy metals and melamine.



Babience Kindermilch

02

DEVELOPING PRODUCTS WITH SOCIAL VALUE

Background

Recently, a range of corporate roles has been gradually expanding from creating economic profits to addressing social issues and creating social values. Consumer interests are also shifting from individual preference and satisfaction for the quality and design of products to the impact of products on society. To respond to these social needs, global enterprises must conduct themselves in ways that differentiate their products and strengths, and must strive to create social value.

Principle & Strategy

LG H&H commits itself to creating social value by creating opportunities from the increased need for social responsibility and tightened environmental regulations. In addition to economic support such as donations for local communities, we create social values in various aspects for coexistence with local communities. . We also strive to handle environmental issues by considering the entire process from product development to waste treatment after a product launch and by releasing eco-friendly products that have a minimal environmental impact. LG H&H will continue to reflect social needs and fulfill its social responsibilities.



Coexistence with Local Communities

Tree Planting in Seoul Forest

BEYOND, LG H&H's eco-friendly brand, held a tree planting event in Seoul Forest through various campaigns to protect urban forests. Through the 'Fine Dust Free! Protection of Urban Forests Campaign, BEYOND suggested the virtuous cycle by donating part of the sales of the Spring and Autumn Seoul Forest Editions to protect urban forests, making a dense forest and easing skin irritation from fine dust. With the launch of the Spring Seoul Forest Edition, we conducted the Digital Tree Planting Campaign, in which one tree is planted in Seoul Forest whenever the number of participants exceeds 10,000, and the Oak Tree Planting Campaign to plant a total of ten trees based on the pledge in the second half of the year. Oak trees are one of the most effective absorbers of CO₂, and the campaign planted them in the areas of Seoul Forest with high-levels of fine dust due to vehicle exhaust. They are expected to reduce levels of fine dust in the area. LG H&H will continue to make every effort it can to ensure consumers can buy valuable products.





LG H&H strives to sincerely create social value.

The Spread of Korean Beauty

A Guide to Beautiful Royal Culture

The History of Whoo is a premium brand aimed at spreading the beautiful royal court culture of the Queen and achieved annual sales of KRW 2 trillion in 2018. The brand also signed an agreement with the Cultural Heritage Administration and let the people know about the glamorous life of the Queen by operating an experience zone and display the path of the queen at the beautiful Gyeongbokgung and Changdeokgung palaces. We also held a ceremony to support cultural guides for the royal court to repair the Daejojeon of Changdeokgung Palace and broaden the general public's access to culture. LG H&H supports the preservation and management of the royal court and strengthens its brand value as a guide to court culture. We received the Cultural Contribution Prize in the Mecenat Awards run by the Korea Mecenat Association. The Whoo Court Feast in Hong Kong, which is a global event held since 2016, received a great response from global opinion leaders and provided various opportunities to experience our beautiful court culture, such as the exhibition of court costume and heritage, performance of traditional Korean string instruments and court knot class.

Modernization of Korean Beauty

As a Korean medicine-based beauty brand that has reinterpreted the wisdom and secret of traditional Korean medicine in a modern way, Sooryehan promotes a variety of Korean beauty products in the global market by focusing on Korean-style beauty. In 2018, as part of these efforts, we collaborated with artist Lee Dong-yeon, who is famous for A New Portrait of Beauty, and displayed works depicting modern and unique Korean beauty with a woman in hanbok. We also participated in the Hanbok Cultural Week held by the Hanbok Promotion Center, which is part of the Ministry of Culture, Sports and Tourism, and put on display sophisticated and beautiful products based on hanbok along with various other activities aimed at spreading Korean beauty.



02

DEVELOPING PRODUCTS WITH SOCIAL VALUE

Highlighting Korean Noble Culture

The Saga of Su is a noblesse beauty brand that reinterprets the great legacy of Korean nobility who enjoyed wealth and prosperity in a modern way. The brand sheds a new light on Korean noble culture and we are conducting activities to heighten the value of the brand. To represent Korean noble culture, National Treasure No. 94 Lobbed bottle, which is praised as the Goryeo Dynasty's most beautiful flower vase, was applied to the design in a modern reinterpretation. By using Gyeongokgo, the prescription of Korean medicine that was regarded as the exclusive property of nobles, as core ingredients of the brand, we disseminated the value of remarkable and outstanding Korean noble culture to our customers. We reinterpreted the youth who achieved the treasure of dreams with their glittering talent to modern nobility, identify a new meaning of changing nobility in each era and present a modern meaning of Korean noble culture in collaboration with Lee Dong-yeon, who is famous for the delicate combination of past and present, for product design.



Culture and Art Cooperation

Su:m37° is a natural fermentation cosmetics brand, which fundamentally changes the skin with naturally fermented ingredients permeating deep into the skin under the philosophy of life, sincerity and waiting. Since the launch of 2007, Su:m37° has established itself as a representative fermentation cosmetics brand and grown as a global brand with annual sales of KRW 430 billion. The brand performs Secret Essence Art Collaboration with artists each year and spreads the beauty of Korean arts to overseas countries such as China. In 2018, we cooperated with the Cultural Foundation of National Museum of Korea and reinterpreted the lotus flower pattern in the gold-plated silverware gourd-shaped bottle made during the Goryeo Dynasty into the fermentation flower of Su:m37°. With the collaboration, we delivered the value of cultural asset completing history and the value of fermentation completing sincerity and time.

Reinforcement of the Capabilities of Suppliers

Development of Joint Technology with Suppliers

Since 2013, LG H&H has held the technology proposal fair for suppliers with the aim of seeking excellent technologies or ideas owned by suppliers, applying such findings to products and enhancing the sales of both companies. . The technology proposal fair allows relevant divisions such as marketing, sales and R&D divisions to discuss a direction for future development for suppliers' new products or development concepts and ideas and shows a variety of proposals and exhibitions for raw materials, subsidiary materials and products. For selected items among proposals, we support joint development by providing purchase-guarantee development funds to ease the burden of development cost for suppliers and apply developed products to our new products. Ultimately, this contributes to expanding the domestic sales of our suppliers. We will listen to more ideas and proposals from suppliers and continue to supplement and develop the current technology proposal fair to promote more excellent ideas and product development.



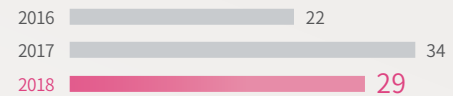
Technology Proposal Fair



Annual Average Number of Fairs

6

Selected Suppliers (Unit: Company)



Size of New Sales Generated (Unit: KRW 100 million)



CASE: Automation of Assembly Line for ON:THE BODY Wash

As a central device used in household goods, the pump easily extracts content from a container and can be designed in many different ways. Adding metal to a pump cap, combining a pump and a container, allows a more luxurious design than usual, increasing the high-end quality of the product. However, the process of metal in the pump can make the product seem incomplete due to scratches. Usually, the device is used for manual tasks. The manual process has shortcomings in proactively dealing with customer needs due to a high rate of flawed products and failure to supply at the right time with low productivity. Accordingly, we are preparing the introduction of a new facility with POUCO, supplier for metal manufacturing and combining process. Facilities are being developed by reducing the burden of facility investment and securing stable quality with a win-win growth fund by the performance sharing system; when such facilities are applied, it is expected to accomplish comprehensive performance, including securing stable quality, improving production efficiency by 7% and improving production cost by 16%.



02

DEVELOPING PRODUCTS WITH SOCIAL VALUE



CASE: Localization of One-Touch Foam Hair Dye

A one-touch foam hair dye product has become popular with consumers due to convenience of use. As its major parts were overseas patent parts and imported as finished goods, there were limitations in selling products because of issues of minimum quantity of import and prolonged delivery period regardless of its sales. Under these circumstances, we invested in facilities and shifted into domestic production in cooperation with GS Chem, a supplier for producing and filling aluminum cans, with the aim of procuring only patent subsidiary materials from overseas countries while producing finished goods in Korea. Domestic production enables the establishment of a stable supply management system to carefully handle supply in line with changes in consumer taste. Unlike other general hair dye products, one-touch foam hair dye products can be used several times if necessary, depending on hair condition and length. The strength of the product makes it economic and produces a relatively low amount of materials to recycle or throw away.

CASE: Development of Sun Stick Product

A sun stick allows easy application of sunscreen to a local area on the skin without it being smeared on the hands because it is not a liquid like existing sun cream. Because of this strength, sun stick products have grown in demand among consumers for the past several years. However, as the design and the way sun sticks are used are generally similar to each other, there are limitations in differentiating or enlarging a container or putting a large amount of content due to how they are structured internally and filled. To address these issues, we conducted joint development with supplier JINHAN based on win-win growth fund support. By applying a new internal structure of an unprecedented and differentiated nature, we launched new products such as O HUI Day Shield Sun Stick and Su:m37° Sun Away Clear Sun Stick. With 30% more content compared to other sun stick products of the same size, these new products allow consumers to use more of the stick compared to other products and are expected to achieve social and environmental benefits to reduce recycling and waste.

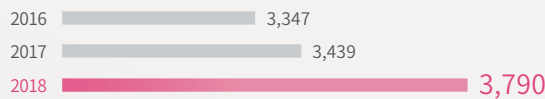


Reduction of Environmental Impact through Products

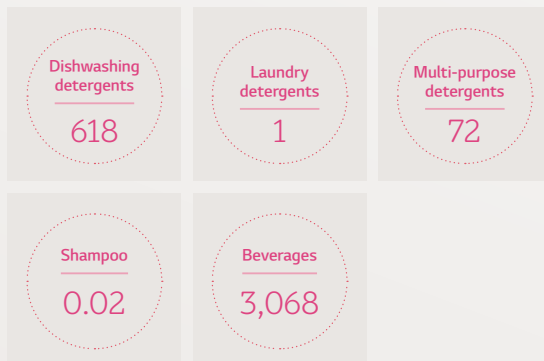
Expansion of Products with Eco-Labeling Certification

LG H&H continuously endeavors to reduce the environmental impact of our products. Eco-labeling certification is given to eco-friendly products which can reduce energy use and resource consumption and minimize pollutants throughout the entire production process. From 2017 to 2018, we increased eco-labeling certified products from 155 to 156. In the same period, the sales of green products increased by 10% from KRW 343.9 billion to KRW 379 billion.

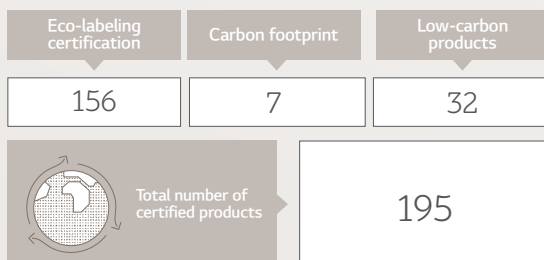
Annual Sales (Unit: KRW 100 million)



Sales of Each Product (Unit: KRW 100 million)



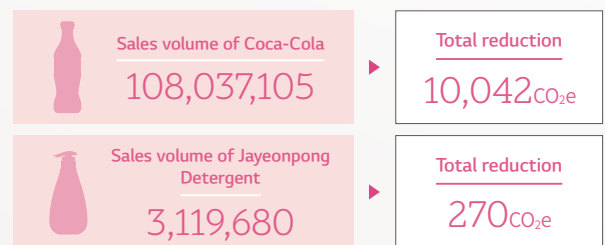
Current Status of Certification Products (Unit: Number)



*As of late December 2018

CASE: Reduction of Carbon Emissions from Products

With a growing social interest in eco-friendly products, corporate roles are increasing, too. With the aim of reducing GHG emissions in the product manufacturing process, LG H&H manages GHG emissions of suppliers and invests in high-efficiency energy facilities in the manufacturing process. In addition, Coca-Cola and Jayeongpong Detergent received the low-carbon product certification provided by the Korea Environmental Industry and Technology Institute. Through such efforts, we have reduced GHG emissions by 10,312 tons.



*Calculation: Reduced emissions X Number of bottles sold

CASE: Foam-Type Dry Shampoo

LG H&H launched Elastin Bubble Foam Dry Shampoo without Water, which applies foam formulation as a global hair trend beyond existing powder-type dry shampoo. Easy to use anytime and anywhere, dry shampoo reduces the frequency of shampooing and can contribute to reduce water resource consumption and water contamination. When it is assumed that dry shampoo will be used more in the future as it is in the overseas market, it is expected to save approximately 5,090 tons of water on an average day and 1,857,715 tons a year.¹⁾ In addition to a lower environmental impact, the newly launched product also improves consumer convenience. The product received 79% positive responses and has established itself as a new type of dry shampoo brand.

¹⁾Based on the amount of water consumption for bathes per capita within the population of Seoul in 2019 (No. 77 of The Seoul Institute Infographics, Demographics by the Ministry of the Interior and Safety in 2014 and 2019); based on the average amount of dry shampoo consumption by American adults on a weekly basis in 2017 (IEG Sponsorship Report, 2017)



02

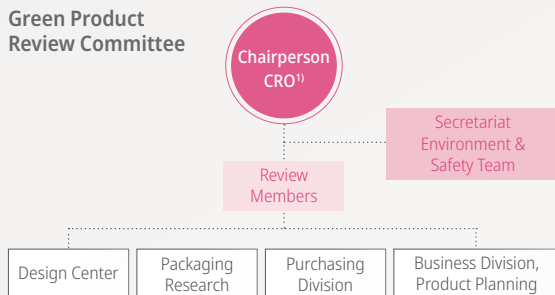
DEVELOPING PRODUCTS WITH SOCIAL VALUE

Reduction of Environmental Impact through Green Packaging

Green Product Review Committee

Since 2017, LG H&H has operated the Green Product Review Committee to settle company-wide green management. With the CRO as its chairperson, the committee is composed of an environment and safety team, design team, packaging research team, purchase team, the company's business divisions, and product planning team, and carries out activities from the pre-development stage, including proposing green packaging and suggesting and reviewing green level issues. By finding and executing sustainable packaging ideas, LG H&H fulfills its responsibility and role as a green company. The 2018 Green Product Review Committee improved containers of households goods and beverages, including the modification of the container materials for ON:THE BODY The Natural Olive and Seagram's Sparkling Water and the weight reduction of the containers for Saffron (20L) and Schweppes (350mL).

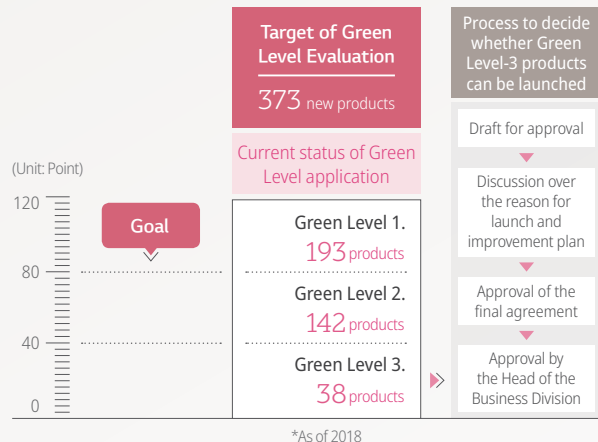
Green Product Review Committee



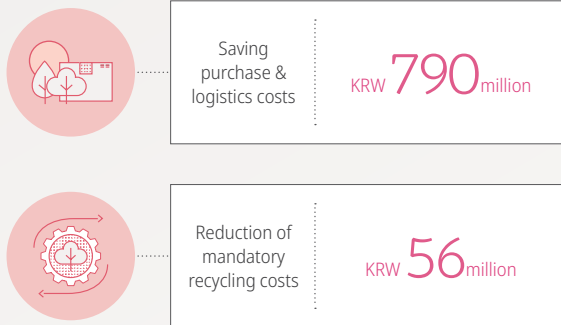
1) CRO: Chief Risk management Officer

Green Packaging System

LG H&H operates the Green Packaging Guide to develop and apply packaging in consideration of the environment from the stage of product development. A unique rating scale created by LG H&H, the Green Packaging Guide evaluates the eco-friendliness level of a new product before its launch by assessing the weight, volume, material, and recyclability of packaging materials quantitatively. The results of the Green Packaging Guide are put into the categories of packaging material improvement, container weight reduction, and recyclability improvement and used as the standard for maximizing the eco-friendliness of packaging materials.



Effect of the Application of Green Level



*Impact calculated based on the sales of the previous year

Major Products with Green Packaging



Voluntary Improvement of Packaging Materials and Structure

We signed the Voluntary Agreement on Packaging Material and Structure Improvement with the Ministry of Environment in April 2018, with an aim to protect and foster the recycling industry and create a resource circulation society by using easily-recyclable packaging materials. To fulfill our responsibilities under the agreement, we have designed and implemented several improvement plans, including the plan for using colorless PET instead of colored for household goods and beverages, the plan for developing alternative materials for products containing PVC (Polyvinyl Chloride), and the plan for improving containers made from one kind of material. In 2018, we improved the materials of 99 products as recommended by the voluntary agreement, replacing about 557 tons of plastics with easily-recyclable materials. We also reduced the weight of containers of seven products, decreasing the consumption of plastics by around 66 tons.

Material improvement		
Change to one kind of material		
Reduced plastics (ton)	Major brands	Major products
452		
Change to colorless PET		
Reduced plastics (ton)	Major brands	Major products
105		
Weight reduction of containers		
Reduced plastics (ton)	Major brands	Major products
66		

CASE: Improving Recyclability with Thermal Alkaline Adhesives

As stakeholders increase their demands for resource circulation, LG H&H applied thermal alkaline adhesives instead of general ones to make it easier to separate labels from the PET bottles of beverages. This kind of adhesive is separated during the recycling process by reacting to sodium hydroxide (2%) at a certain temperature (85-90°C). This is a common label separation method utilized in the domestic recycling industry. Our major products with thermal alkaline adhesives applied include Coca-Cola and Sprite products in the sparkling beverage category and GangWon PyeongChangSoo and ViO Soonsoo in the non-sparkling beverage category.



02

DEVELOPING PRODUCTS WITH SOCIAL VALUE

Certification of Packaging Material Recycling Level 1

By applying the Green Packaging standards in the manufacturing and design stages of packaging materials, we achieved Recycling Level 1 for six laundry detergent products in November 2018. These certified products feature containers using a single material. The body of the containers and subsidiary parts (cap, label) are made from the same materials. Following 2017, we received Recycling Level 1 certification for more of our products in 2018, making a total of eight certified products. We will continue to develop eco-friendly products with higher safety and recyclability of packaging materials, taking the initiative in increasing the recycling rate and promoting eco-friendly lifestyle.



Eco Packaging Project

Given the growing need for the development of sustainable eco-friendly packaging materials, we are conducting the Eco Packaging Project to minimize the environmental impact of waste from packaging materials. We examine the potential and feasibility of application of eco-friendly bio plastic materials based on natural resources by referring to domestic and overseas development cases. Eco-friendly blow-molded containers made with wood flour and starch (biodegraded raw materials) and injection-molded and blow-molded containers using biomass are undergoing the trial product test process. After checking their suitability for commercialization, we will utilize these containers in our brands and products targeting babies or with an eco-friendly concept. In terms of packaging materials, we are developing stone papers free from pollutants and harmful substances that may occur in the manufacturing process since they are not bleached and made from stone without wood pulp. We are also developing an eco-friendly forming method with a lowered ratio of synthetic resins by over 30% compared to existing ones. These eco-friendly packaging materials naturally decompose more quickly than general plastics. Now we are testing the set tray. With these efforts, LG H&H is trying to fulfill its responsibility and role as a nature-friendly company.

CASE: Improving Recyclability with Colorless Pet Containers

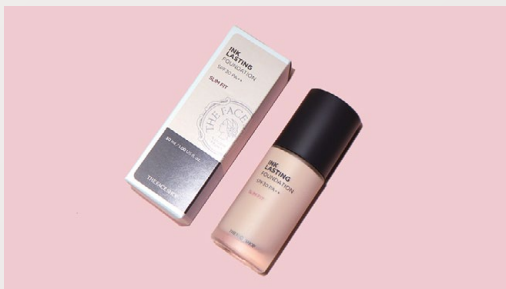
As part of our efforts to fulfill our responsibility under the Voluntary Agreement on Packaging Material and Structure Improvement with the Ministry of Environment and improve the recyclability of colored PET containers, we switched from colored PET containers to colorless ones for Seagram's products. With these efforts, we increased recyclability of the products and reduced their costs by KRW 100 million. In 2019, we will expand the range of sustainable products, enhance our product's eco-friendliness and contribute to the circulation of resources.





CASE: Excellence Prize for Eco-friendly Packaging

Unlike household goods, products with deep-tube-pump containers such as lotion, essence and foundation allow consumers to hold and tilt the container to pump because such products are generally used in small portions. When consumers tilt the container and try to pump out the liquid with a deep-tube-pump head in a non-fixed structure, the end of the deep-tube inside the container tends not to reach the liquid, making it difficult to use the product or degrades the recyclability of the container due to excessive residues. LG H&H developed an eco-friendly pump designed by applying the same-direction structure for the tube mounting part of the pump engine and the button outlet. We patented and commercialized it as a product, and received the Excellence Prize at the Eighth Green Packaging Contest.



Products with Socio-environmental Values

We exert efforts to promote products with socio-environmental values from the perspectives of three categories—customer, society and environment, including the safety and health of customers, social benefits, and the reducing environmental impact. Our sales of products with socio-environmental values reached KRW 1.1818 trillion in 2018, accounting for 18% of our total sales.

Safety and Health of Customers



Improved safety
Babience BOSCP :
Moisturizing



Organic
BEYOND True Eco



Low-sugar
TORETA



Enhanced nutrients
Babience

Social Benefits



Co-developed with SMEs
Yehwadam White
Ginseng Collagen Pearl



Created through cooperation
with a local community
Organist Jeju Shampoo

Alleviation of Environmental Impact



Waste reduction
Saffron



Energy-saving
Coca-Cola



Water protection
Jayeonpong



03

EXPANDING TO THE GLOBAL MARKET

Background

Enterprises are faced with internal and external difficulties, including the crisis in the Chinese market due to international affairs and the slump in the domestic cosmetics and household goods market. In the midst of such circumstances, leading companies are still pioneering new markets, expanding from major target markets to which they have already run their business. In particular, companies are accelerating the expansion of their business to overseas markets by spreading K-beauty, which allows them to increase their value as global brands.

Principle & Strategy

LG H&H is committed to creating new opportunities in response to changes in the unstable external environment and becoming a more consolidated company. We are developing luxury brands in a strategic way in the cosmetic business, while improving premium products in the household goods business, pursuing continuous growth to become a global company highly recognized both at home and abroad.



C
H
I
N
A

Activities Aimed at Penetrating Major Overseas Markets

Continued Expansion of Overseas Business

LG H&H operates businesses in China, Japan, Southeast Asia, and North America with a basis on its competitiveness in the global market. China has huge growth potential and we are strengthening marketing activities and brand development to actively target the country's luxury product market. In Japan, we acquired AVON Japan and Evermere in 2018 to facilitate our cosmetic business in this country. Moreover, we established a subsidiary in Thailand in 2018, following the establishment of subsidiaries in Taiwan, Vietnam, Singapore and Malaysia, as part of our efforts to expand our business in the Southeast Asian market. In North America and Europe, the belif brand was introduced in the local market as part of our efforts to consolidate it as a global brand.



China

The constantly growing Chinese market is one of LG H&H's major target markets for global business. We are strengthening marketing activities and brand development to actively target the luxury product market in China. We launched the high-priced Hwanyu Signature Ampoule and Ultimate Regenerating Essence under the brand The History of Whoo, while releasing royal fermentation line Losec Summa under the brand Su:m37°, which succeeded in strengthening the luxury image of these brands. In regards to O HUI, we launched The First Geniture line and are using focused communication to establish its brand position. In 2018, we released new products in our premium brands, including Yehwadam, Dr. Belmeur and CNP, while expanding our business through marketing activities for key products to enhance our competitiveness in the premium market. In terms of household goods business, we simplified sales channels with a focus on online stores and Watson's, and are expanding our business in the fields of oral, hair and body care.

J A P A N**Japan**

Japan is where local brands excel in the market. In order to increase its business competitiveness in the Japanese cosmetic market, LG H&H acquired cosmetic companies 'AVON Japan' and 'Evermere' through its subsidiary 'Ginza Stefany'. AVON Japan has operated cosmetic business through door-to-door sales and telemarketing for 50 years since its establishment in 1968. The company has a larger market share in Japan compared to other global brands. 'Evermere', which was established in 1995, manufactures and sells cosmetics including skin care, makeup and hair care products. LG H&H is strengthening its business in Japan by utilizing its product development capacity and various product portfolios, while creating synergy with existing business to broaden the scope of its business.

S O U T H E A S T A S I A**Southeast Asia**

Southeast Asia has significant potential for growth as a region and for that reason we have chosen it as a strategic target market. We are now proactively advancing into local markets in the region. After establishing subsidiaries in Taiwan, Vietnam and Singapore, we founded subsidiaries in Malaysia in 2017 and Thailand in 2018, to support local marketing and branding activities. The History of Whoo has become established as a luxury brand and its stores have opened at the finest department stores in Southeast Asia. Su:m37°, launched as a next-generation luxury brand, is also becoming more competitive in the local markets. Moreover, with the upgrade of stores of THEFACESHOP, which had successfully established its presence, our nature-oriented cosmetic multi-shop Nature Collection rapidly expanded its business, spreading K-Beauty through South East Asia and enhancing the reputation of the company.

**N O R T H A M E R I C A & E U R O P E****North America and Europe**

At Sephora, the arena of competition between popular cosmetic brands from all around the world, our brand belief has been well received by consumers. belief was introduced in 34 stores when it was launched in early 2015, but now the number of stores where belief entered increased to 365 as of 2018, showing that the brand has settled as one of major moisturizer brands in Sephora channels. For American consumers who prefer powder-type color makeup products, belief provides skin care products that are quickly absorbed into your skin with a moist but not sticky texture. In addition, the product packaging features easy-to-read information about key ingredients and effects, and the vivid design of sales stands attracts the attention of consumers. Meanwhile, in order to successfully step into the color makeup market, we are strengthening consumer-oriented communication by launching VDL products with a focus on primer and metal cushion products. We held a VDL pop-up store event in SoHo, New York City, in October 2018 and other SNS and influencer activities to increase brand awareness.

03

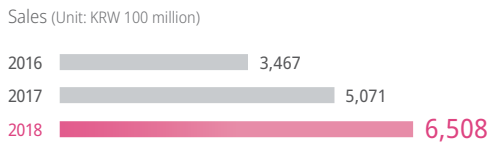
EXPANDING TO THE GLOBAL MARKET

Major Overseas Subsidiaries



China

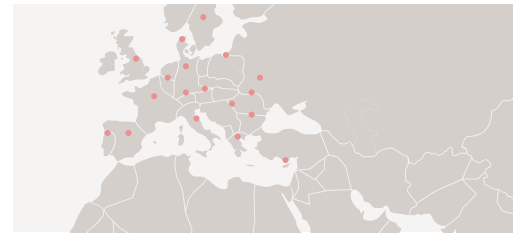
We will facilitate communication and enhance synergy between online and offline channels to strengthen our high-quality brand image, while swiftly responding to and preparing for changes in the logistics condition in China to remove risk factors and capture new opportunities.



EUROPE

Europe

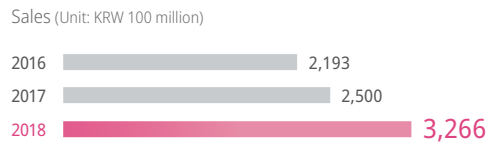
In March 2018, we launched belif through more than 700 Sephora stores across 18 European countries, and carried out a wide range of online and offline marketing activities to foster the business of the brand. In 2019, we plan to develop popular items, manage major strategic stores, and increase sales per store, thereby establishing a sound foundation for its business.



*France, Italy, Poland, Spain, Czech Republic, Portugal, Switzerland, Denmark, Sweden, Greece, Turkey, Romania, Serbia, Bulgaria, Germany, Russia, Morocco, Luxembourg

Japan

We will lead the cushion market and constantly expand our cosmetics lines. We will also create synergy between newly acquired subsidiaries - AVON and Evermere - and existing business to expand the scope of our business.



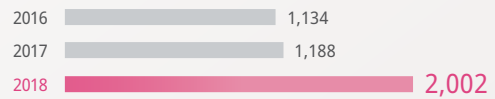
CHINA · JAPAN



Southeast Asia*

We are increasing the competitiveness of luxury brands in the market, including The History of Whoo and Su:m37°, and establishing an image of the brands as luxury products. We are also expanding NC stores to consolidate brand images in Southeast Asia.

Sales (Unit: KRW 100 million)

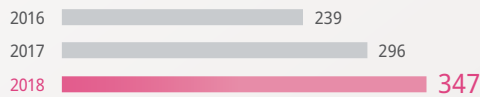


*Singapore, Taiwan, Vietnam and Malaysia included

United States

We are intensively fostering luxury brands through our nature-oriented cosmetics multi-shop 'Nature Collection', and actively stepping into online and offline markets, including Sephora and Amazon.

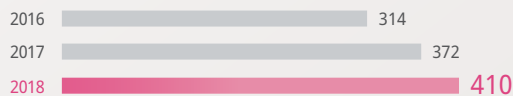
Sales (Unit: KRW 100 million)



Canada

With a focus on the Nature Collection, we are increasing the competitiveness of retail business, a key sector of our subsidiary in Canada. We are also reinforcing the foundation of the cosmetic business in North America by cultivating THEFACE-SHOP, belif and F&P.

Sales (Unit: KRW 100 million)



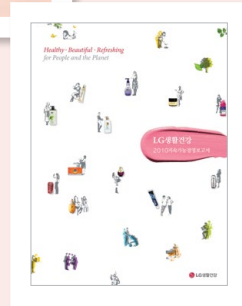
10TH ANNIVERSARY LG H&H's Last 10 Years

A Quick Look at LG H&H CSR Reports Published for the Past Decade

It has been 10 years since LG H&H published its first CSR report in 2009. For the past decade, LG H&H has made a range of efforts to actively communicate with its stakeholders and fulfill its social responsibilities and present data concerning its key activities and performances in this annual report.

2009

- Organized the report focusing on the directions of four major sustainability management strategies (product, operation, social responsibility, communication)
- Applied the GRI G3 guideline
- Included Coca-Cola Beverage in the scope of the report
- Organized TFT for the sustainability report
- Included in the DJSI Korea for the first time

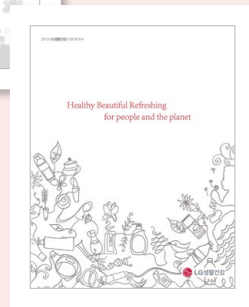


2010

- Applied the GRI 3.1 guideline
- Included in the DJSI Asia Pacific for the first time
- Won the first prize at Korea CSR Award

2011

- Conducted the expert panel discussion
- Carried out the sustainable product assessment (25 products)
- Included in the DJSI World for the first time
- Selected as an exemplary company for the Carbon Disclosure Project

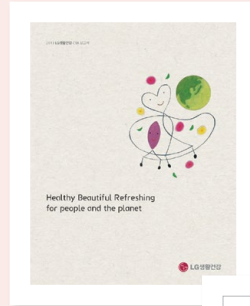


2012

- Organized the report by classifying the contents based on the management significance (basic management, frequent monitoring, focus areas)
- Organized and operated the Korean Commission for Corporate Partnership
- Established the CSR assessment criteria for suppliers and conducted the CSR diagnosis
- Joined UNGC

2013

- Applied the GRI G4 guideline
- Newly organized the CSR Committee (the meeting held four times a year)
- Expanded the scope of GHG verification to subsidiaries
- Expanded the scope of the CSR diagnosis to beverage-related subsidiaries

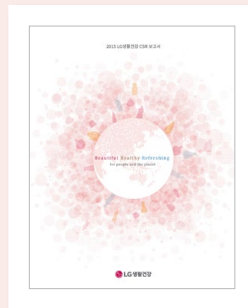


2014

- Organized the report focusing on key issues (by classifying the content into Focus Issues & Business Cases, and Fundamental Management)
- Established the BEYOND Himalaya Cluster in Nepal
- Launched Global Eco Leader
- Achieved First Class in the Win-Win Growth Index for the first time

2015

- Reported safety control processes throughout the entire product-related procedures
- Increased the number of meetings of expert panel discussions (four times a year)
- Enacted a human rights policy

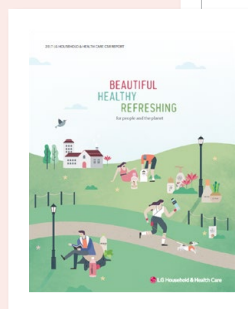


2016

- Reestablished the criteria for products with social and environmental values
- Developed the Green Packaging Guide
- Set the Supplier Code of Conduct

2017

- Applied GRI Standards
- Reported activities related to UN SDGs
- Reported the current status of creating sustainable values (in the value chain)
- Opened the Consumer Reassurance Center
- Introduced the Safe Quality Certification System and conducted a safety index assessment



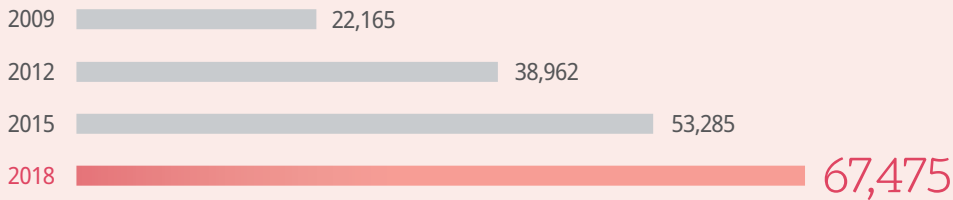
10TH ANNIVERSARY

The 10th Anniversary of LG H&H's CSR Reporting

HIGHLIGHTS OF LG H&H'S CSR PERFORMANCE

Sales (Unit: KRW 100 million)

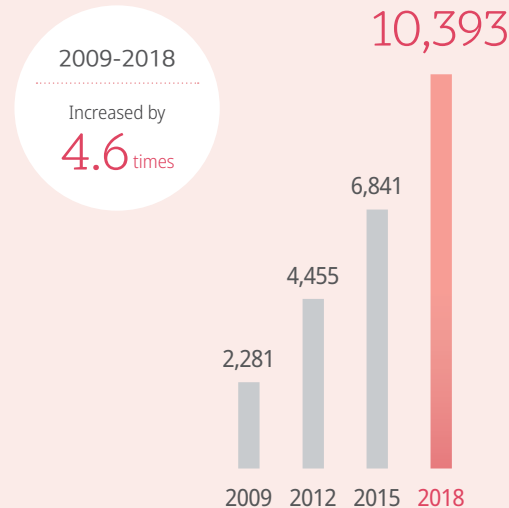
LG H&H has preemptively responded to changes in the demand of the market and customers, steadily achieving growth for 10 years based on the innovative work of its employees.



2009-2018
Tripled

Operating profit (Unit: KRW 100 million)

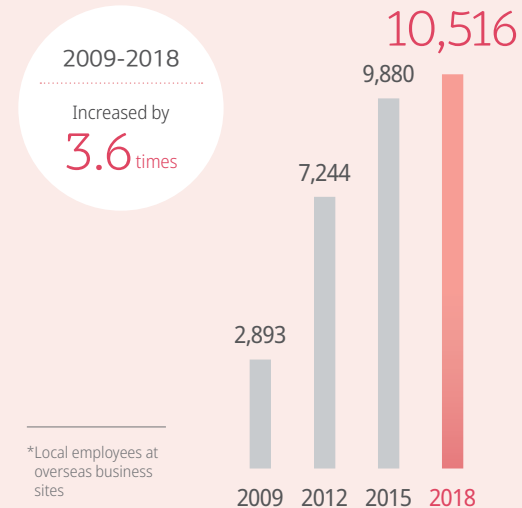
Despite unfavorable conditions due to various internal and external variables, LG H&H has gradually made progress by accomplishing a record-high operating profit every year.



2009-2018
Increased by
4.6 times

Number of employees (Unit: Person)

Competent human resources are LG H&H's most valuable asset. We will maximize the values of our employees and embrace the diversity of each of them while putting into practice our management philosophy 'Respecting Human Dignity'.



2009-2018
Increased by
3.6 times

*Local employees at overseas business sites

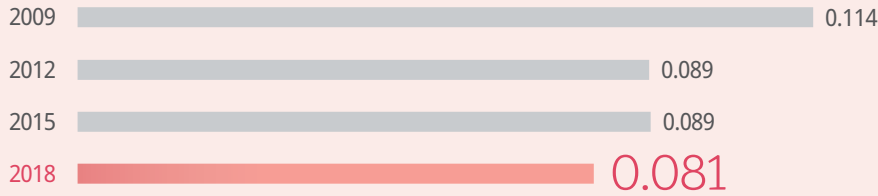
In order to actualize its medium- and long-term vision 'the best sustainable FMCG company',¹⁾ LG H&H institutes sustainability management throughout all its management activities, and creates social and environmental value.

We will settle for our performance over the past decade; we will create new values with new challenges.

1) FMCG: Fast Moving Consumer Goods

GHG Emissions Intensity (Unit: tCO₂e/product-ton)

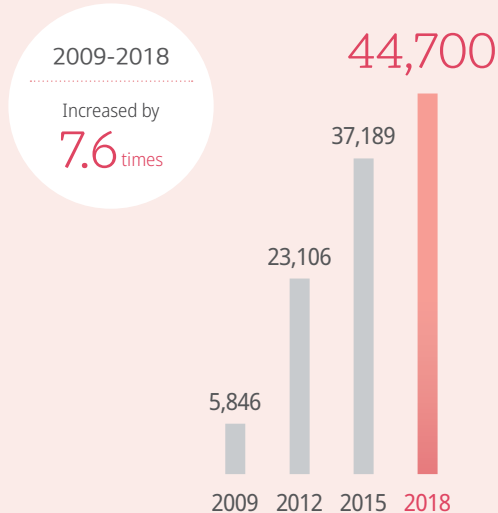
LG H&H sets and manages annual goals for reducing its environmental impact throughout the whole production process. Due to these efforts over the past 10 years, the company has gradually reduced the intensity of GHG emissions.



2009-2018
Reduced by
30%

Expense of Purchasing from Suppliers (Unit: KRW 100 million)

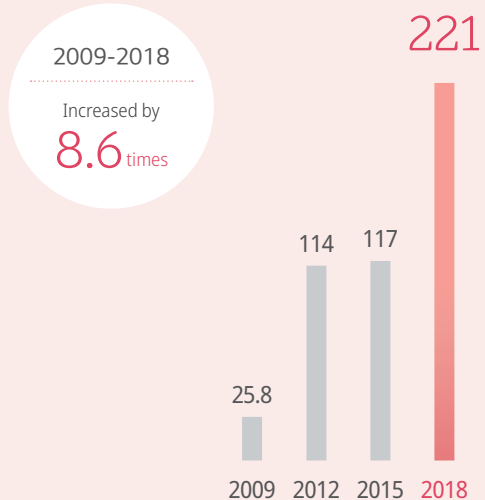
The competitiveness of suppliers is directly linked to that of LG H&H's products. We will pursue the mutual growth with suppliers and make concerted efforts to strengthen the competitiveness of our suppliers.



2009-2018
Increased by
7.6 times

Social Contribution Investment (Unit: KRW 100 million)

Beyond simple donations, we conduct social contribution activities to increase the value of our society members. We will try to create a virtuous circle within the entire society through the company's achievements.



2009-2018
Increased by
8.6 times



50

CSR STRATEGY &
ROADMAP

52

SUSTAINABILITY
VALUE CHAIN

54

EMPLOYEE
VALUE

60

CUSTOMER
SATISFACTION



SUSTAINABLE MANAGEMENT

62

SOCIAL
CONTRIBUTION

68

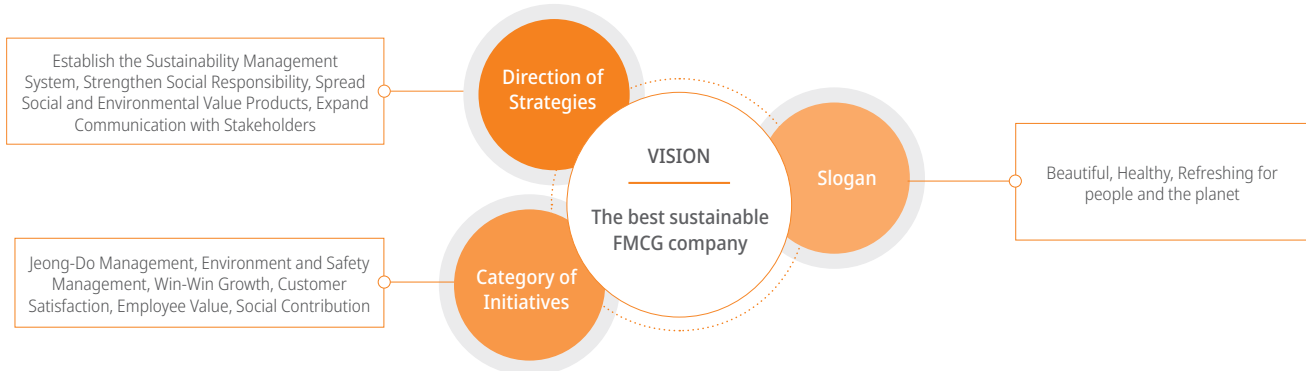
ENVIRONMENT AND
SAFETY MANAGEMENT

76

WIN-WIN
GROWTH

CSR Strategy & Roadmap

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



Medium & Long-term Roadmap

Category of Initiatives	Core Management	KPIs	
		2018 Plan	2018 Performance
Jeong-Do Management	Bolstering of the Jeong-Do Management infrastructure	· Monitor and check risks at overseas subsidiaries	· Checked risks at overseas subsidiaries (in Taiwan and Singapore, CSI, EL)
Environment and Safety Management	Response to climate change	· GHG emissions intensity: 0.069 tCO ₂ e/product-ton	· GHG emissions intensity: 0.081 tCO ₂ e/product-ton
	Water management	· Water intensity: 2.04 tons/product-ton	· Water intensity: 2.13 tons/product-ton
	Waste management	· Waste intensity: 12.539 kg/product-ton	· Waste intensity: 12,578 kg/product-ton
	Zero-accident management	· Maintain a 100% normal use rate of safety covers · Introduce a trial system for automated safety cover monitoring · Improvement rate of near miss: 100% (5 cases per worker)	· Maintained a 100% normal use rate of safety covers (9,124 cases) · Improvement rate of near miss: 120% (7,395 cases found)
Health care		· Undergo environmental safety diagnosis done by an external agency (66% of all business sites)	· Underwent environmental safety diagnosis done by an external agency (completed at 65% (33/51) of all business sites; 18 types of diagnosis conducted in 2018)
		· Introduce a cerebrovascular/cardiovascular disease check-up package and operate a prevention program	· Carried out a cerebrovascular/cardiovascular disease check-up (for 4,834 people) and preventive education (5,065 people)
		· Expand the psychological counseling program (beneficiaries and all business sites)	· Installed new and additional automated blood pressure kits and CPR training equipment (93 kits) · Simultaneously conducted Red Circle Campaign at major business sites (7 cases) · Set and operated the psychological counselling center within the company (Magok LG Science Park)
Win-Win Growth	Amount of financial support	· KRW 36.3 billion in financial support (a 5% increase from 2017)	· Provided KRW 35.53 billion of financial support
	No. of technical support cases	· 190 technical support cases (a 5% increase over 2017)	· Provided 186 cases of technical support
Customer Satisfaction	Safe quality of suppliers	· Materialize the activities for the Safe Quality Certification System for Suppliers (evaluation of 95 suppliers and improvement of unreasonable issues)	· Settled the Safe Quality Certification System for Suppliers (by building the assessment system and capacity to evaluate 95 suppliers and promote improvement activities regarding inadequate aspects)
	VOC collection and management	· Reduce the customer complaint rate by 5% (compared to 2017)	· Reduced the customer complaint rate by 23.9% (compared to 2017)
	VOC recurrence prevention	· Operate a regular monitoring system for core quality indicators (14 themes) · Work on quality innovation tasks to create customer values (10 themes)	· Conducted the zero-prolonged-complaint project (resolving 21 themes of complaints)
Employee Value	Preliminary management for quality improvement	· Challenges for 2018 not selected due to the evaluation criteria not satisfied (5 cases of new themes; 11 cases carried forward) · Conduct the safe quality diagnosis across all production lines (305 lines at 13 plants)	· Set the Safe Quality Certification System and conducted the diagnosis at 13 business sites · Graded based on the quality certification diagnosis result and checked the improvement progress
	Development of global human resources	· Find human resources with a high understanding of local culture and language	· Run the recruitment program for international students living in Korea
	Capacity building of employees	· Expand the global human resource development program (Japanese capacity building course, regional expert course, etc.) · Strengthen leadership and work capacity	· Conducted Japanese capacity building program (GEC, GECC) and regional expert program · Carried out the team leader empathy talk program and the innovation workshop for directors
Social Contribution	Spreading of corporate culture and core values	· Spread LG H&H's unique corporate culture	· Conducted the digital marketing expert course and the Reading Odyssey activity · Run the employees' committee, promoted online communication, and provided the Top Dignity Education program for all employees
	Borrowed Earth School	· Provide education programs for 10,004 students at 55 schools	· Provided education programs for an accumulated total of 37,092 students at 206 schools
	THEFACESHOP Beauty Creator	· Support 35 women (on career breaks or disadvantaged in finding a job)	· Selected 35 women as Beauty Creators
	Shiny Perioe	· Provide education programs for 5,374 people at 40 organizations	· Launched the Perioe Children Musical and provided education programs for 1,930 people at 15 organizations (existing oral care education program provided for 11,040 people)

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



Category of SDGs	Relevant Activities
6 Clean Water and Sanitation	Environment and Safety Management: Water management, waste management, harmful chemical substance management
13 Climate Action	Environment and Safety Management: Energy and GHG
3 Good Health and Well-being	Social Contribution: Shiny Perioe, Borrowed Earth School
5 Gender Equality	Employee Value: Ratio of female employees, THEFACESHOP Natural Beauty Creator
11 Sustainable city and community	Development of Products with Social & Environmental Values: Seoul Forest Edition
12 Responsible Consumption and Production	Social Contribution: Global Eco Leader
16 Peace, Justice and Strong Institutions	Jeong-Do Management

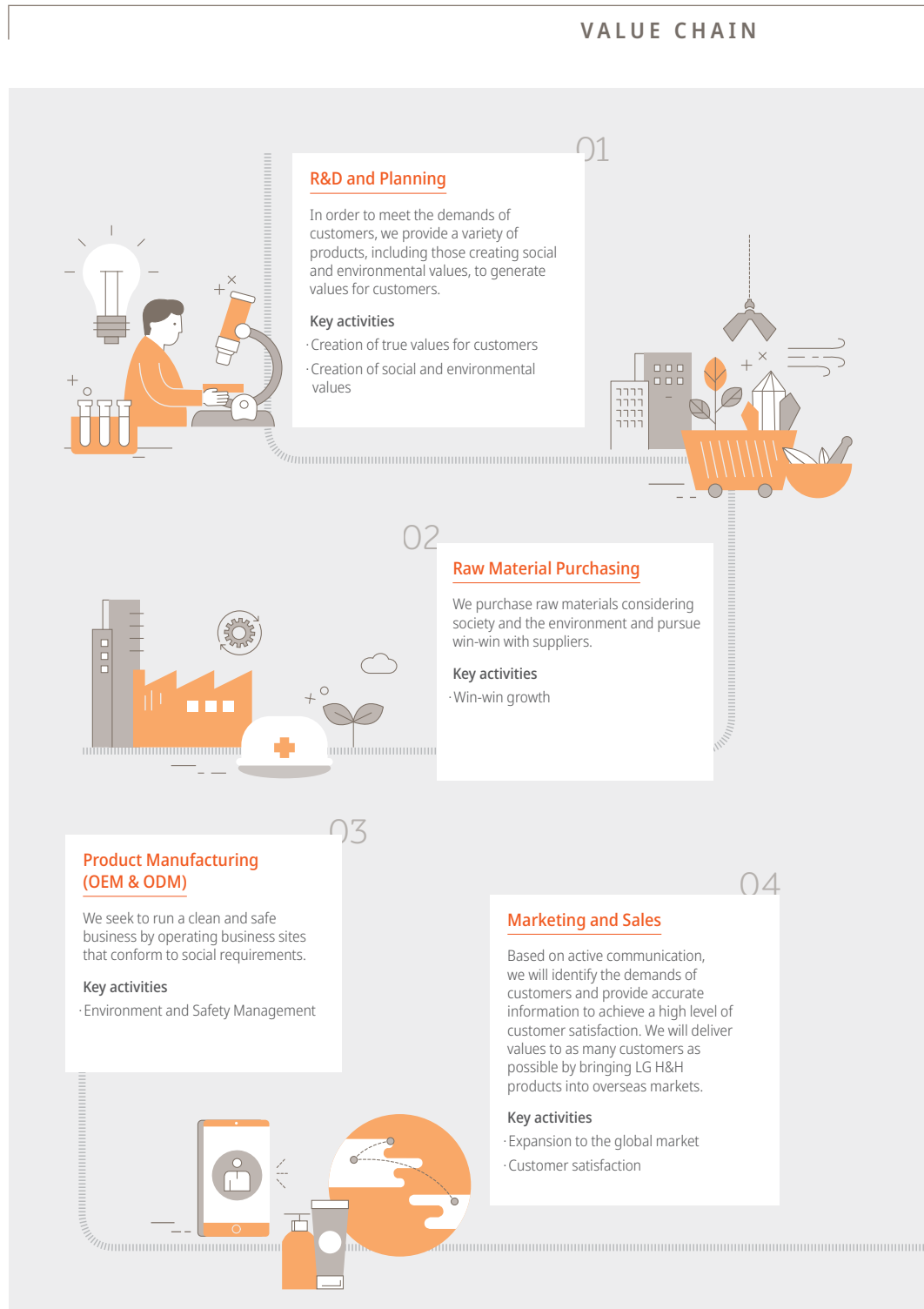
KPIs	
2019 Plan	2020 Plan
<ul style="list-style-type: none"> Reestablish the system and rules for Jeong-Do Management Develop and operate the alarm system GHG emissions intensity: 0.060 tCO₂e/product-ton Water intensity: 1.74 tons/product-ton Waste intensity: 11.79 kg/product-ton Stabilize the operation of the safety cover monitoring system Improvement rate of near miss: 100% (6,455 cases to be found) 	<ul style="list-style-type: none"> Systematize and bolster the Jeong-Do Management tasks GHG emissions intensity: 0.055 tCO₂e/product-ton Water intensity: 1.59 tons/product-ton Waste intensity: 11.20 kg/product-ton Bolster the operation of the safety cover monitoring system
<ul style="list-style-type: none"> Undergo the environmental safety diagnosis done by an external agency [achieving 100% implementation rate at all business sites (51/51); 18 types of diagnosis planned to be conducted in 2019] Continue to operate the cerebrovascular/cardiovascular disease check-up package Facilitate the CPR education program to strengthen the emergency response capacity 	<ul style="list-style-type: none"> Stabilize the culture of observing the safety code of conduct Maintain the improvement rate of near miss at 100% Bolster the human resource development system for the environmental safety diagnosis (10 employees in 5 fields) Conduct an internal environmental safety diagnosis Stabilize a cerebrovascular/cardiovascular disease check-up package
<ul style="list-style-type: none"> Expand external psychological counseling program (for those dealing with emotionally demanding tasks) KRW 37.3 billion in financial support (a 5% increase from 2018) Provide 195 cases of technical support (a 5% increase over 2018) Bolster the Safe Quality Certification System for Suppliers (by setting the work and test standards) Reduce the customer complaint rate by 7.7% (compared to 2018) 	<ul style="list-style-type: none"> Continue to operate the psychological counseling program KRW 40 billion in financial support Provide 210 cases of technical support Materialize the performance of the Safe Quality Certification System for Suppliers (issuing First-Class safe quality certificate)
<ul style="list-style-type: none"> Promote the zero-complaint project regarding production-related factors (at all business sites) Address 18 themes regarding prolonged customer complaints and distinctive quality 	<ul style="list-style-type: none"> Reduce the customer complaint rate by 5% (over the previous year) and conduct the integrated management of VOCs with internal sales employees (VOCs from internal and external customers) Build a system for securing safe quality across all processes including design, distribution and sales (preemptive management in the product planning and design stages)
<ul style="list-style-type: none"> Stabilize the Safe Quality Certification System (at 14 domestic business sites) and spread the system to 3 overseas business sites Diagnose the quality of logistics, sales and distribution (expanding from the production-quality-based system to the comprehensive system including distribution and sales) Standardize the global human resource development process and strengthen relevant activities 	<ul style="list-style-type: none"> Select and support new challenges for quality innovation Globalize the safe quality management system (by establishing the distinctive safe quality certification package, operating the organization with global consulting capacity, and running the expert development system for solutions in each work field to secure safe quality) Expand the global human resource pool that can be utilized in overseas business in China, Japan and the U.S.)
<ul style="list-style-type: none"> Expand operation of the global human resource development program Conduct motivating leadership course and the innovation workshop for directors Provide AI and big data programs and special insight lectures 	<ul style="list-style-type: none"> Continue to upgrade the level of the global human resource development program Continue to strengthen leadership-building activities Continue to strengthen work-capacity-building activities
<ul style="list-style-type: none"> Establish an employee-participation-based corporate culture and spread core values to domestic and overseas business sites Expand the accumulated number of beneficiaries 	<ul style="list-style-type: none"> Institute Global One LG H&H values Increase the number of venues for experience programs connected with local governments and the accumulated number of beneficiaries
<ul style="list-style-type: none"> Increase opportunities for women to start career by expanding the operation of creator programs Increase the number of beneficiaries including children from low-income households 	<ul style="list-style-type: none"> Increase the number of beneficiaries of the women career support program, including the creation of jobs for women Expand the oral care musical in connection with local governments across the country

Sustainability Value Chain

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

INPUT VALUE	
Economy	
Asset	KRW 5.2759 trillion
Capital	KRW 3.594 trillion
Customer	
R&D investment	KRW 92.7 billion
Employee	
Number of employees (domestic)	7,918 persons
Training expense per employee	KRW 1.2 million
Environment	
Energy intensity	1.60 GJ/product-ton
Water intensity	2.10 ton/product-ton
Environmental investment	KRW 4.6 billion
Community	
Number of suppliers	862 companies
Expense of purchasing from suppliers	KRW 2,2779 trillion
Social contribution investment*	KRW 22.1 billion
Number of employee volunteers*	840 persons

*Non-consolidated





Participation in Local Communities

We participate in local communities through various social contribution activities, while providing education programs for the future generation.

Key activities

- Social contribution

07

Recycle and Disposal

We make strenuous efforts to reduce environmental pollution across all processes and increase recycling rate after consumers use the products.

Key activities

- Creation of social and environmental values
- Environmental and safety management



06

Product Use

We will provide products that consumers can use without worries based on our thorough management of safe quality across all processes.

Key activities

- Creation of true values for customers

05



VALUE CREATION

Economy

Sales	KRW 6.7475 trillion
Operating profits	KRW 1.393 trillion
Debt ratio	46.8%
Total amount of distribution for stakeholders	KRW 5.7984 trillion

Customer

Customer complaint rate	17.83 ppm
Sales of products with social and environmental values	KRW 1.1818 trillion
Number of products with the eco-labeling certification	195 products
Personal information leakage	0

Employee

Number of new employees	268 persons
Ratio of female employees*	56%
Employee Engagement	79 points
Industrial injury rate	0.30%

Environment

GHG emissions intensity	0.115 tCO ₂ e/product-ton
Waste intensity	12.578 kg/product-ton

Community

Win-Win Growth Index*	First Class
Number of social contribution beneficiaries*	264,974 persons

*Non-consolidated

01

Employee Value



Mandatory employment quota of the disabled



100%

*Non-consolidated

Ratio of female employees



56%

*Non-consolidated

Training expense per employee



KRW 120 million

*Non-consolidated

E-Academy course



1,214 courses

Agendas for the employees' committee



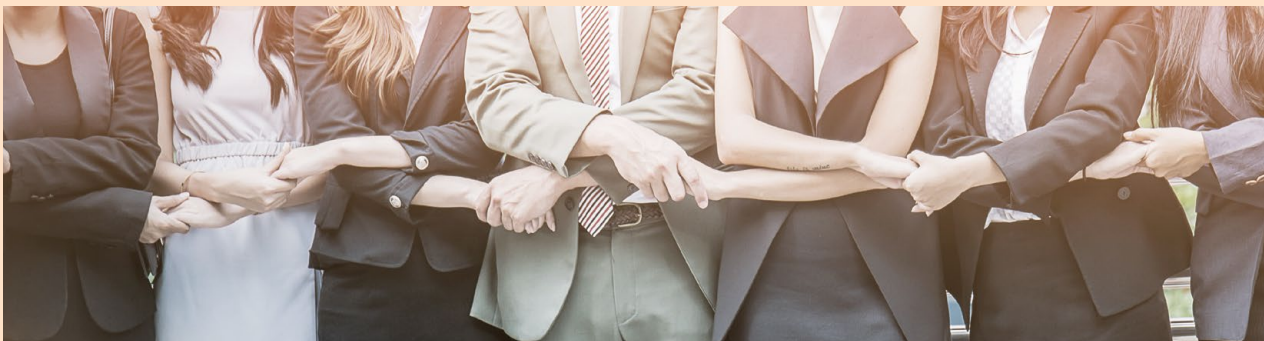
51 cases

CSR Background

Improvement of employee values is essential for sustainability of an enterprise. Diversity, experience, knowledge and creativity of employees are the fundamentals of a company in maintaining its competitive advantage in all sectors. A company must respect the value of each employee and provide opportunities for capacity building to enable them to achieve their own goals, thereby fulfilling the responsibility for employees as an advanced company.

Our Commitment

Under the management philosophy 'Respecting Human Dignity', LG H&H means to respect the human rights of employees and pursue diversity. The company also utilizes its corporate culture of mutual respect and trust and a variety of internal and external channels to strengthen the capacity of its employees, building an exemplary corporate culture.



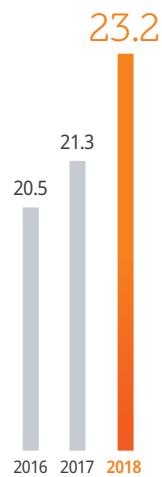
Diversity of Employees

Development of Human Resources for Leading Business in the Future

Believing that the basis of a sustainable company is human resources, LG H&H is developing creative human resources equipped with competence and distinctiveness that will lead the future business of the company. We develop human resources not to simply fill empty positions, but to support them to grow into outstanding leaders in the future. We provide human resources we have developed with opportunities for growth within the company by training them in various tasks. In the hiring process, we introduced the one-to-one in-depth interview system with a fair and objective recruitment process, in which talents with growth potential and capabilities can show their capacity in a comfortable atmosphere. We provide selected human resources with opportunities to develop themselves through tasks, get a promotion based on their performance, and participate in the global MBA course to build capacity and skills as an entrepreneur.

Favorable Environment for Female Talent to Work

LG H&H creates systems and an environment where female employees can fully perform to their capacity while achieving a balance between work and life at home. We are open to hire female employees based on our business characteristics having women as a major target customer group for cosmetics and household goods. As a result, the number of female employees has been rising since 2005, reaching 56% of the total number of employees as of 2018. We also try to build a working environment where both male and female employees respect each other through various programs, including the prevention of sexual harassment at work, words and actions, education, and desirable gathering practices. We also help employees keep a balance between work and life by running a daycare center in the company and operating the family care leave system. In addition, we have a female human resource development roadmap for each position, evaluate employees based on performance in a fair method, and provide equal opportunities for training, so that female employees can be committed to their work with vision. We



Ratio of female managers

(Unit: %)

*Non-consolidated

also provide opportunities for female employees with career breaks caused by marriage and child-rearing to be hired again by the company. Due to these efforts, we were able to achieve re-certification of the Best Family Friendly Management granted by the Minister of Gender Equality and Family in 2017. Moreover, we were awarded the Minister Prize for a Good place to Work for Women granted by the Women's News in 2018.

Development of Human Resources with Global Competence

While consolidating its domestic business in the midst of a rapidly changing business environment, LG H&H is laying the groundwork for sustainable growth by expanding its business to the American continent beyond China, Japan and other Asian countries. Along with the growth of our overseas business, we are also trying to develop human resources for global business who are equipped with the understanding of the culture and language of our target markets. We provide various global training programs for our employees, including the global MBA program, the regional expert course, and the basic Chinese and Japanese conversation classes. We provide employees with opportunities to learn what is required to implement overseas business, thereby cultivating global human resources. In addition, we find a variety of human resources with global competence by hiring Korean students who studied abroad and international students in Korea at our headquarters and overseas subsidiaries.



Spring Sports Day at Bright World



Goal for Love, Handball School

CASE Rehiring of Retired Employees

LG H&H rehires retired employees with expertise in a particular field to provide them with opportunities to perform their capabilities even after retirement. We appoint retired employees as technical consultants in the R&D sector, so that they can share their R&D know-how and experience with juniors and make suggestions for various research projects. In the production sector, we have rehired retired employees who work as consultants for technical and quality affairs for suppliers, thereby improving the technical level and capacity of suppliers and building the foundation for mutual growth.

Hiring of the Disabled

We run Bright World, our subsidiary which is a sheltered workplace for the disabled, to contribute to local communities and the national growth by hiring the disabled and developing their capabilities and improving the happiness and potential of the disabled. Starting with a cleaning business in 2015, we have expanded the business of this subsidiary to the company cafeteria, cafe, car wash and cosmetics packaging work. We also provide field trips and career experience programs even for the parents of the disabled and special education teachers in cooperation with local education offices and public institutions. We are building an environment where the employees of the subsidiary feel connectedness and pride by participating in the sports day and picnic events, while providing various opportunities such as informal activities for the disabled who might be isolated after working hours. Our case was designated as an exemplary one as a sheltered workplace for the disabled by the Prime Minister in 2016 for such active efforts to create a convenient environment for the disabled and contribute to increasing and maintaining their employment rate. We were also granted Comfortable Workplace of This Year by the Minister of Employment and Labor, constantly trying to make the company the best one for the disabled to work at.

Corporate Culture

No.1 Dignity Corporate Culture

In order to create a corporate culture with respect and compassion, we conduct the Top Dignity Education Program every year. Since 2012, this annual program has been carried out for all employees to help them to behave with a decent mindset appropriate for a top company. This program presents detailed guidelines of behavior to prevent the abuse of authority and sexual harassment and respect diversity by working harmoniously with non-Korean employees and those with disabilities. As the guidelines include the Code of Conduct for leaders and employees that we must abide by, such as smart working practices, meetings, reporting procedures, and work-life balance, it helps us to continue to create a healthy corporate culture. Since the legal requirements for education programs regarding sexual harassment prevention and the improvement of awareness of the disabled were tightened in 2018, we have also conducted online training for all employees about such themes.

Work-life Balance

We make sure that our employees can maintain a work-life balance as they focus on work during working hours and concentrate on their personal life after work, thereby enabling them to give their best ideas and performance. Employees can choose between the flexible



Ratio of employees who returned from parental leave (Unit: %)
*Non-consolidated



Ratio of employees who had a full one-year parental leave (Unit: %)
*Non-consolidated

working hour system and the staggered working hour system depending on the characteristics of their jobs. We implement the flexible time system, in which employees can select one out of five options for their working hours with the nine-to-five system as a default. We also run the company-wide simultaneous vacation system, a monthly or biweekly system where all employees can take a day off without worrying about troubling others. Employees are encouraged to go on parental leave to prevent career interruption, especially of female employees, and enable them to show their capacity, regardless of whether they have children or not. In 2018, we established the 2-hours off system, where employees take two hours off before and after they come to work or leave the office or before and after a lunch break. Under this system, we help employees conveniently run errands to hospital, public offices or bank or deal with childrearing affairs even during working days.

Employees' Committee

We operate the Employees' Committee to help young employees build leadership and express their opinions to management. The committee consists of 85 members and 12 group leaders, who hold meetings of the committee and participate in activities of the company-wide Employees' Committee. We keep them informed of the current management status and help them to learn the perspectives of management at Meet the Executive session, where they can meet executive directors on a regular basis. They are narrowing the gap in perception between executives and employees by having an in-depth Q&A session. With these efforts, we are trying to facilitate mutual communication within the company and create an environment where the young generation feel free to state their own views. In the committee meeting, we provide young employees with chances for growth by conducting special insight lectures.

Columbus Project

We have run the Columbus Project since 2015 to build a corporate culture pursuing creativity and challenges. Participants selected through the document examining and executive interview processes can use up to three months of free time and KRW 10 million of support funds for their challenges. In 2018, we selected six themes for this project: the research of the 'sleep-related product market and exploration of business opportunities'; 'the strategies for the digital transformation in the Chinese market'; 'LG Soul Center'; The research of 'edible flowers and development of a functional product concept'; 'the research of the global pet care market and the idea development for eco-friendly feed using insects'; and 'the understanding of consumers through the making of household goods review videos'. After the project, we are considering the commercialization of several themes with huge potential to contribute to the growth of the company.

Employee Capacity Building

Development of Global Experts

LG H&H equips its talents with the capacity for global communication and business strategy implementation. The training program includes offering of foreign language classes needed to carry out global business tasks, as well as providing background knowledge and planning capacity that allows the application of strategies for entrance into the overseas market. Participants are required to present their own business proposal for course completion, which enables employees to gain both theoretical knowledge as well as practical skills.

Global Training in 2018

(Unit: Person)

Category	Number of participants
English coaching class	30
GEC (Global Expertise Course)	16
GECC (Global Expertise Course in Chinese)	15
Global MBA	3
Regional expert	6
Foreign language courses (Japanese, Chinese)	111

Training of Sales Employees

LG H&H conducts various education programs to strengthen brand loyalty and raise the level of sales skills of employees at department stores and duty-free shops. The contents of the education programs consist of skin structure, skin counseling, product information, and sales techniques, which can enhance the capacity of employees and increase product sales. We also carried out online livestreaming training for self-directed learning at each store, while providing learning materials for the online training programs for each site. In order to develop counseling skills of sales employees at duty-free shops, conversation guidelines for communicating with Chinese customers were developed and the counseling manuals were distributed. With these efforts, we prevent our sales employees from having difficulties in interacting with Chinese customers, who account for a large share of all foreign customers.

Various E-Learning Courses

We have a wide range of e-learning courses for employees so that they can participate in training programs at the right time. 'L-lemon,' which is for employees in sales and sales promotion, provides learning opportunities regarding industry trends, products and sales skills to keep up with the characteristics of the rapidly changing FMCG industry. 'E-Academy' provides education programs related to foreign languages, leadership, humanities & liberal arts, and specialized jobs. From 2018, we are expanding e-learning by offering the courses to even the family members of our employees, allowing them to take courses of their choice.



Employee Engagement (LG Way Survey)

(Unit: Point)

*In 2018: Male 81points,

Female 71points

*Non-consolidated

Labor-Management Relations

LG H&H pursues a mutual trust and respect between employers and the employees and a labor-management relation with laws and principles as the core. We are also trying to stabilize a healthy relationship that stimulates comprehensive growth by providing values to customers despite the uncertain business environment. We conduct several events such as the quarterly labor-management council meetings and company meetings to accurately and swiftly share the management performance and strategies for the clarification of the company's goals. Through various communication channels such as the company-wide and divisional committees, we also improve the working environment and pursue work-life balance for higher quality of life, allowing employees to give their full attention to their tasks during working hours. Moreover, we operate the Empathy counseling for facilitation of communication for leaders and hold a Labor Law course at every business site to address grievances of employees, hold regular discussions, mediate conflicts as well as uphold the relevant laws and principles, which is the core of the labor-management relationship. In 2018, we discussed and introduced detailed measures to increase the satisfaction level of employees, including the establishment of the 40-hour week system and the expansion of support for funeral and memorial products.

Labor-Management Communication Channels

Category	Frequency	Description
Company-wide Committee	Twice/year	Listen to VOE through the representatives of employees in each group, identify issues and find solutions
Divisional Committee	Bimonthly	Identify the atmosphere of workplaces of each division by channel and listen to VOE
Meeting for each position level in sales and sales promotion	Quarterly	Listen to VOE related to sales and promotion, identify issues and find solutions
Labor-management committee at each business site	Quarterly	Improve the working environment of each business site, conduct surveys regarding safety and health issues, summarize results, and give feedback with solutions
Employee meeting in each division	Annually	Conduct an employee meeting led by the leader of a division and give feedback for each agenda

CASE

Training for Conflict Resolution in the Production Sector

In 2018, LG H&H carried out an education program for all employees in the production sector with the theme of conflict resolution and affection for the company. The effects gained from the program includes emotional stabilization of individuals, the acceptance and understanding of differences between employees for better resilience, and a more positive mindset towards the company. This program served as a chance to increase the community mindset between employees and between labor and management. In addition, we conducted various activities in preparation and implementation of the education programs, including the jointly developed training courses, the survey of employees' needs, and the selection of programs, thereby laying the foundation of mutual growth and cooperation in labor-management relations.

Human-Rights-based Management

Principles of Human-Rights-based Management

LG H&H upholds its own human rights policy that was established to ensure the respect of all stakeholders including employees, customers and suppliers and guarantee the rights of human dignity. LG H&H abides by regulations related to labor-relations in all countries and regions, strives to secure employment stability and adequate wage level for employees in the social and economic aspects. As a corporate citizen, we support the principles of human rights specified in the Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights presented by the United Nations Commission on Human Rights.

Impact and Risk Management System for Human Rights

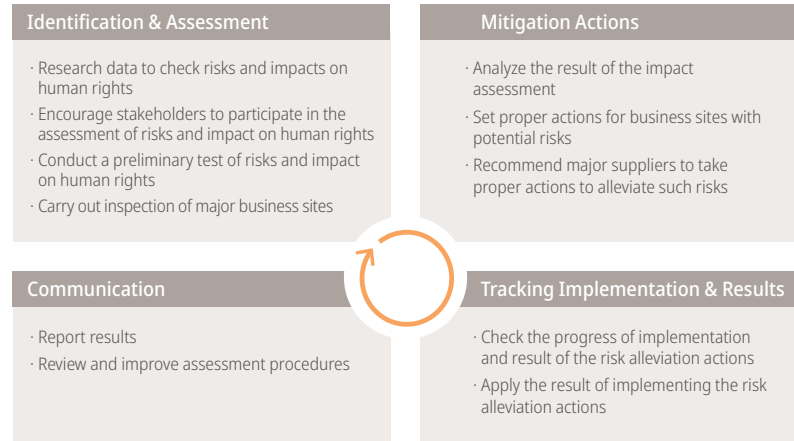
In accordance with the UN Guiding Principles on Business and Human Rights, LG H&H upholds the principles of Protect, Respect and Remedy to practice human rights throughout the entire business operation within the company and with our stakeholders. We also conduct Due Diligence¹⁾ to examine direct and potential impact of our management activities on human rights. For each of our domestic and overseas offices and subsidiaries, LG H&H carries out the Human Rights Impact Assessment through the LG Way survey, the Top Dignity survey, compliance risk inspection, and the environmental safety diagnosis. We also conduct CSR assessment in our value chain by considering the domestic and overseas trends in labor rights. We regularly examine issues related to poor treatment of human rights based on the results of the annual assessment. For detected issues, the relevant division finds solutions to be carried out through intensive management with the implementation progress being regularly monitored. LG H&H reviews the result of the assessment and management of these issues as well as their final impact by reporting them to the relevant committees, including the CSR Committee.

1) Due Diligence: An investigation aimed at checking a potential negative impact that may arise from business management activities, the supply chain and other business relationships and preventing and alleviating such an impact. See the OECD Due Diligence Guidance for Responsible Business Conduct.

Results of the Human Rights Impact Assessment

LG H&H annually monitors human rights practices of major suppliers as well as its domestic and overseas business sites. The results showed that there has been no violations of human rights at our business sites, while potential issues were found to be violent language, assault, respect for diversity, and discrimination.²⁾ We also found potential risks from suppliers regarding extended working hours, contracts with foreign workers, and training. We set improvement tasks for suppliers with detected potential risks, and are now monitoring the progress.





Impact and Risk Management Process for Human Rights



CASE Human Rights Protection Activities in the Supply Chain

Whether it is used as fatty acid derived from palm for products such as detergents or as glycerin, a solvent from secondary- and tertiary-processed raw materials for emulsifiers, Palm Oil is widely utilized in the manufacturing process of cosmetics and household goods. LG H&H deeply understands the severity of issues related to the violation of the human rights of workers and the reckless destruction of the environment caused during palm oil production. We support the activities of RSPO (Roundtable on Sustainable Palm Oil), established with the participation of global NGOs and companies. Our business sites in Ulsan and Onsan received the RSPO Segregation Certification for the entire process from raw material storage to production, product warehousing and shipment. In particular, we immediately terminate contracts with suppliers that violate human rights in producing palm oil. When purchasing raw materials from suppliers, we give priority to suppliers with membership in RSPO.

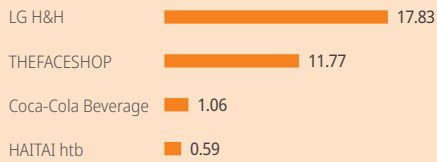
Impact Assessment Result and Remedial Measures for Human Rights

Category	Human Rights Issues	Impact Assessment Method	Impact Assessment Results and Measures in 2018
 Employees	Non-compliance with the behavioral code for employees	Cyber SINMUNGO	<ul style="list-style-type: none"> Received 56 cases of reports related to employee issues (46 cases processed, 10 cases proven to be false) Operated the report reward system and the whistleblower protection system
	Damages from sexual harassment and severe treatment at work (abuse of authority, disrespect between employees)	Top Dignity survey	<ul style="list-style-type: none"> Result of the Top Dignity survey in 2018 Serious issues: N/A Potential issues: Violent language and assault between employees, respect of diversity (foreign nationality, foreign culture, the disabled), non-discrimination, and the use of parental leave Conducted education programs for the top dignity corporate culture (prevention of abuse of authority and sexual harassment, and creating a culture that respects diversity)
	Stress of employees (emotional labor of sales employees)	LG Way survey	<ul style="list-style-type: none"> Established and distributed emotional labor guidelines Operated the psychotherapy counseling center, where an expert works once a week
	Industrial accidents caused by negligence at business sites	Safety diagnosis of business sites / Health checkup of employees	<ul style="list-style-type: none"> Conducted the safety diagnosis through an external agency at 17 business sites and implemented improvement measures Conducted internal safety diagnosis at 3 business sites, 66 logistics centers and 24 stores and implemented improvement measures
 Suppliers	Violation of human rights in producing and supplying palm oil	RSPO certification	<ul style="list-style-type: none"> Achieved the RSPO Segregation Certification in business sites in Ulsan and Onsan Put priority on companies with RSPO membership when selecting suppliers for raw materials
	Labor rights issues of suppliers' employees	CSR assessment of suppliers	<ul style="list-style-type: none"> Conducted the CSR Assessment for suppliers <ul style="list-style-type: none"> Conducted assessment of 27 new suppliers and implemented improvement measures Conducted assessment of 66 existing suppliers and implemented improvement measures
	Damages from unfair transactions (unreasonable demands)	Bribery Report System through Cyber SINMUNGO	<ul style="list-style-type: none"> Received 20 cases of grievance from suppliers Promoted a 'No gift-giving' campaign among LG H&H employees
 Customers	Protection of customers' personal data	Security check of personal information (LG H&H and suppliers) Mock hacking of personal information	<ul style="list-style-type: none"> Conducted inspection at 22 business sites and 14 suppliers handling personal information to minimize risk factors Found 108 weak points in the personal information handling system and implemented improvement measures
	Customer accidents (product safety)	Voice of Customers	<ul style="list-style-type: none"> Achieved the response rate of 20 seconds to 90.5% of customer inquiries Implemented an intensive management claim system to share issues with relevant departments within 20 minutes of receiving VOCs and visits to the customer within a day
 Local community	Entry of the vulnerable group into society	Examination of issues related to the vulnerable group	<ul style="list-style-type: none"> Supported the hiring of the disabled by running Bright World, sheltered employment for the disabled Supported 35 women through THEFACESHOP's Natural Beauty Creator program (recent graduates or women with career breaks) Rehired retired employees in cooperation with the technical support team of suppliers

02

Customer Satisfaction

Customer Complaint Rate (ppm)

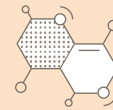


Number of unsatisfactory cases improved through quality diagnosis



1,401 cases

Number of projects under quality innovation with the goal of receiving zero complaints



22 cases

Rate of response to customer inquiries within 20 seconds



90.5%

CSR Background

Customer satisfaction is the outcome of our efforts to meet the demand and expectations of customers, which leads to re-purchase of our products and services and further to the increase in trust with customers and the brand value. Accordingly, LG H&H must identify and consider the rapidly changing demand of customers to provide quality products.

Our Commitment

LG H&H is committed to improving safety and convenience for consumers and ensuring the quality of products through quality enhancement activities. In addition, we have strengthened communication with customers to embrace their opinions and apply them in our product development process and services, increasing the customer satisfaction level.



Reduction of Customer Complaints

Enhanced Product Satisfaction through Improved Containers with Pump Dispensers

We improved convenience by upgrading the pump dispenser for O HUI's Skin Softener and Emulsion. Since the previous pump did not dispense the content as well as expected, we identified the cause for each product by conducting a reproduction test. We employed a soft pump using an NBR piston in the improvement test and underwent a systematic process to apply the new pump in products, modifying the shape of the container and molds for decoration. We eventually improved user convenience and increased product satisfaction. We also completed the development of the test method for similar pumps in an effort to prevent the recurrence of the issue and achieve fundamental improvement.

Usability Improvement for Fabric Refreshers

We enhanced the user satisfaction by tackling the inconvenience in using fabric refreshers, such as Saffron Care and AURA, in which the loose spray guns caused unnecessary leakage. The spray guns of the previous pump containers were easily loosened as the inlet became misshapen in the process of transport. We applied a flexible twisting function to protect the inlet and added the number of molds to improve quality, consumer satisfaction and usability.



Communication with Customers

System Improvement

Our complaints-handling procedure and compensation standards are specified on our website, so that consumers can easily check information about ways to address their complaints. In addition, we operate and manage the VOC (Voice of Customer) system in order to analyze the purpose of the requests and to efficiently provide accurate feedback. We operate and manage the system on a company-wide level by requesting analysis, the registration of the analyzed result into the database, and management of the results.

Customer Service

LG H&H receives a total of about 120,000 calls each year from consumers through our customer service hotline. For a swift response, we try to maintain the response rate of 20 seconds at 90% or higher, while strengthening of the kindness KPI (Key Performance Indicators) of the call center staff by conducting internal call monitoring and coaching. In terms of complaints and claims, we try our best to present a reasonable and quick solution to address their complaints in the early stage, fundamentally improving customer satisfaction. The contents of our major claim, designated as 'intensively managed claims,' are shared with the relevant division within 30 minutes of receipt to be specially analyzed for cause and for improvement measures. We also try to visit the customer within a day of receiving the complaint to swiftly resolve the problem. In particular, we strengthen the emotional capacity of the call center staff and employees in charge of handling such issues, addressing customer complaints and spreading a positive image of the company and our products.

Exemplary Case of Customer Service

Our CS team in charge of the company-wide customer center selects useful information for improving products and services based on received VOCs, immediately sharing them with relevant divisions. In addition to the regular report of customer claims, the team frequently shares quality improvement issues by email, while summarizing applicable suggestions of customers as 'Valuable VOCs' to distribute across the company more than 60 times a year. We also swiftly share VOCs from consumers with compliments about our products to spread positive messages throughout the company. We run a weekly psychotherapy center with an expert at the Anyang office for call center workers and issue-handling employees who have direct contact with customers to help them control their stress and manage their mental health.

Rate of response to customer inquiries within 20 seconds

90.5
%

Number of customer suggestions shared across the company

60
cases a year

03

Social Contribution



Investment in social contribution activities



KRW 22.1 billion

Number of employee volunteers / Total hours



840 persons / 6,834 hours

Number of beneficiaries



264,974 persons

Number of beneficiaries of Beautiful Sharing Pack



5,629 households

Number of participants in Borrowed Earth School



37,092 persons (accumulated)

Number of participants in Perioe Kids School



212,924 persons (accumulated)

*Non-consolidated

CSR Background

All across the globe, social contribution by enterprises is evolving from providing simple financial support to developing activities connected with business management strategies while incorporating the capabilities of companies. Enterprises must try to create both economic and social values by actively responding to social demands.

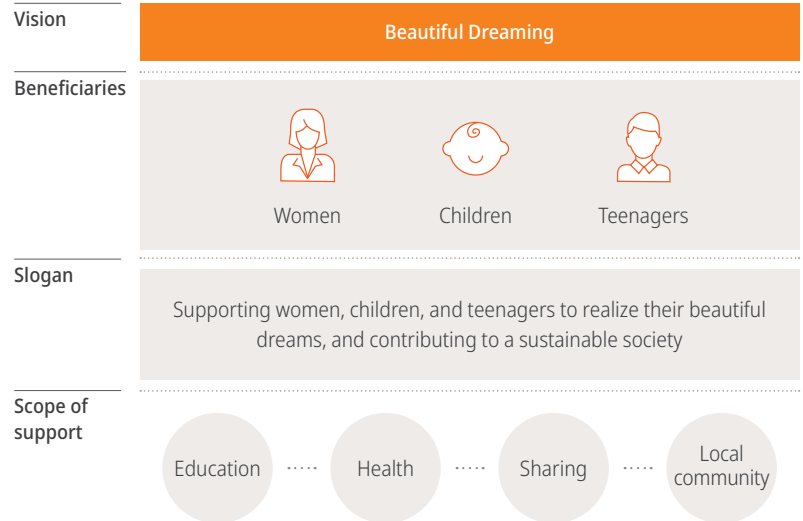
Our Commitment

LG H&H's social contribution activities conform to the direction of its business and reflect its characteristics as an enterprise. We try to steer away from one-time donations but rather try to maximize the effect of our contribution activities through selection of partnerships with specialized organizations, stepping forward in the direction of enhancing values for the members of society.



Social Contribution System

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



Perioe Kids School
(accumulated data)

2,603
locations

212,924
children



'Shiny Perioe'
Musical

55
locations

7,304
children

Shiny Perioe: Musical about Health of Children

LG H&H has conducted "Perioe Kids School" since 2004, visiting kindergartens and meeting over 200,000 children. Through "Shiny Perioe", a musical about the health of children performed since 2017, we spread good tooth brushing habits to more than 7,300 kids at 55 children's education organizations, local children's centers and public health centers. "Shiny Perioe" is the first of its kind in this industry, which combines healthy habits required for children for their oral health and hygiene with cultural contents such as musicals. The performance, in which the main character Bom experiences various festivals of different countries, attracts children's interest and delivers information about hygiene in a way children can easily understand. In 2018, the musical was performed in Seoul and other cities in the Gyeonggi metropolitan area, as well as in Pyeongchang and Cheongju by inviting children living in non-metropolitan regions.



Borrowed Earth School

'Borrowed Earth School', one of LG H&H's major social contributions is the country's first convergent training programs aimed at spreading eco-friendly daily habits that everyone can develop but have never learned before, and helps participants to design their career. In order to consolidate it as the habit training program for teenagers that keeps up with changes in creative learning trends, we signed an MOU with the Ministry of Education and local education offices to facilitate the Free Semester System, and have conducted the program in cooperation with Ecomom Korea, an environmental NGO.



Borrowed Earth School – Camp for College Students

Borrowed Earth School – Camp for College Students is a program that fosters the value of corporate social responsibility (CSR) and social contribution among college students. LG H&H provides the participants with opportunities to experience Borrowed Earth School for two days, during which they use their capacity to plan and propose a CSR program that addresses social issues, and achieve personal growth through a career talk show where LG H&H employees take part in.

Mom Supporters

We organized a support group which allows mothers who are experiencing career breaks gain greater opportunities to contribute to society. The supporters participate in programs as instructors who consult teenagers about skin care and career planning.



Continued Participation of Employees

LG H&H employees participate in the Borrowed Earth School as lecturers for each subject. Beginning with approximately 100 participating employees in 2015, 200 in 2016, and 300 in 2017, there has been a continuous involvement over the past few years. In 2018, there were a total of 204 participants in our program that was developed to provide increased awareness and opportunities to engage in social contribution activities.



Class Concert Hosted by the Ministry of Education

The Class Concert is a program sponsored by the Ministry of Education under the Free Semester System, making LG H&H the first company to participate in this program. The theme was 'Wish of All, Joyful Sharing! – Invitation to the Free Semester Class,' and the program introduced a range of cases for developing future talents that possess creativity, integrity, and diversity.

Teacher Consultants

In order to strengthen the connection among the course within the Borrowed Earth School and the Free Semester System, and for the subjects to reflect the trend in the education sector, we appointed teacher consultants, consisting of teachers specialized in ethics, the Free Semester System and career education.



14년째 협력 진행 중인 LG생활건강과 서울특별시교육청의 공동 협력사업



Global Eco-Leader

Global Eco-Leader is a program that launched in 2014 with UNEP, the Ministry of Environment, and Ecomom Korea to nurture teenage environmental leaders and provide a wide range of environmental knowledge and experiences. Ecomom Korea. Under the slogan 'My Little Habit Changes the World,' this one-year environmental education program trains teenage eco-leaders who can lead a sustainable society. The program has cultivated a total of 2,635 eco-leaders so far. It helps participants become global leaders in the future by encouraging them to end bad habits and drive meaningful changes at home, schools, and in local communities. In 2018, 208 Eco-Leaders, consisting of elementary, middle, and high-school students, and 20 Eco-Mentors participated in this program under the theme of climate change and sustainable growth. This year, we upgraded the environmental education program for teenagers to keep up with the new national educational curriculum. We carried out the Eco Bridge Project featuring environment, humanities, social studies, science and arts, which helps teenagers focus on a field that suits their interests and aptitudes.

Development of
Global Eco Leaders

2,635
persons

Beautiful Sharing Pack

Beautiful Sharing Pack is one of our representative sharing events that we jointly operate along with the Beautiful Store. This event commenced in 2004 to donate over 900 gift sets to the underprivileged in the local communities. The event is usually carried out before the Lunar New Year Holiday each year to extend holiday greetings and share warmth, by delivering sharing packs and visiting underprivileged people. In 2018, we provided more than 110,000 gift packages, which consisted of 22 daily necessities and blankets, to 5,629 households for grandparents who are solely responsible for the care of children or for the elderly that live alone.



THEFACESHOP Natural Beauty Creator

In 2018, our nature-based cosmetic brand THEFACESHOP initiated a new social contribution program called THEFACESHOP Natural Beauty Creator in cooperation with an environmental NGO called, Korea Green Foundation. The program was designed to support the dreams of women who are facing difficulties in getting a job and are in need of new opportunities, including those who have just graduated or those with career breaks due to marriage, childbirth or child-rearing. The program cultivates beauty influencers in the field of healthy beauty and eco-friendly lifestyle, with combined concepts of beauty and environment. Recently, video-sharing platforms such as YouTube are considered influential media and the profession of a content creator is becoming highly recognized as a promising job. Therefore, we are cultivating beauty creators, a popular career field among women, to support them in becoming talents-in-demand in the era of the 4th Industrialization.



Natural Beauty Creator Training

We conducted our first training program for Natural Beauty Creators over the span of three months with 35 selected participants. The curriculum comprised of 14 lectures about the environment, beauty and video making. We helped them build skills and capabilities as creators and strengthen their expertise through training courses focusing on practical tasks with the themes of beauty industry trends, understanding of cosmetics, makeup know-how, eco-friendly lifestyles, content planning and creating, video making and editing, and on-the-job training.

Mentoring and Regular Meetings with Popular Creators

We invited three popular creators (COCOCHO, Dear Jerry, YOONGREEN) as mentors, who shared their know-how on becoming a successful creator and motivated the participants. We provided opportunities for close interaction, where the participants were able to build a network through monthly meetings, freely sharing data and difficulties with one another.



Audition and Selection

We selected beauty creators from women in their 20s and 30s with high interest in beauty and the environment. A lot of women with various stories were interviewed, including a job seeker who has been frustrated by barriers to employment, a mom of a 20-day-old baby, and a housewife dreaming of becoming a YouTuber. We finally selected 35 women who beat the odds of 1:15 as Year 1 students of THEFACESHOP Natural Beauty Creator.





Mission Accomplishment League for the Themes of Beauty and Environment

We provided beauty creators with LG H&H's cosmetic products, content sources, and opportunities to attend promotional beauty events, so that participants can build experiences as beauty influencers by completing various missions. Exemplary participants were granted prizes along with special rewards, including support for online advertising and video equipment, marketing in connection to brand promotion, and opportunities to be a model. They fulfilled their roles as creators with the potential to have a positive influence on society by delivering environmental messages through related missions and promoting eco-friendly lifestyles through campaigns.



A Year 1 Student of TFS Natural Beauty Creator

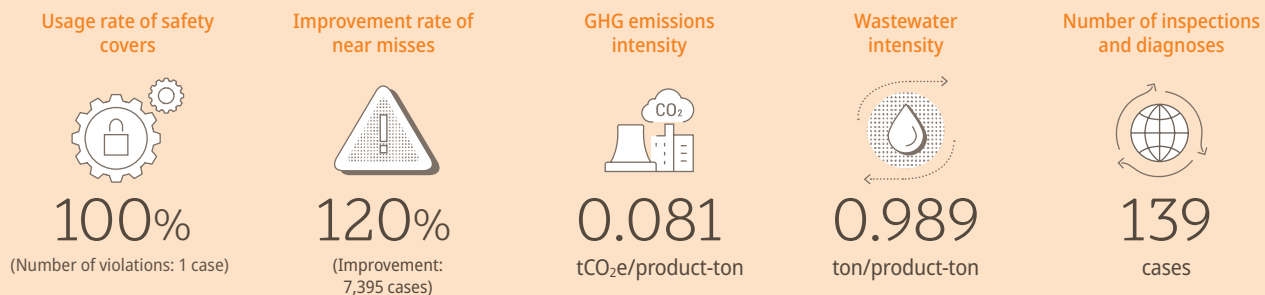
Right after giving birth to my baby, I came across an advertisement for THEFACESHOP Natural Beauty Creator as I was uploading photos of my baby on Instagram. The phrase 'career break' on the advertisement made me apply for the program as quickly as I could, because my biggest concern had been about my future now that I've given birth. You know that there are many women that stand between their career and child-rearing. But an advantage of being a content creator is that I balance both. I hope that more people can find their dreams again through this program, and for me, I want to grow into a creator that can affect people in a positive way.

A-yeong Kim
Channel name: MATATA하쿠나마타타



04

Environment and Safety Management



CSR Background

Given the increasingly tightened environmental regulations and growing social attention to environmental factors across the globe, enterprises and their environmental responsibilities are becoming more significant. Companies are making efforts to establish their long-term environmental management strategies and minimize their impact on the environment with their continuous investment in relevant facilities and R&D.

Our Commitment

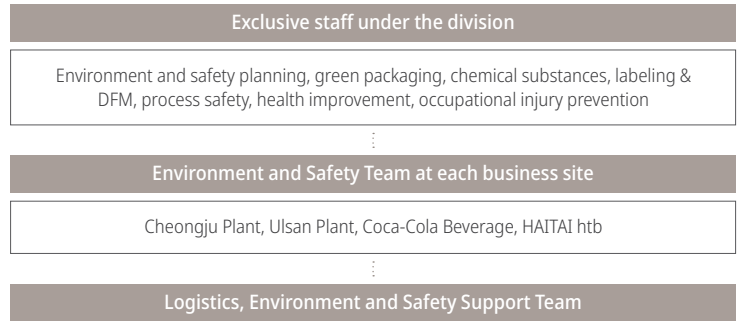
On the basis of medium- and long-term strategies for environment and safety management, LG H&H minimizes its environmental impact and preemptively responds to environmental risks. We implement ways to decrease environmental impact across the entire business operation by reducing GHG emissions as well as energy consumption and managing water resources. At the same time, we operate a wide range of safety and health education programs for the physical/mental health and safety of the employees of LG H&H and the suppliers.






Environment and Safety Management System

LG H&H's Environment and Safety Division identifies major risks across the company, and implements medium- and long-term strategies and plans that were developed accordingly. The Environment and Safety Division contributes to the sustainable growth of the company by creating an eco-friendly and safe working environment and promoting activities for the improvement of our employees' health throughout all business procedures. The division also provides distinctive values to customers by operating an optimal system for green business management. We support environment and safety activities of our cosmetic business subsidiaries, such as THEFACESHOP, CNP and FMG as well as overseas subsidiaries in Beijing and Hangzhou, China and Vietnam.

Organizational Structure of the Environment and Safety Division



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

Category	KPI	2018 → 2019 → 2020	Achievement Plan		
 <p>Accident-free work environment</p>	Usage rate of safety covers	100% (1/9,124cases) (Number of violations/total)	Stabilization (10,946cases) Upgrade	<ul style="list-style-type: none"> Install safety equipment for abnormal covers Establish and operate a monitoring system Stabilize and upgrade the operation of the system 	
	Number of industrial accidents - including those at in-house suppliers	31cases	7cases	0cases	<ul style="list-style-type: none"> Strengthen the subcontractor monitoring system Set a monitoring system Stabilize and upgrade the operation of the system
	Improvement rate of near misses	120% (7,395cases)	100%	100%	<ul style="list-style-type: none"> Monitor the current status of each business site Apply the improvement rate of near misses in the KPI for the head of each department Ask a regular employee to identify and tackle five near misses
 <p>Green management</p>	Green level application rate	100%	100%	100%	<ul style="list-style-type: none"> Build a monitoring IT system Analyze existing products and identify current status
	Sales of green products	KRW 375.9 billion (195 items)	KRW 398.0 billion	KRW 409.9 billion	<ul style="list-style-type: none"> Expand the application of ecofriendly labels and low-carbon product certifications
	GHG emissions intensity (tCO ₂ e/product-ton)	0.081 (Magok LG Science Park included)	0.069	0.067	<ul style="list-style-type: none"> Conduct activities to reduce energy consumption at each business site (Based on the GHG emissions intensity at production sites)
	Water intensity (ton/product-ton)	2.10	2.04	1.98	<ul style="list-style-type: none"> Conduct activities to reduce water consumption at each business site
 <p>System</p>	EHS system use rate	System establishment	Stabilization	Augmentation	<ul style="list-style-type: none"> Identify current status and establish systems Stabilize and upgrade the system
	Rate of ISO certification maintained (at all business sites)	82% (23/28)	83%	84%	<ul style="list-style-type: none"> Shift the standards of environment/safety certification Obtain environment and safety certification for all business sites

Energy and GHGs

Energy Consumption

With abnormal weather occurring across the globe, consumers are paying more attention to climate change. In response to this phenomenon, we are planning to reduce GHG emissions and energy consumption by constantly introducing high-efficiency equipment and increasing the efficiency of installations. At the Yangsan Plant, we improved the existing freezer system by employing a new technology using stratified tanks and achieved a reduction in energy consumption by maintaining a stable freezing capacity and increased the efficiency of operations. Following the improvement of the freezer system, we expect to reduce energy consumption by about 712 MWh per year. In addition, we are gradually replacing lamps with high-efficient LED lights at each business site to reduce power consumption for plants and warehouses. We predict a reduction in the annual energy consumption of 158 MWh at the Yeosu Plant by replacing 415 lamps with LED, 72 MWh at the Yangsan Plant with 300 lamps, and 180 MWh at the Gwangju Plant with 500 lamps. At the Yeosu Plant, we are producing eco-friendly energy by installing solar energy generating facilities with a capacity of 48 kW in the unused space of the rooftop on Warehouse 2.



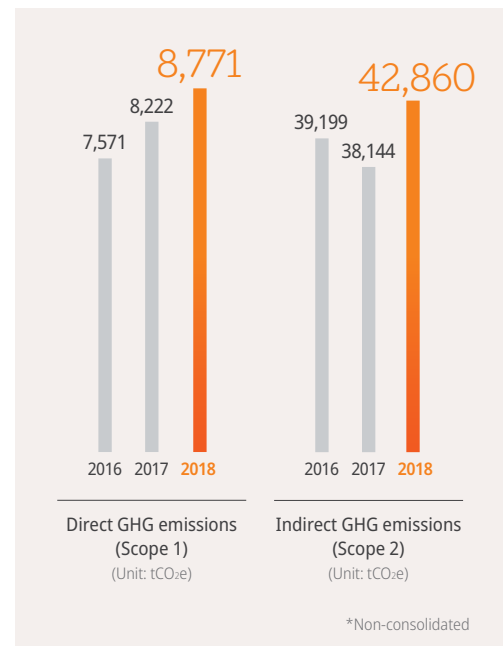
A new freezing and pneumatic system room at Yangsan Plant



Energy Consumption (Unit: TJ)
*Non-consolidated

GHG Emissions

The subjects to the GHG emissions and energy target management system were our business sites in Ulsan and Yeosu, and HAITAI htb's business site in Cheonan has newly been added to the subjects in 2018 since its average GHG emissions exceeded 15,000 tons. In the same year, the amount of GHG emissions increased further due to the establishment of Magok LG Science Park (research and office buildings). Since Magok LG Science Park buildings are eco-friendly-certified, we will make efforts to minimize pollution by saving energy and natural resources.



Direct GHG emissions (Scope 1) (Unit: tCO₂e)

Indirect GHG emissions (Scope 2) (Unit: tCO₂e)

*Non-consolidated

Energy Consumption Reduction Cases

We continuously make investments in response to climate change by upgrading installations at our business sites and replacing old equipment to increase energy efficiency.

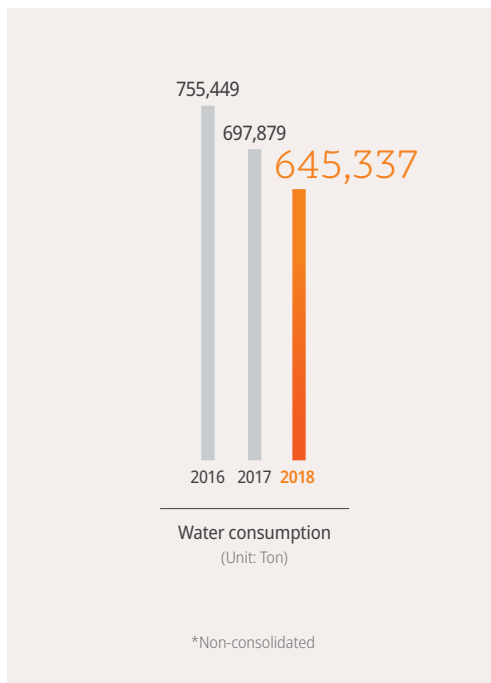
Category	Content	Reduced amount		Energy (GJ)	GHG emissions (tCO ₂ e)	Business site
		Power	Volume			
Renewable energy	Installed solar energy generating facilities	Power	19 MWh	181	9	Yeosu
Energy demand management	Installed high-efficient LED lamps	Power	158 MWh	1,521	74	Yeosu
	Replaced CAN tunnel sterilizer pumps	Power	42 MWh	408	20	Yangsan
	Improved PET2 freezers	Power	712 MWh	6,835	332	Yangsan
	Installed high-efficient LED lamps	Power	72 MWh	691	34	Yangsan
	Installed high-efficient LED lamps	Power	180 MWh	1,728	84	Gwangju
	Recycled steam-condensed water from the refinement room	Power	33,657 Nm ³	1,036	74	Ulsan

Water

Water Consumption

In 2018, our overall water consumption decreased from the previous year. The consumption of surface water and water supply increased by 3.7% and 3.9%, respectively, while that of groundwater decreased by 20.5%. This was because HAITAI htb switched its water source for CIP¹⁾ at its business site in Cheonan from groundwater to water supply. To reduce water consumption, our business sites continue to manage the amount of water use for each purpose, find appropriate usage of recycled water, and develop improvement measures for areas that require high water consumption.

1) CIP (Clean in Place): A method of cleaning the interior surfaces



Develop improvement measures for areas that require high water consumption

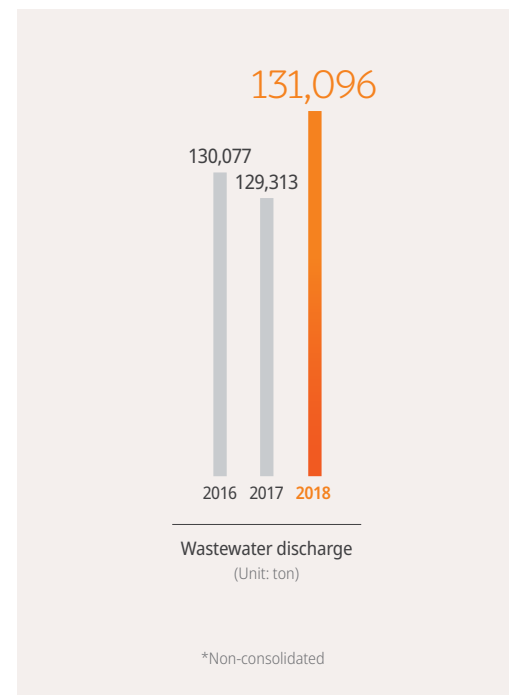
Wastewater

Wastewater Management

Our Gwangju Plant established a maintenance plan for its facilities to improve the wastewater treatment efficiency, replacing old speed reducers of settling tanks. Yangsan Plant overhauled turbo bowers to prevent the deposition of pollutants and decomposition in wastewater sumps. The plant also installed pH meters in neutralization tanks to quickly respond to changes in pH of wastewater discharged from the production process.

Amount of Discharged Wastewater

LG H&H constantly improves its facilities and reduces the amount of wastewater discharged from its sources. Chuncheon Plant invested in the heat exchange system and storage tanks to reuse cooling water, which used to be discharged as wastewater, expecting to reduce wastewater by 69% from the previous year. In addition, we constantly monitor business sites with unreasonable uses of waste water resources and make improvements, while strengthening wastewater facility management with our own standards that are stricter than relevant regulations to minimize the amount of discharged pollutants.



Waste

Waste Management

We have an efficient waste management system at each business site designed to reduce the amount of waste and increase the recycling rate. We constantly reduce the defect rate by managing the production process, while regularly conducting waste sorting education. Not settling for the existing waste disposal method, we will continue to explore new recycling methods and seek relevant companies. In 2017, the Yangsan Plant switched the existing self-wastewater treating system to the final sewage treatment system of the industrial complex, reducing the annual amount of wastewater by about 1,000 tons.

Amount of Waste

Ulsan Plant reduced the amount of waste by 50% by improving the TFE¹⁾ process. In 2017, the amount of waste from the TFE process was 2,200 tons, which halved to 1,100 tons in 2018. In addition, 41% of waste from this process is recycled as part of our efforts to increase the recycling rate of waste. We expect to achieve 100% recycling rate of this process in 2019.

1) TFE: Thin Film Evaporation

Chemical Substances

Strengthened Chemical Substance Management System

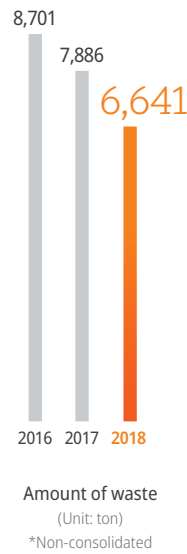
We strengthened the management of raw materials for OEM products by establishing a system where product formula generation is allowed only when a researcher registers the contents of raw materials purchased by OEM suppliers into the management system. We have checked the contents of 511 raw materials purchased by suppliers and registered them in the management system. We also prevent regulation-related risks by expanding the scope of imported chemical substances to be reported from raw materials to industrial products.

Odor Management

Ulsan Plant upgraded the dust-collecting facilities to clean the fatty acid room in order to alleviate odor from the business site and reduce damage to surrounding communities. The facilities were created and installed to clean up the fatty acid room to reduce stench and odor reduction measures were reinforced through electric wiring work.

Establishment of the DFM System

We built the DFM²⁾ system for the alleviation of legal risks in advance and the integration and increased efficiency of work processes. We established an environment and safety database to store legal records on water quality and waste and to manage the risk assess-



ment results as well as employees subject to health checkups, enhancing our statistical function and creating preventive work system for the inspection and management of dangerous facilities.

2) DFM: Defect-free Management



Main screen of the DFM system

Industrial Safety and Prevention Activities

We conduct a wide range of activities to prevent industrial injuries for employees in the manufacturing process, logistics and sales. We classify business sites with high risks into different levels based on evaluations and make improvements by each level. We also began activities to reduce risk factors by conducting theme-based and external inspections. For our sales business sites, we held Zero Together activities aimed to prevent musculoskeletal diseases, as well as sales environment improvement activities and other training programs.

Zero Together

Our beverage business division minimizes negligent accidents at business sites through the Zero Together campaign. Employees find safety-threatening risk factors, while supervisors visit business sites with risk factors to come up with ideas for improvement, providing practical help to business sites. We quantified the number of safety activities held for preventing accidents and achieved our daily target, responding to risks that account for 44% of negligent accidents at business sites.



Zero Together Poster for Muscle Strengthening Exercises



Zero Together Event on Muscle Strengthening Exercises

Aim for 100% Usage Rate of Safety Covers

The use of safety covers is a key to preventing major accidents. We integrated the use of safety covers with the operation of machinery and installations, so that all machines and equipment are forced to stop working when safety covers are open. The machinery and installation department ensures 100% of installation and operation of safety covers and the sensors. Also, no one is allowed to work or enter places with risk factors that have removed safety covers or deactivated safety sensors. The safety department frequently checks the normal use of safety covers, while the environment and safety division from headquarters conducts unplanned inspections. If inspectors find safety covers or sensors that are deactivated, they hold relevant workers, managers and supervisors responsible, preventing the recurrence of the problem. As the number of major accidents has decreased due to the use of safety covers, we are minimizing the loss of human resources as well as material, production and sales.

Prevention of Near Misses

We reduce risk factors by identifying potential near misses and improving our sites. We also promote muscular strength exercises to prevent musculoskeletal diseases, enhance carrying work capacity, and increase safety awareness.

Safety Diagnosis of Business Sites

We conducted preemptive management of legal risks and improved the expertise in diagnosis at 17 business sites through an external professional agency. We also conducted self-diagnosis at three business sites, 66 logistics centers and 24 stores to remove potential risk factors and improved the work environment.

Integrated Accident Prevention Center at the Cheonan Business Site

At our business site in Cheonan, we established an Integrated Accident Prevention Center that can integrate the accident prevention system across all business sites of HAITAI htb with remote CCTV monitoring. The center introduced the central monitoring system for intensive management of high-risk and fire-prone areas, which enabled the center to quickly respond to dangerous situations.

Industrial Safety and Health Committee

We organized and operated the Industrial Safety and Health Committee consisting of an equal number of members from both labor and management to discuss and decide on major issues related to industrial safety and health. Quarterly meetings are held with the participation of employees to achieve safety and health goals. The result of the meeting is swiftly shared with employees via the safety and health bulletin board.

Number of
business sites with
the environmental
management certification

ISO 14001

12

(Unit: business site)

Number of business sites
with the safety and health
management certification

OHSAS 18001

10

⋮

KOSHA 18001

1

(Unit: business site)

ISO Certification

We undergo the annual safety and health management assessment conducted by an external professional agency to maintain our world-class safety and health system and comply with relevant procedures and regulations. We disclose the safety and health management certification and the result of the assessment to provide distinctive products and services from an environment in which all stakeholders can trust without concern.

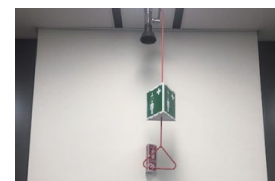
Industrial Safety and Health Activities of Suppliers

LG H&H's safety and health requirements also apply to our suppliers as they are our business partners. In order to enhance leadership and communication skills of our suppliers' employees regarding safety and health, we run monthly meetings with the Safety and Health Committee of Suppliers along with their supervisors and managers. We support their work safety analysis, safety and health education, inspection and improvement, while enabling them to freely use amenities such as training venues, shower facilities and staff lounges. With these benefits, we lay the groundwork for our suppliers' employees to lead a satisfying and pleasant life without any inconvenience in the areas of work, rest and welfare.

Health Enhancement

Strengthened Management of Cerebrovascular and Cardiovascular Diseases

We are well aware that a steady increase in cerebrovascular and cardiovascular diseases is a critical risk factor for health enhancement of employees. Therefore we arranged the stricter health management index and designed the five-year-cycle cerebrovascular and cardiovascular disease checkup package for early detection of relevant diseases. Every employee aged 35 or over is required to complete the online training program on cerebrovascular and cardiovascular diseases and fill out a self-initiated health management plan to build their health management capacity. For employees with a high risk of cerebrovascular and cardiovascular diseases, we introduced medical consulting and a cost support system for intensive health treatments. This support system is operated in a one-stop method including prevention, early diagnosis and health management. We also installed a total of 60 automatic blood pressure monitors at all business sites with 30 or more staff and at sites with poor accessibility to medical services, so that employees can frequently check their blood pressure and live a healthy life.



Emergency shower head in laboratory

CPR Education and Training

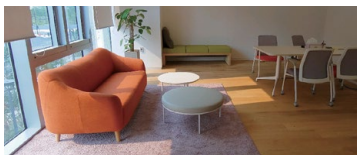
We also installed a total of 36 automated external defibrillators (AEDs) and dispatched trainers with training manikins at 20 business sites. Using this equipment, we conducted 28 training sessions for 1,055 employees on performing CPR and using AEDs, ultimately strengthening their capacity to respond to emergency situations. Continued and repeated practice and training are required to properly perform CPR in a real emergency. LG H&H will expand the education and training program to enable our employees to quickly respond to emergencies by developing professional staff in charge of CPR¹⁾.

1) CPR: Cardiopulmonary Resuscitation. A series of procedures including chest compressions, mouth-to-mouth resuscitation and the use of AED for a person whose heart has stopped, to artificially circulate blood and delay damage to his or her brain, thereby providing a crucial aid to recover the heart function



Mental Health Keeper – Expansion of Internal Psychological Counseling Center

Following the first center at our business site in Anyang in 2017, we added the internal psychological counseling center, Mental Health Keeper, at Magok LG Science Park as part of the psychological care program aimed at managing stress and identifying psychological issues of employees in advance to protect their mental health. The center is operated with a focus on researchers facing high mental pressure. In the early stage of the foundation of this center, we conducted a preliminary psychological diagnosis on all team leaders to increase the role and facilitate understanding of the managers regarding mental health care. In addition, we helped employees experience the intriguing mental care culture through special lectures and presentation sessions. We will run more detailed mental care programs to create an optimal environment where our employees can reduce psychological anxiety caused by stress and concentrate on their work.



Psychological counseling center at our business site in Magok

Family-friendly Red Circle Campaign

Six of our major business sites jointly promoted the Red Circle Campaign. Moving a step further from the existing campaign method, we employed programs with fresh ideas, such as the Heart Racing Quiz, Heart Racing Coloring Book Challenge, and Heart Racing Cooking Class, which employees were able to participate alongside their family members. In particular, Heart Racing Coloring Book Challenge was a meaningful program that employees could enjoy with their family including a three-year-old baby to parents in their 70s, using six sketches describing the brain and heart health designed by LG H&H. Through these programs that connect work and family, we increased awareness on the prevention and management of cerebrovascular and cardiovascular diseases.

Heart Racing Coloring Book Challenge



First prize - Adult category



Second prize - Children category

Emergency Response

Emergency Response Process

LG H&H established the emergency response process to quickly deal with accidents that may occur at our business sites. We organized the emergency response committee, classified accidents by type (negligent accident, fire or explosion, and leakage of pollutant) and severity, and prepared detailed response scenarios, thereby strengthening our emergency response capacity for environment and safety. We will aim for prevention, while responding to unexpected emergencies in a systematic method to minimize damage and swiftly return to the normal state.

Emergency Response Process

	Negligent accident	Fire or explosion	Leakage of pollutant	Earthquake or storm and flood	Infectious disease	
Level A	One or more deaths; two or more critical patients with major injuries; or three or more emergency patients with minor injuries caused by a negligent accident	Any accident, suspension of production, or social issue caused by fire (loss of KRW 10 million or over)	Any leakage of pollutant or chemical substance to the outside of the plant due to a problematic process or carelessness, causing a social issue	An earthquake with magnitude of 7 or over or storm and flood at the level of a special weather alert, which causes major casualties or major damage to assets, resulting in the suspension of production activities (loss of KRW 10 million or over)	Occurrence of any new infectious disease as defined by the Korea Centers for Disease Control & Prevention (e.g. MERS, SARS)	Emergency response TF under the Emergency Response Committee
Level B	A critical patient with major injury caused by a negligent accident	Any fire accident reported and suppressed with minor material damage	Occurrence of any pollutant due to a problematic process or carelessness, which does not leak to the exterior of the plant	An earthquake with a magnitude of 5 or over or storm and flood on special weather watch, which causes minor casualties or minor damage to assets, requiring check of damaged facilities	Occurrence of any patient with an infectious disease that must be reported as required by the government	Department where an accident occurs Environment and Safety Division

*Any occurrence of a major accident, fire, explosion, a leakage of pollutant, an earthquake, storm and flood causing the loss of KRW 100 million must be reported to the holding company.

Eco-friendly Logistics and Logistics Centers

Upgrading of the Logistics System

We are constantly integrating logistics centers to create synergy and ensuring logistics capacity in dealing with the business environment. We are also upgrading logistics work to meet the various needs of customers and enhance the quality of logistics by employing automated equipment, such as label applicators, taping machines, conveyor belts, weight graders, and box-packing machines in the online shopping mall operations as well as distribution and processing operations.

Safe Logistics

We also established the WMS²⁾ at each local logistics center to respond swiftly to changes in external conditions and satisfy the customers' expectations for quality logistics. We also signed a logistics partnership agreement to ensure holding of regular meetings to help suppliers establish and collaborate on mutual KPU. Under the agreement, we support with incentives and training costs as well as safety and training activities to strengthen the competitiveness of suppliers.

2) WMS: Warehouse Management System

Savings from enhanced logistics efficiency

(Unit: KRW 100 million)

Improved operational process of logistics centers

20.2

Shortened transport distance and expanded use of large vehicles

5.8

Increased delivery efficiency

12.1

Total effect of eco-friendly logistics activities

38.1

Enhancement of Logistics Efficiency to Minimize Environmental Load

In order to improve the logistics process, we try to shorten the distance of transport, expand joint transport, and reduce waste. In terms of transport, we strengthen the direct supply of products from production and OEM bases to the warehouses of our logistics suppliers. We are also expanding backhauling by using delivery vehicles of the logistics suppliers, minimizing the impact on the environment.

CASE Safe and Pleasant Magok LG Science Park

Eco-friendly Building Certification

Magok LG Science Park reduces environmental pollution by saving energy and resources to achieve a pleasant and healthy living environment. LEED (Leadership in Energy and Environmental Design) is an eco-friendly building certification developed by USGBC (U.S. Green Building Council), which promotes the planning, construction and management of buildings by applying the eco-friendly criteria to prevent damage to the environment. The biggest benefit of LEED is the management of the entire life cycle of a building from the planning and designing stages of the building to the stages of operation, management and destruction. In the LEED system, buildings are assessed at each stage, and based on the result, a proper direction for operation and management is presented. This certification can also be used as a means to reduce energy consumption or the use of water resources, as well as a marketing and promotional method for the building.



LEED Certificate

Application of Eco-friendly Technology

We try to increase the efficiency of energy use by evaluating the energy performance of buildings, including energy consumption and the amount of CO₂. For reasonable energy reduction, we provide accurate information related to energy use of buildings, attracting investment in energy reduction technologies and achieving the economic effect to increase awareness of energy reduction while providing a comfortable and pleasant indoor environment.



G-SEED (Green Standard for Energy and Environmental Design) Certificate

05

Win-win Growth

Win-Win Growth Index



First Class for **4**
consecutive years

Financial support for win-win growth



KRW **35.53**
billion

Support for Smart Factory



4
companies

CSR assessment of suppliers



66
Companies

*Non-consolidated

CSR Background

The relationships between a company and its suppliers are evolving from simple business relationships to partnerships for win-win growth and mutual development. A company must reinforce relationships with suppliers and increase the competitiveness of suppliers with various support, laying the groundwork for sustainable cooperation.

Our Commitment

With a vision to become the best Korean company that leads mutual growth, LG H&H implements a variety of policies for mutual growth, including the establishment of a fair trade culture, support of technical human resources, and provision of financial assistance. We will work to support the long-term and practical growth of suppliers and help them recognize sustainability as a significant social responsibility and apply it across overall management activities.



Vision and Strategic System for Win-Win Growth



Fair Opportunity

Fair Opportunities for Participation

We have operated the Convergent Purchasing System to provide our suppliers with fair opportunities. Any company that hopes to do business with LG H&H can register itself as a potential supplier, and our purchasing staff will review applications and inform companies about whether they can be registered as regular suppliers. We have a series of steps from contract signing to order placement, order reception, supply and payment, which are managed through an interactive agreement.

Report of Unfair Transactions

To become a clean and transparent company that pursues fair competition and fulfills social responsibilities, LG H&H receives reports about unfair transactions during business with suppliers. Any grievance, opinion, or unfair treatment can be reported through Jeong-Do Management Cyber SINMUNGO on our website, and we quickly provide feedback on the result. In addition, we try to expand communication with suppliers through the Open Forum in the company-wide integrated procurement system to improve work practices and receive suggestions on win-win growth.



Suppliers' Application for Participation in CBE (China Beauty Expo)

11
companies

Sales Growth

Domestic Market – Technology Proposal Fair

We hold the Technology Proposal Fair six times a year to help suppliers freely propose and commercialize their technologies. This event has settled as a leading sales expansion channel, where suppliers can shorten the time required for idea proposal to the commercialization stage and receive financial support. LG H&H actively reviews presented technologies and supports their commercialization. In 2018, we made new transactions worth KRW 3.94 billion with 22 suppliers.

Overseas Market – Application for Participation in International Beauty Fairs

We support SME suppliers participate in various international beauty fairs to globalize the Korean cosmetic industry featuring K-beauty. Since 2013, we have assisted suppliers to step into the overseas market. From 2018, we have been hosting consulting fairs for exporting to our overseas subsidiaries to make actual sales. We supported 11 suppliers participate in CBE (China Beauty Expo) in the first half of the year, while conducting the export consulting fair at our subsidiary in Shanghai in the second half. LG H&H continues to help suppliers experience the trend in the global cosmetic market to secure the competitiveness of the Korean cosmetic industry.

CASE Risk Management in the Supply Chain

Recognizing that environmental and labor risks of suppliers affect not only suppliers themselves but also LG H&H, we conduct external consulting activities including the productivity innovation partnership and the industrial innovation campaign to support the certification of the environmental management system and the safety and health management system. We also organize an internal expert group to carry out field consultation activities to ensure quality that can be trusted by consumers. We share relevant information through the CEO Academy and the Competitiveness Reinforcement Workshop, complying with global rules in cooperation with suppliers.

Technical and Human Resource Support

Technical Consulting Support

We organized a technical support team for suppliers as a consulting group consisting of experts with years of experience in the field of household goods and cosmetics, providing detailed diagnoses and improvement measures for suppliers. We provide professional know-how for suppliers to find solutions for issues that cannot be addressed on their own, including the stabilization of facilities and the optimization of production conditions.

Support for Consulting that enhances Productivity

Believing that the competitiveness of suppliers represents that of LG H&H, we have operated the external professional consulting support since 2014. We have provided field consulting programs to a total of 49 companies by 2018, creating KRW 3.61 billion in financial terms.

Support for Suppliers to Obtain Management System Certifications

In order to bolster the environment, safety and health management system of suppliers and to nurture their experts, we help them obtain the certification for environmental management (ISO 14001) and for safety and health (OHSAS18001). We helped five suppliers obtain nine certifications in 2018, and we supported ten SMEs acquire 18 certifications for the management system within two years.

Support for Protection of Technologies

We protect technologies developed by our suppliers through joint patent applications and the technology escrow system. In 2018, we supported 7 cases of joint patent application including the packaging box sealing structure and 13 cases of technology escrow including skin lipid complex. We also try to increase the awareness of technology protection among employees by distributing work manuals and conducting offline training programs. As a policy, we prohibit demanding of suppliers' technical materials in all joint projects. Requesting their technical materials is allowed by making an official request only when there is an unavoidable reason.

Financial Support

Improved Payment System for Subcontractors

With the goal of enhancing financial managing conditions of suppliers, LG H&H has paid its subcontractors 100% in cash since 2012. From October 2016, we also increased the frequency of payments to two to three times a month to shorten the payment cycle.

Early Payment for Subcontractors before National Holidays

We make early payments before national holidays for smooth financing of suppliers. When the amount of supply and the circulation of funds are concentrated due to employee bonuses around holidays, we shorten the payment cycle for subcontractors. In 2018, we made a payment worth KRW 45.6 billion before the New Year's Holiday and the Korean Thanksgiving Day. We are trying to apply the early payment system even to our secondary or tertiary suppliers.

Shared Growth Payment System

LG H&H has a Shared Growth Payment System, in which secondary, tertiary and quaternary suppliers can also be paid under the same conditions. This system offers advantages of reducing burdens of security or risks of series of bankruptcy for suppliers due to the lack of right of resources. They can also reduce financial expenses when utilizing bill discounts. In 2018, shared growth payment worth KRW 524.2 billion was made for 454 primary suppliers, as well as KRW 16.6 billion for secondary and tertiary suppliers.

Financial Support System

LG H&H manages the Coexistence Cooperation Fund, a loan system worth KRW 4.1 billion, to support technology development and the expansion of process capacity. We also help them address hardships related to investments in the overseas businesses through a 1:1.5 matching system with financial institutions. We have recently supported suppliers secure the cash flow by expanding the scope of the funding purpose to include operation funds. We also run a financial support system to lend the fund directly to suppliers without interest, while providing 100% of the expenses required in joint projects by utilizing the Win-Win Growth Investment Fund system.

Performance in 2018

LG Coexistence Cooperation Fund

62 companies
KRW 32.33 billion

No Interest Direct Loan

15 companies
KRW 2.65 billion

Win-win Growth Investment Fund

KRW 550 million

*As of December 2018

Category	2018 Performance
Design and engineering support	142 cases including engineering supervision, joint development and test molds
Performance sharing activities	12 cases of fair performance management for cooperative tasks
Coexistence and cooperation activities	7 cases including environment, safety and health management at business sites
Consulting on improving productivity	9 cases including manufacturing innovation and management system certifications
Technology protection	5 cases of joint patent applications and 13 cases of technology escrow

Welfare and Benefit

Education for Suppliers' Employees and their Families

We provide e-learning, mobile learning and book learning for employees of suppliers to help them upgrade their work and language skills. With such support for capacity building of our suppliers' employees, we contribute to securing their competitiveness and enhancing pride in their companies. These opportunities for learning are also provided to their families. From 2015, we have been inviting the children of the employees to participate in the Teenager Summer Camp as part of the Borrowed Earth School, and our flagship program, to provide them with opportunities to participate in classes developed to improve eco-friendly habits.

Improvement of Working Environment of Suppliers

We run an employee benefit mall, where employees of suppliers can purchase products under the same conditions as LG employees. We also provide them with tickets to baseball or soccer games to support their leisure activities. For companies that achieved prizes in the Innovation Contest conducted by the CEO Academy, we support expenses to improve the facilities for the employees, including the employee lounge.

Collaborative Social Contribution Activities

Since 2015, we have carried out the Happy Together Campaign with LG H&H to promote the social contribution activities of suppliers for local communities. If our suppliers select particular welfare facilities near their location and develop volunteer activities, we provide volunteers with goods for donation depending on the size of the facilities. This is a social contribution project conducted jointly with suppliers to expand active communication between companies and local communities.

Support for Second- or Lower-Tier Suppliers

We encourage fair transactions between first- and second-tier suppliers to support second- or lower-tier suppliers. We spread support for mutual growth to second-tier suppliers or under by applying the same fair trade agreement to the transactions between first- and second-tier suppliers as those signed between LG H&H and first-tier suppliers. We also promote the introduction of the standard subcontract agreement document between first- and second-tier suppliers to ensure reasonable and transparent business relationships, thereby creating a fair and cooperative culture for mutual growth across the entire supply chain.

Open Communication

Proactive Communication

Based on the LG H&H Cooperation Committee founded in 1985, we organized the CEO Academy and the Competitiveness Reinforcement Workshop, as well as the Win-Win Growth Review Committee consisting of directors, the representatives of suppliers, eminent figures in the industry, and LG H&H's internal subcontract committee members. Classifying them into three subcommittees depending on the type of agenda, we discuss the win-win growth support system and other subcontract issues and make decisions with the representatives of suppliers. Committees and discussion bodies for each class serve as our open communication channels for practical identification and reflection of the field workers' opinions.

Category	Number of meetings	Content	Current status of composition
Win-Win Growth Review Committee of Suppliers	quarterly	Deliberate subcontracts and win-win growth issues	2 non-executive personnel 5 representatives of suppliers 3 LG internal committee members
CEO Academy	biannually	Share win-win growth and the procurement policy	136 representatives of suppliers
Competitiveness Reinforcement Workshop	biannually	Share win-win growth and the procurement policy	136 employees of suppliers

CASE ONENC – A Company Appointed as an Exemplary Supplier

A Miracle Made by Determination and Support

ONENC is one of our primary suppliers that manufactures hair and body products as OEM at its Ochang Plant and processes cosmetic products in their final stages. At its Ansan Plant, it produces Sink Drain Cleaners and Deep-cleaning Mold Sprays, which are popular among the Homestar brand products. ONENC, which had focused on cleaning products for the past three decades, recently stepped into the beauty market. It achieved the CGMP¹⁾ certification in 2015 and has produced OEM products of Elastine since 2016. The company started investing in converting into a smart factory in 2015 to keep up with the 4th Industrialization, but it could not avoid difficulties in establishing the business direction and obtaining technical know-how. In 2017, the company participated in the productivity innovation partnership support project under the win-win growth consulting program of LG H&H. As a result, it shifted into an upgraded smart factory based on expert consulting and technology transfer provided by LG H&H. This is an exemplary case that received the Minister of Trade, Industry and Energy Prize at the Productivity Innovation Partnership Contest.

1) CGMP (Cosmetics Good Manufacturing Practices): The standards of manufacturing and quality control for producing and supplying cosmetics with guaranteed quality

Assessment and Management of Suppliers' CSR

LG H&H conducts assessments on CSR elements and potential risks of suppliers to establish a sustainable supply chain. We also proactively support their capacity building for CSR.

Assessment Targets

We define our core suppliers as highest-ranked companies on the list of transaction amount by division and type, and irreplaceable suppliers who have a huge influence on the quality of our products and services regardless of transaction amount.

Assessment Criteria

We conduct a comprehensive assessment when selecting new suppliers for raw and subsidiary materials and products and when deciding whether to retain partnerships with existing suppliers. New suppliers are selected only if they score 70 points or over in quality management (40%) and CSR (60%) evaluation. In terms of existing suppliers, we introduced a safe quality certification system, and increased the weight of the CSR assessment results compared to the previous year. In 2018, we modified the system by separating the CSR assessment category from the comprehensive assessment, in which we terminate business relations with suppliers that score 75 points or lower out of 100 points total.

Development of the CSR Assessment Guidelines for Suppliers

LG H&H established CSR assessment guidelines for suppliers in order to ensure fairness and consistency of the assessment. The guidelines consist of background, purpose, descriptions of each category, performance guides, relevant regulations and references. Based on these, we try to enhance the CSR capacity of our suppliers.

Safe Quality Certification System for Suppliers

LG H&H developed the Safe Quality Certification System by applying a stricter criteria than relevant regulations to create products that consumers can use without concern. The Safe Quality Certification System evaluates the companies' compliance with the work standards of 4Ms

2018 CSR assessment results of new suppliers

Total of newly registered suppliers

73

Suppliers that underwent the CSR Assessment

27

(Unit: company)
*Non-consolidated

(Man, Material, Machine, Method) in six major categories of legal compliance, safety against harmful substances, effect and performance of products, safety of contents, quality of subsidiary materials, and convenience of users. In 2018, we utilized the Safe Quality Certification System to diagnose and improve factors required to enhance the quality of core suppliers. From 2019 and on, we plan to expand the application of the system to new suppliers.

Assessment of Suppliers' CSR

LG H&H has set a code of conduct for suppliers with 28 items in four categories, including labor, human rights, the environment, safety, fair transaction, and personal information protection, which are part of our corporate responsibilities. This code of conduct is available on the website of the procurement system. We conduct an annual on-site inspection to enable suppliers to pay more attention to CSR and comply with relevant principles. Based on the annual plan, we visit suppliers, check potential CSR risks, and reflect the results of the on-site assessment in the comprehensive assessment of suppliers, thereby reducing risks. In 2018, we carried out the CSR on-site assessment for 85 suppliers, in which 27 were new suppliers and 58 were suppliers for cosmetics and daily products. As some aspects including human rights, environment and safety were found inadequate in the assessment of one supplier, we recommended the company to improve the aspects and plan for enhancement.

Third-party CSR Assessment

Aside from the annual on-site inspection, we selected 10 suppliers to conduct a third-party assessment in 2018. We employed this method to increase the expertise and objectivity of the CSR assessment, while providing more diverse information and aspects for improvement related to CSR. In the on-site inspection, the management of the fire protection system, the environment and safety management group, and the management of harmful chemical substances were found inadequate. The result of the assessment was shared with all target suppliers in the form of a report. Based on the report, suppliers are planning for a complete improvement and management of potential risk factors. In 2019, we will expand the scope of our supplier management activities to our overseas businesses.

CSR assessment process for suppliers



Current Status of Suppliers

(Unit: company)

Total suppliers		662
Primary (Tier 1)	Suppliers	613
	Core suppliers	58
Second- or higher-Tier	Suppliers	49
	Core suppliers	19

*Non-consolidated

CSR Assessment Result of Suppliers

(Unit: company)

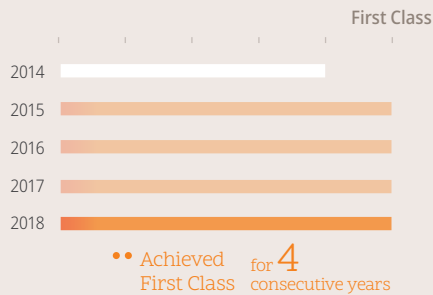
Category	2018	Goal
Primary (Tier 1)	58	To conduct the CSR assessment of all Tier 1 suppliers by 2023 (100%)
Suppliers that underwent the CSR assessment	58	
- Self-assessment ¹⁾	58	
- On-site assessment ²⁾	10	
- Third-party inspection ³⁾	1	
Suppliers with high CSR-related risks ⁴⁾	19	
Core secondary and others (Critical Non-tier 1)	0	
Suppliers that underwent the CSR assessment		
Suppliers with high CSR-related risks		

- 1) Self-assessment: The assessment through the purchasing system
- 2) On-site assessment: The on-site assessment conducted by the purchase team and other relevant teams
- 3) Third-party inspection: The on-site inspection carried out by an external agency
- 4) Suppliers with high CSR-related risks: In the overall assessment, we use the CSR checklist consisting of 40 questions regarding governance (2.5%), environmental management (17.5%), safety and health (20.0%), ethical management (7.5%), labor and human rights (37.5%), management of suppliers (10.0%), local community (2.5%), and information protection (2.5%). We separated the CSR assessment category from the overall assessment and set the standard for acceptance (75 points) to increase the percentage of the CSR assessment, so that we make a deal only with suppliers who meet the standard.

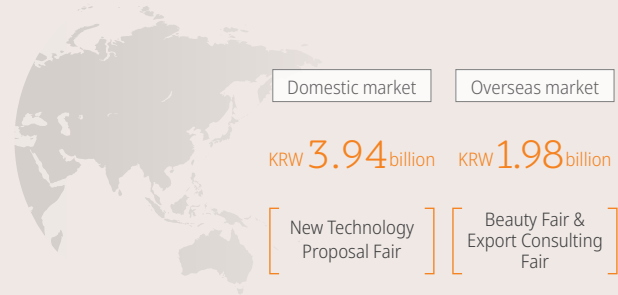
*Non-consolidated

Win-win growth, happy together

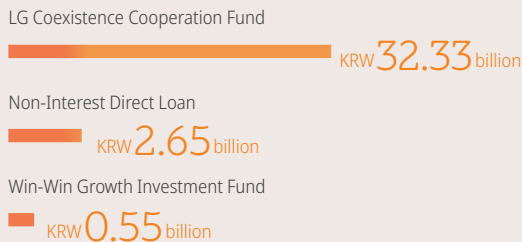
Result of the Win-Win Growth Index Assessment



Sales expansion



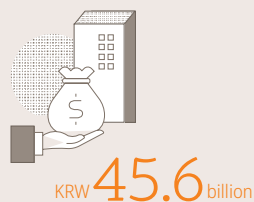
Financial Support (executed as of the end of December 2018)



Technical and Human Resource Support (Unit: Case)



Early payment for subcontractors before national holidays



Welfare and Benefits

Happy Together Campaign (social contribution activity support)	Once	Use of the employee benefits mall for suppliers' employees	609 cases KRW 45.73 million	E-learning and book-learning courses for suppliers	1,188 persons	Support for expenses for welfare facilities of suppliers	6 companies KRW 27 million	Support for tickets for sporting events including soccer and baseball	27 companies 249 persons
--	------	--	--------------------------------	--	---------------	--	-------------------------------	---	-----------------------------



84

GOVERNANCE

86

RISK
MANAGEMENT

90

JEONG-DO
MANAGEMENT



GOVERNANCE

92

STAKEHOLDER
ENGAGEMENT

94

MATERIALITY
TEST

Governance

Board of Directors (BOD) Operation

LG H&H exercises efficient management activities bound by checks and balances and a governance structure that ensures the independent and transparent decision-making rights of the Board of Directors (BOD). The Board is comprised of two inside directors, one non-executive director, and four independent directors who are elected in a transparent procedure at the general meeting of shareholders. Independent directors provide professional opinions on major decision-making agendas while taking charge of independently evaluating and assessing the company's performance. Regular meetings of the Board are held according to the annual plan, with additional meetings convened for pressing matters that require immediate decisions. In order to prevent conflict of interests, the voting rights of any director who has an interest in a certain agenda is limited pursuant to the Commercial Act and the BOD regulations. In 2018, a total of seven meetings were held, with attendance rate of independent directors at 100%.

Audit Committee

The Audit Committee operates in accordance with the Commercial Act as well as the Financial Investment Services and Capital Markets Act. Pursuant to the relevant regulations, the Committee is comprised of

three independent directors without special relationships with LG H&H to ensure their independence. One of the members must be an expert in accounting, independently performing the role of overseeing the internal audit plans and executing auditing affairs. The Committee has the right to request business reports from the BOD or examine the assets of the company for auditing purposes. It can also seek expert consultation at the company's expense. In 2018, the Committee held five meetings with 100% attendance rate.

Remuneration Policy for the Directors and the Audit Committee

Compensation for directors are approved at the general meeting of shareholders. Directors are provided with a base salary and an annual bonus based on the performance of the company. Annual bonuses are decided by the BOD and based on performance evaluation rules set by the BOD. Directors are evaluated within a certain limits based on the company's financial performance of the previous year as well as their fulfillment of mid- to long-term targets, leadership, contribution to the company, and other non-quantitative parameters. The remuneration of independent directors and members of the Audit Committee is provided within the remuneration limit with approval from the BOD.

BOD Members

*As of April 2019

Category	Name	Year of initial appointment	Position	Career field
Inside Director(s)	Suk Cha	2005	Vice Chairman & CEO, Chairperson of BOD	-
	Hong-Gi Kim	2019	Director	-
Non-executive Director	Bum-Jong Ha	2019	Member of the Independent Directors Nomination Committee	· Experience in a chemical industry company, which is related to our business · Expertise in industry-related finance
	Tae-Hui Lee	2019	Member of the Independent Directors Nomination Committee, Chairperson of the Audit Committee	· Capital market accounting · Regulated market accounting
Independent Director(s)	Sang-Hun Kim	2019	Member of the Independent Directors Nomination Committee and the Audit Committee	· High-tech marketing · Marketing management in the cosmetic industry
	In-Soo Pyo	2014	Member of the Audit Committee	· Trade with China and international trade in various fields, including the cosmetic industry · Fair trade and anti-dumping
	Jae-Wook Kim	2017	Director	· Marketing channel and e-commerce · Supply chain management in the cosmetic industry

*An independent director appointed as the chairperson of the Audit Committee is an independent senior independent director.

Meetings of BOD and Subcommittees

Committee	No. of meetings	Attendance rate	Major decisions in 2018
BOD	7	100%	· Approval for acquiring shares in Tai Guk Pharm. Co., Ltd. · Approval for facility investments in Cheongju Technopolis Industrial Complex · Approval for the 2019 business plan
Audit Committee	5	100%	· Approval for the 2017 evaluation of internal accounting management system · Approval for the evaluation of internal monitoring operation system
Independent Directors Nomination Committee	-	-	-

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

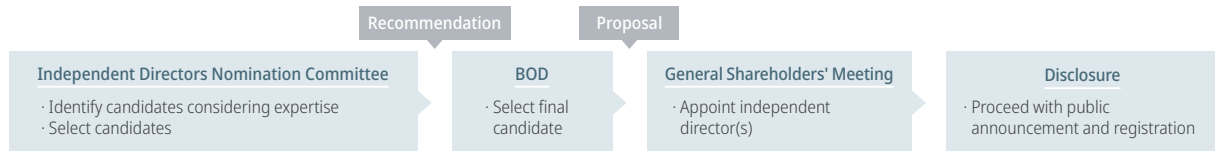
Independent Directors Nomination Committee

LG H&H operates the Independent Directors Nomination Committee to recommend candidates for independent directors in accordance with the Commercial Act. As a subcommittee of the BOD, the committee nominates candidates for independent directors by considering their expertise in the financial, environmental, and social sectors without special restrictions such as gender, race or national origin. The committee selects and recommends top candidates, whereby final candidate is decided by the BOD and appointed as an independent director in the general meeting of shareholders. The Independent Directors Nomination Committee consists of three members—two independent directors and one non-executive director—with independent directors holding a majority, ensuring fairness and independence of the committee and appointment of independent directors.

Corporate Social Responsibility (CSR) Committee Operation

LG H&H CSR Committee is the decision-making body responsible for coordinating and planning of the company-wide CSR-related issues. The committee convenes quarterly meetings. The Committee is chaired by the CFO and its members include the heads of nine divisions, including the head of the planning and management of each business division.

Nomination Process of Independent Directors

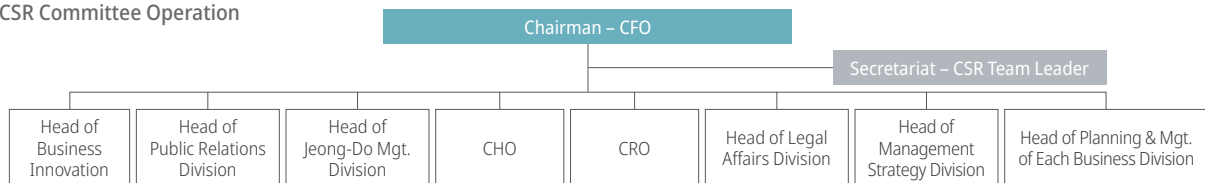


Restrictions on the Qualification of Independent Directors to Ensure the Independence of the BOD

A person who is in a special relationship with LG H&H is prohibited to serve as an independent director to prevent conflict of interest and ensure independence of the BOD.

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

CSR Committee Operation



Shareholders



Risk Management

Integrated Risk Management Process

LG H&H operates an integrated risk management system that encompasses the extent and nature of its business to prevent and manage potential risks that could emerge throughout the company's entire business operation. We classify potential risks into four categories—strategic, hazardous, financial and operational risks—and define specific types of risk for each category. Depending on the nature of the business, the relevant departments or the company-wide risk management department takes charge of monitoring and responding to the risk factors.

Compliance Committee

Compliance-related risks have become an important governance component in the domestic and overseas markets. LG H&H operates the Compliance Committee to adhere with the relevant rules, address risk factors, and manage an effective compliance system across the company. The Committee discusses key issues of risk inspection and strategies on the direction of improvement measures. The committee also shares current and emerging issues regarding legal and social regulations. The committee meets on a quarterly basis with additional meetings if needed. The CFO is the chairman of the committee, which consists of the heads of business divisions including Business Innovation, Public Relations and Jeong-Do Management divisions, and manages compliance issues in various areas.

Preventive Management Committee

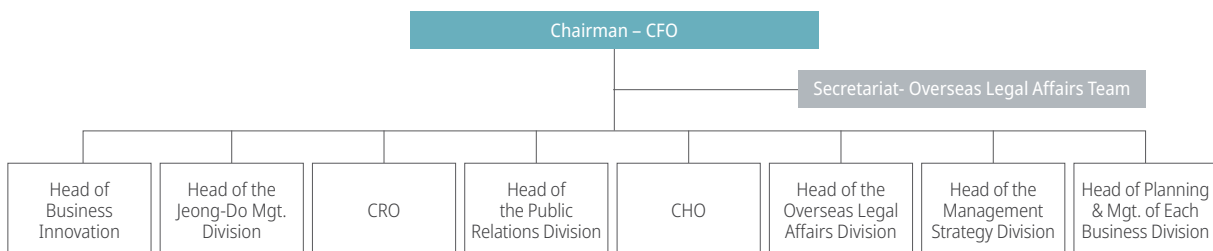
Along with the Compliance Committee, LG H&H established the Preventive Management Committee in 2017 to oversee risk management activities in corporate management. The Committee is responsible for preventing risks that may arise in corporate practices such as investment in facilities, equity investment, capital management, information security, and accounting practices. The committee responds effectively to relevant incidents and conducts practical and preemptive measures to prevent the recurrence of similar cases of risk.

Integrated Risk Management Process



*Financial risks and operational (quality) risks are managed by CFO and CRO respectively, while risk-related monitoring is conducted by the Compliance Team and the Compliance Committee.

Organizational Chart of the Compliance Committee



Compliance Risk

It is widely accepted at home and abroad that compliance risk management is an essential element of corporate management. The impact of damage done to the company's reputation caused by compliance violations and the subsequent expense required to repair that damage is significant. LG H&H prevents, manages and inspects compliance risks that may occur in the company's entire management scope to avoid tangible and intangible losses.

Compliance Risk Inspection

We regularly examine compliance-related risks each year. In 2018, we assessed risks in various sectors including personnel management, personal information, and environmental safety. We are developing and operating a system in which we can address questions regarding fair trade, while examining subcontractor-related issues at each business site. We are deploying security solutions at our stores for strict management of personal information. To ensure quality of our products, we have reinforced internal standards to make sure all products meet the harmful substance regulations, while tightening the quality assurance process. We prevent environmental safety issues by diagnosing and inspecting each business site, thereby ensuring safe production activities. We will continue to thoroughly examine compliance risks.

Compliance Newsletter

LG H&H publishes and distributes bimonthly newsletters to keep employees abreast of key trends and changes in domestic and overseas regulations, and newly amended policies and regulations. In 2018, we informed all our employees of the amended Improper Solicitation and Graft Act, measures to prevent the misuse of technical data, the Foreign Corrupt Practices Act (FCPA), key considerations in preparing contracts and agreements, and the Act on Fair Labeling and Advertising. We will establish a culture of highest compliance by regularly communicating with our employees regarding policies and amended regulations.

GLAS and Development of LDCS

LG H&H has bolstered GLAS¹⁾, which was designed to manage a wide range of legal issues in a systematic and efficient way in the entire scope of business. The company also began developing LDCS²⁾, an electronic document and signing system aimed at simplifying contract execution procedures and increasing efficiency in the entire scope of business operation. We plan to launch LDCS in the first half of 2019. We expect the deployment of LDCS to promote efficient contract management for our employees and partners.

1) GLAS: Global Legal Affairs System
2) LDCS: LGHNH Digital Contract System

Internal Accounting Control System

LG H&H has been operating strict Internal Accounting Control System since 2006 to secure transparency in our business operation, reliability of information and to enhance the soundness of our work processes. In accordance with the Act on External Audit of Stock Companies and the criteria of the system, it was designed with 14 compliance control systems and 147 control activities. The system can be used to conduct control assessments in the categories of purchasing, production, sales, and financial reporting.

Internal Control Assessment of Overseas Subsidiaries

To ensure the reliability of consolidated financial statements in accordance with the 'Act on External Audit of Stock Companies', LG H&H conducted additional internal control assessment for overseas subsidiaries in Beijing, Hangzhou, Vietnam and Taiwan.

Assessment Results of the Internal Accounting Control System

According to the results of the assessment, LG H&H found that all control systems had operated exactly as designed without any issues. We also conducted third-party assessment. External auditor (EY Han Young) stated that LG H&H's Internal Accounting Control System had been effectively managed as of December 31, 2018.

Results of Employee Compliance Awareness Survey



Compliance with Fair Trade Standards

Programs for Willing Compliance with Fair Trade Standards

To observe the fair trade regulations and achieve a culture of fair trade in the scope of our business, we conduct an internal inspection once a year or more on the R&D, purchasing and sales departments. In 2018, we focused on managing three categories of transactions-subcontractors, sales outlets, and franchises. In terms of trade with subcontractors, we introduced a database program to eradicate unreasonable requests for technical materials from suppliers and remove the potential risks of extortion of technologies, a major issue in the industry. In terms of transactions with sales outlets and franchises, we constantly tackle unreasonable work practices, produce and distribute fair trade manual with case studies to ensure a transparent and fair business relationship in transactions. We also bolster relevant training programs to increase awareness of employees.

Ethical Provision of Product Information

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

Personal Information Protection

Reinforcement of the Personal Information Protection System

We maintain our personal information protection system to avoid data leakage from internal sources, hacking and malicious codes. We re-examined the overall information security control system to centralize document management system at Magok LG science park and Cheongju Plant, blocked the use of non-internal email services and route information leakage on the internet, and introduced encrypted USBs. To prevent hacking, we conducted mock hacking on 108 personal information handling systems and removed loopholes. To improve the monitoring system, we authorized the heads of each department to monitor e-mails and printouts, strengthening security activities with the participation of employees.

Improvement of the Personal Information Management System

LG H&H continuously upgrades the personal information management system to reduce risks of data loss of customers and comply with relevant regulations. We systematized security management by requiring our personal information handling suppliers to follow agreements set forth in the personal information handling contract and the personal information protection pledge. To reduce personal information leakage risks at sales sites, we promoted TM (Telemarketing) without printouts and set the expiration date of personal information files to improve the process. We also maintained the ISMS (Information Security Management System) certification obtained in 2014 through post evaluation.

Personal Information Management System

Scope	Category	Solutions	Performance in 2018
Headquarters	Prevention of leakage · Leakage from internal sources · Hacking and malicious codes	Operate security solutions to prevent leakage accidents · Avoid leakage from internal sources, hacking and malicious codes · Protect the IT infrastructure and conduct integrated monitoring on information leakage	· Expanded the centralization of document management · Blocked the route of information leakage and encrypted USBs · Removed loopholes in 108 personal information handling systems
Consigned companies			
Retail stores	Compliance with regulations · Personal Information Protection Act · Act on Promotion of Information and Communications Network Utilization and Information Protection, etc. · Overseas privacy laws	Inspect security level of consigned companies and sales business sites (retail stores, franchises and sales outlets) · Conduct annual security checks of consigned companies and strengthen security checks at sales business sites	· Checked 14 consigned companies and 22 sales sites
Franchises and sales outlets			
Overseas subsidiaries			
		Observe regulations on personal information protection · Institute operational and technical protection measures concerning the life cycle of personal information (collection → use → storage → provision → disposal) · Follow personal information protection guidelines for overseas subsidiaries	· Systematized security management of consigned companies for personal information handling · Promoted TM (Telemarketing) without printouts and set the expiration date of personal information files · Maintained ISMS certification

Tax Payment Policy

Complying with tax laws and fulfilling the responsibilities of various tax payments are essential in creating value to our customers and contributing to economic growth of the country. It is LG H&H's duty to fulfill our social responsibility. In order to ensure every single transaction around the world is carried out in accordance with tax laws and regulations, LG H&H fulfills its tax payment obligations by thoroughly understanding the tax laws at home and abroad and submitting required data. We have clearly assigned the roles and responsibilities of the employees in charge of tax filings and payments. If any issues emerge due to unclear interpretation of tax laws, we seek advice from accounting firms and external tax experts to find optimum solutions.

Disclosure of Tax Payment Records

We provide corporate tax information in the audit report publicly disclosed on DART (Data Analysis, Retrieval and Transfer System), which is operated by the Financial Supervisory Service (dart.fss.or.kr). We disclose the standards for calculating corporate tax expenses, deferred tax assets, liabilities, the details of corporate tax expenses, and tax rates in the financial statement and annotations in the audit report. We share the details of tax payment with various stakeholders.

Tax Deduction & Exemption System

LG H&H makes full use of the tax deduction and exemption system in accordance with the Korean tax regulations. We file corporate taxes using the consolidated tax return system, and the subsidiaries included in tax filing are THEFACESHOP, HAITAI htb, CNP Cosmetics, Bright World, and Ulleung Chusan Yongcheonsu Drinking Water

Development Co., Ltd. Within the framework of the tax deduction and exemption system and the consolidated tax return system, we strenuously try to minimize the tax burden and maximize shareholder values.

Fulfillment of Tax Payment Obligations

In terms of international transactions with overseas subsidiaries, LG H&H applies the reasonable transfer pricing policy that corresponds to Korean tax regulations and transfer price guidelines. Since 2016, we have also fulfilled our obligation to submit an integrated report on international transactions in accordance with BEPS (Base Erosion and Profit Shifting), designed to prevent tax avoidance by multinational companies. As we operate local offices or subsidiaries in the U.S., China, Japan, Taiwan and Vietnam, we fulfill our duty of tax payments including corporate taxes based on local regulations and submit a variety of documents requested by the local tax authorities with the support of our headquarters. We are undergoing the application process for the Advance Pricing Agreement (APA) in Korea and China to completely address risks related to transfer prices in the case of transactions between subsidiaries in both countries.

Potential Risks

LG H&H identifies risk factors in our entire operation by analyzing changes in internal, external and social environment. We formulate strategic measures to turn potential risks into opportunities.

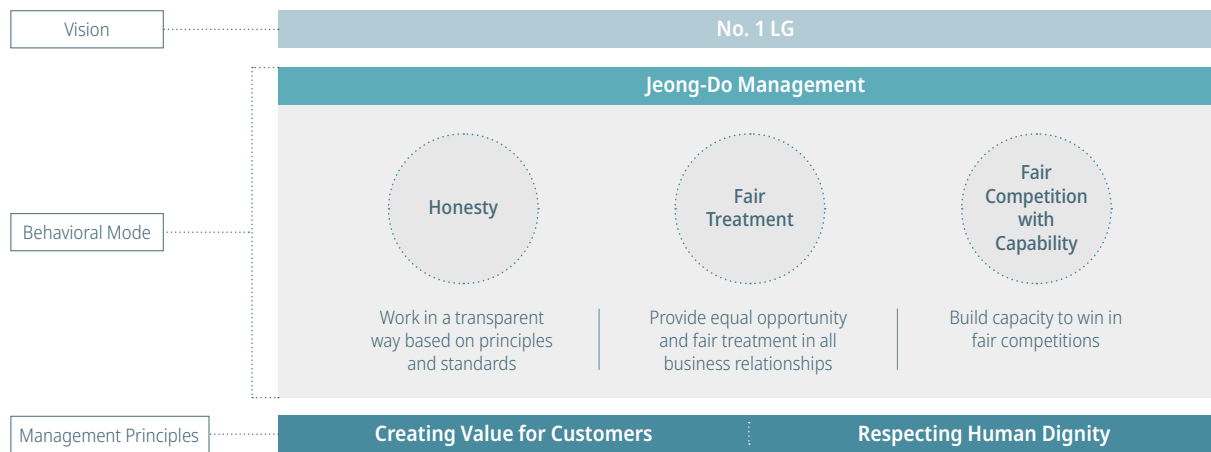
Potential Risks

Type of risk	Changes in distribution and sales environment due to advancement of IT	Management of skin-allergy-causing substances
Economic and social environment	<ul style="list-style-type: none"> · Distribution channels are expanding from offline to online and mobile landscape due to advancements in IT. · Regulations such as the Franchise Business Promotion Act and the Fair Agency Transactions Act have been tightened, while the importance of mutual growth is growing 	<ul style="list-style-type: none"> · A variety of scent materials used in cosmetics are emerging as causes of skin troubles and allergies. · Allergy-causing substances are registered as those to be regulated in European countries.
Impact of risks	<ul style="list-style-type: none"> · Sales in offline distribution channels may decline due to an increase in sales in online and mobile channels. · A slump in the business activities may cause factors that hinder mutual growth. 	<ul style="list-style-type: none"> · Inadequate tests of skin allergies may result in class actions or boycott by consumers, causing a slump in the company's business activities. · The brand reputation can be damaged by undermined trust from consumers regarding the safety of products. · It may be impossible for the company to step into overseas markets including Europe.
Countermeasures against risks	<ul style="list-style-type: none"> · Promote strategies for distinction and efficiency for each distribution channel · Strengthen mutual growth activities in various plans to support franchises and sales outlets 	<ul style="list-style-type: none"> · Avoid the use of harmful substances based on the safe quality management across the entire production process. · Operate the Consumer Reassurance Center, a company-wide organization, which conducts systematic monitoring and preventive activities.
Future plan	<ul style="list-style-type: none"> · Expand the development of products considering online and offline distribution channels · Propose measures for mutual cooperation with franchises and sales outlets and organizerun a discussion committee 	<ul style="list-style-type: none"> · Strengthen management through monitoring of harmful substances in products

Jeong-Do Management

LG's Jeong-Do Management is our unique management philosophy, based on ethical principles, that enables us to build capacity for fair competition. The essence of the LG Way is found in LG's management principles of creating value for customers and respecting human dignity. As these principles are put into action, LG is able to accomplish its vision and reach its objective of becoming "No.1 LG."

Jeong-Do Management encapsulates LG's core values and aspirations. It guides the thoughts and action of our employees. Jeong-Do Management goes beyond ethical management. Its true meaning is realizing actual outcome by demonstrating its principles.



Code of Ethics

LG shares its management principles of creating value for customers and respecting human dignity, and promotes an autonomous and accountable management stipulated in the management charter. Adhering to the principles of a free market economy for fair competition and creating common interests for all stakeholders based on mutual trust and cooperation, we have enacted and implemented the Code of Ethics criteria for desirable behaviors and value judgment among all employees. We seek to become a top-ranking global company through continuous growth.

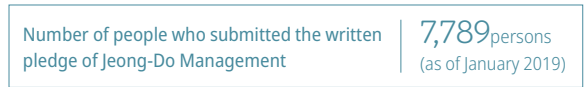
Contents of the Code of Ethics

<p>Chapter 1 <u>Responsibilities and Obligations to Customers</u></p>	<ul style="list-style-type: none"> · Respect for customers · Creation of values · Provision of values 	<p>Chapter 4 <u>Basic Ethics for Employees</u></p>	<ul style="list-style-type: none"> · Basic ethics · Self-improvement · Fair work process · Avoidance of conflict of interest with the company · Fulfillment of duties
<p>Chapter 2 <u>Fair Competition</u></p>	<ul style="list-style-type: none"> · Adherence to free competition · Observance of laws 	<p>Chapter 5 <u>Corporate Responsibilities to Employees</u></p>	<ul style="list-style-type: none"> · Respect for human · Fair treatment · Promotion of creativity
<p>Chapter 3 <u>Fair Transactions</u></p>	<ul style="list-style-type: none"> · Equal opportunities · Fair transaction procedures · Mutual growth 	<p>Chapter 6 <u>Responsibilities to Society and Country</u></p>	<ul style="list-style-type: none"> · Reasonable expansion of business · Protect shareholders' interest · Contribute to the growth of society · Protect the environment

Instituting Jeong-Do Management

Written Pledge for Jeong-Do Management

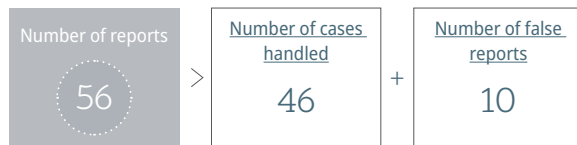
All employees of LG H&H write a pledge to put into practice Jeong-Do Management as part of their effort to create a transparent and fair Jeong-Do management culture. The written pledge includes their will to abide by the company's code of ethics and pursue Jeong-Do Management, as well as observance of anti-corruption regulations that prohibit wrongdoings such as unfair collusion, illegal political fund or bribery. Our suppliers also are required to submit the written pledge as part of the contract agreement.



Cyber SINMUNGO (URL: <http://ethics.lg.co.kr>)

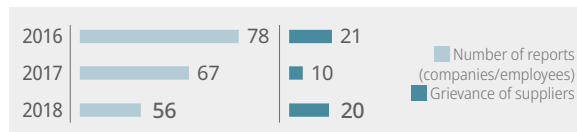
We operate Cyber SINMUNGO as a corruption reporting system for accusations of unjust behaviors that violate LG's code of ethics. We carry out preliminary and on-site investigations first, and if the report is proved to be true, we take follow-up measures, including disciplinary actions, work process improvements, and Jeong-Do Management education to create a transparent and fair corporate culture. We also try to eradicate misconduct by running a reward system for informants and protect whistleblowers to facilitate the reporting of wrongdoing.

Progress of Cyber Report Handling in 2018 (Unit: Case)



*Subsidiaries included

Reporting Status (Unit: Case)



*Disciplinary actions taken based on reports (including subsidiaries): 94 cases of severe disciplinary action (19 cases of the manipulation of documents and calculations, 10 cases of bribery, 10 cases of embezzlement of the assets and funds of the company, 5 cases of sexual harassment, and 50 cases of other affairs) and 56 cases of light penalties

Bribery Report System

LG H&H executives and employees are prohibited from accepting bribes or rewards from stakeholders regardless of reason. Our CEO sends a biannual notice to all employees as well as suppliers about the anti-bribery campaign. When someone offers money or gifts, employees should politely refuse and return them, and if impossible, they should report the case to the Ethical Affairs Team. Reported money and gifts are immediately donated to welfare organizations or sold in internal bidding events. The profits from the events are used for social contribution activities.

Voluntary Report System

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

Jeong-Do Management Education

Our company-wide Jeong-Do Management education programs are aimed at enhancing knowledge about Jeong-Do Management and helping employees to adopt its guiding principles. Under the lead of the heads of divisions and executives in leadership positions, we conduct Jeong-Do Management education programs for employees on a regular basis. By this, we try to lay the groundwork for increasing the awareness of ethics within the company. The results of education programs are reflected in the annual performance reviews of executives and the heads of divisions, emphasizing the importance of such programs. In 2018, we conducted the education programs for employees of a newly acquired subsidiary, while sharing the programs with the CEOs and employees of our suppliers. We will continue to regularly conduct education programs to help employees and suppliers to have a full understanding of Jeong-Do Management.

Jeong-Do Management Discussion

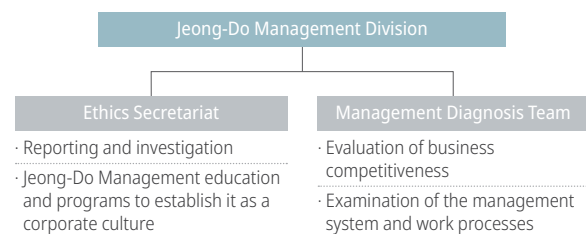
To identify business risks in the early stage and proactively address the issues, we organize Jeong-Do Management discussion meetings for 213 employees in 24 divisions. We cooperate with an expert group at headquarters to set improvement plans and prevent business risks on the issues identified that may include dilemma, grievances and other opinions related to Jeong-Do Management.

Jeong-Do Management Newsletter

To help employees at home and abroad build a Jeong-Do Management mindset and instill Jeong-Do Management as a corporate culture, we issue monthly Jeong-Do Management Newsletters. In 2018, we expanded our reach and distributed the newsletters to our suppliers. We will continue to publish and distribute newsletters to spread the culture of Jeong-Do Management.

Jeong-Do Management Division

We organized the Jeong-Do Management Division to systematically promote Jeong-Do Management. The Division is responsible for supporting employees at our business sites to put Jeong-Do Management into practice.



Stakeholder Engagement

Stakeholder Engagement

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

Stakeholder Engagement Channels

Customers	
Communication Channel	Frequency
Website of the company and brands	Always
CS Portal, VOC, Call Center	Always
Complaints and feedback from customers	Always
Consumer monitoring	3 times/mo.
Housewife monitoring agents	8 times/yr.
Brand awareness and satisfaction level surveys	6 times/yr.
CSR surveys of customers	Annually

▶▶▶ Key activities: Conducting feedback surveys on products and services

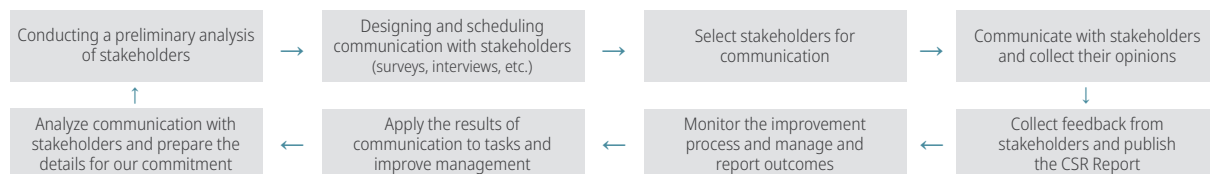
Executives & Employees	
Communication Channel	Frequency
Intranet and complaint-handling programs	Always
Idea Innovation i-30	Always
Company newsletters	6 times/yr.
Company Meeting	Quarterly
Industrial Safety Committee	Quarterly
Meetings with specific levels of employees	Half-yearly
Satisfaction surveys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

▶▶▶ Key activities: Conducting opinion surveys on management strategies and implementation

Shareholders & Investors	
Communication Channel	Frequency
IR website	Always
IR Roadshow	1-2 times/qtr.
General meetings of shareholders	Annually
Business reports	Annually
Conference	Irregularly

▶▶▶ Key activities: Engaging in the strategic decision-making process related to businesses

Stakeholder Engagement Process



Suppliers	
Communication Channel	Frequency
Integrated purchase channel	Always
Jeong-Do Management channel	Always
Win-Win Growth Committee of suppliers	4 times/yr.
CEO Academy of suppliers	2 times/yr.
Technical support for suppliers	Always
CSR survey of suppliers	Annually
Meetings with managers of sales outlets	Annually

▶▶▶ Key activities: Promoting win-win growth with suppliers

Local Communities	
Communication Channel	Frequency
Expert panel meetings	3 times /yr.
Community committees	Twice/yr.
Social contribution programs	Annually
CSR surveys of community	Annually
Public affairs	Irregularly
Launching events for the press	Irregularly

▶▶▶ Key activities: Engaging in the decision-making process for the development of local communities

Government, Public Institutions & Associations	
Communication Channel	Frequency
Korea Industrial Safety Association	Always
Asia Carbon Footprint Seminar	Annually
Korea Fire Safety Association	Annually
Korea Environmental Industry & Technology Institute	Irregularly
Government challenges and conferences	Irregularly

▶▶▶ Key activities: Participating in the decision-making process related to government policies

Panel Discussion

LG H&H conducts panel discussions to identify the expectations of experts in each field and reflects them in CSR activities. In 2018, we held three meetings under various CSR-related themes. In the February 2019 meeting, we invited group communication experts to examine the current state and limitations of the company's internal communication and discuss how to facilitate such communication. We will embrace the perspectives of experts and stakeholders to enhance our CSR activities.

Key Activities of Panel Discussion

CASE ▶▶▶ 1st Panel Discussion in 2019 – Discussing on establishing a new communication channel to facilitate communication within the company

Participants examined the current state and limitations of internal communications. Discussed with communication experts to establish measures and platforms to improve communication within the company.

External experts	Area of expertise	Contents
Professor Ho-chang Shin (School of Communication at Sogang University)	Communication	Internal communication trend (Publications, tasks, research)
Kyung-su Shin, CEO (Sustainable Growth Institute)	Group communication	Impact of communication on the growth of an organization
Jae-eun Kim, Director (Incoaching)	Coaching for organization	Coaching for the millennial generation: Efficient communication methods

History and Topics of Panel Discussion



Materiality Test

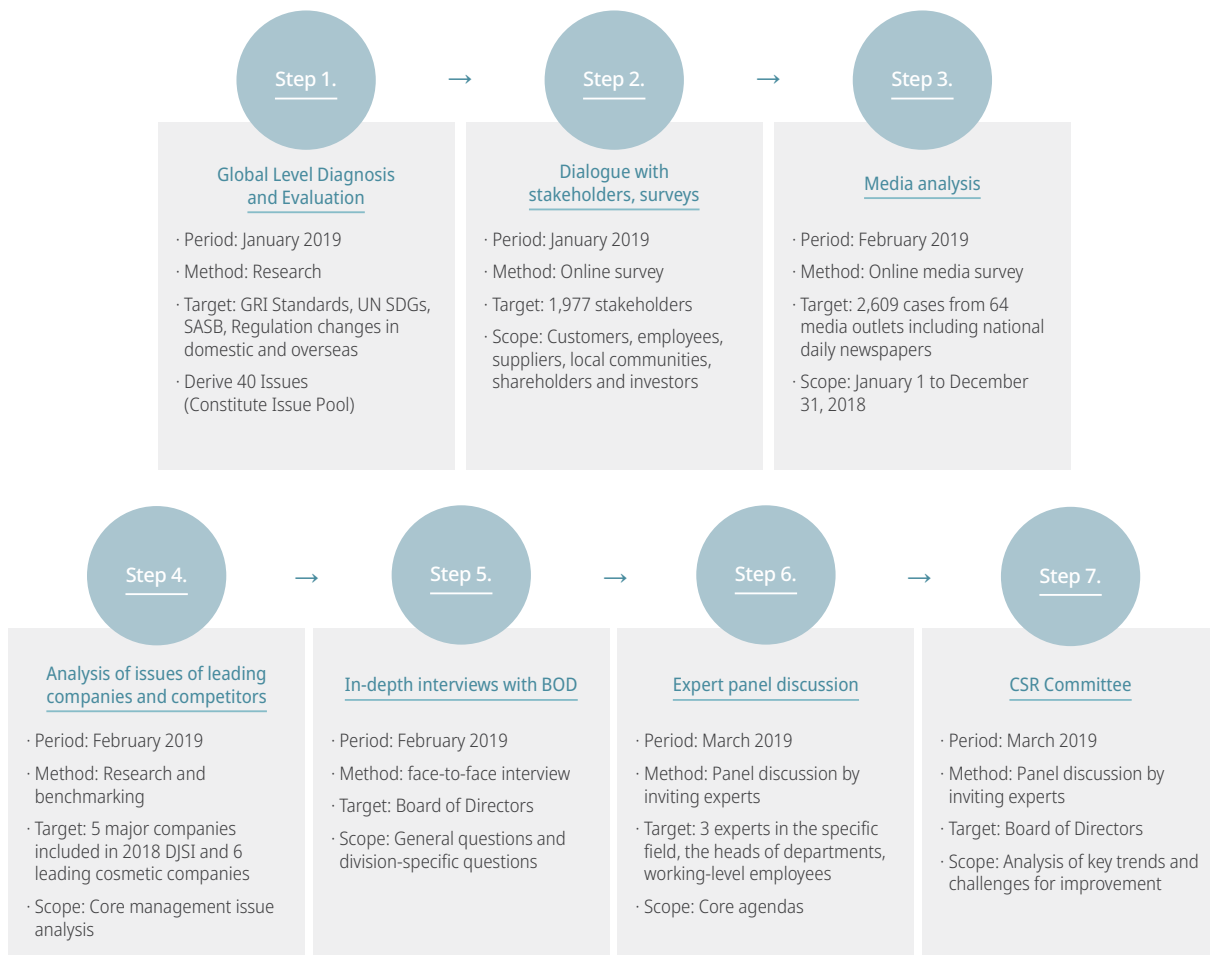
LG H&H undertakes an annual materiality test to analyze the relevance and significance of its products and activities regarding various sustainability management issues. We report issues that merit high priority.

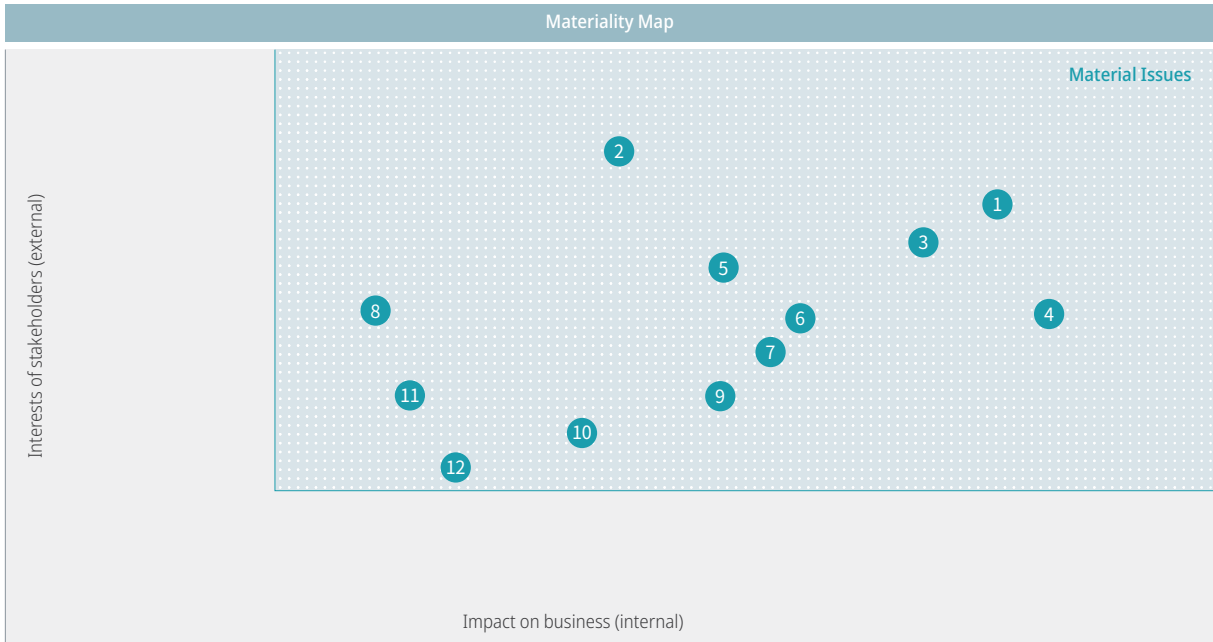
Materiality Test Process

LG H&H examines economic, social, and environmental issues to find critical issues that may affect the company's business. Such issues are identified by considering the interests of stakeholders as well as the impact of those issues on the business of LG H&H. We manage a pool of issues by examining global issues including the UN SDGs (UN Sustainable Development Goals), issues recommended by international and nonprofit organizations, and external effects detected in the business process through media. The significance of these issues is evaluated by analyzing other companies in the same industry and considering the interests of stakeholders as well as financial impacts such as cost, revenue and risk. Once the issues are identified, CSR Committee convenes a meeting for discussion and listen to the opinions of expert panels. We report these issues by classifying them into Focus Issues and Sustainable Management.

Materiality Test Standards

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





- Material Issues**
- 1 Launch new products by expanding R&D and investment
 - 2 Improve product safety
 - 3 Maintain work-life balance (welfare benefits, 52-hour work week regulation, etc.)
 - 4 Reduce the environmental impact of product packaging
 - 5 Strengthen the handling and management of hazardous substances
 - 6 Expand the development of eco-friendly products
 - 7 Enhance brand leadership and corporate image
 - 8 Manage the treatment and utilization of waste through reuse and recycling
 - 9 Conduct performance evaluation and provide reward for employees
 - 10 Enhance the features/health-related effects of products
 - 11 Manage risks regarding labor practices of suppliers, safety and health, environment and products
 - 12 Reduce GHG emissions

- Major Issues Pertaining to the Household Goods and Cosmetics Division**
- Expand global markets in China and South East Asia
 - Bolster efforts to expand communication with suppliers and facilitate communication channels

- Major Issues Pertaining to the Beverage Division**
- Reduce water consumption and protect water resources from each source
 - Develop and cultivate human resources
 - Strengthen the safety and health of employees

Material Issues Reporting Method

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

Reported Issues	Relevance
 <p>Creating Customer Value</p>	<p>Products such as cosmetics, household goods and beverages have a direct impact on the safety of customers, so these products should be deemed and managed with the goal of making safe and healthy products from the production stage.</p>
 <p>Developing Products with Social Value</p>	<p>The company can create social values and tackle issues by developing new products that reflect social needs and launching products to create shared values with local communities.</p>
 <p>Customer Satisfaction</p>	<p>The company should meet the expectations of consumers with continued improvement of product quality and accurately identify customer demand through proactive communication and opinion sharing.</p>
 <p>Expanding to the Global Market</p>	<p>Business can operate stably regardless of external changes in the business environment by upgrading the business structure and entering overseas markets.</p>
 <p>Employee Value</p>	<p>Improved working conditions for respecting the diversity of employees and maximizing their values can enhance their satisfaction level and create a corporate culture for mutual growth.</p>
 <p>Social Contribution</p>	<p>The company can expand its social contribution by connecting social issues with its characteristics and strategies beyond simple charity and donations.</p>
 <p>Environment and Safety Management</p>	<p>Reduced environmental impact across all production processes can address global environmental issues and build trust with customers and other stakeholders.</p>
 <p>Win-win Growth</p>	<p>The foundation for win-win growth can be created when the company considers its suppliers as partners for mutual growth and conducts various joint activities.</p>

Contents of the Report

Focus Issues are reported more in detail through the relevant business cases and performance of LG H&H in 2018, while Sustainable Management is constantly managed through reporting the overview and overall system of the company.

Related Issues	GRI Topic	Long-term Target
<ul style="list-style-type: none"> Improve product safety Strengthen the handling and management of hazardous substances 	Customer health and safety	<ul style="list-style-type: none"> Develop the forecasting modeling of product safety and safe quality based on the systematic safety assessment system (by 2023) Establish the harmfulness certification system to ensure the global reliability with safe quality (by 2023)
<ul style="list-style-type: none"> Expand the development of eco-friendly products Reduce the environmental impact of product packaging Enhance the features/health-related effects of products Launch new products by expanding R&D and investment 	Products and services	<ul style="list-style-type: none"> Consider the application of the green packaging in the new product development stage (by 2023) Expand the green products through eco-labeling (by 2023) Select medium- and long-term future-oriented challenges to meet the demand of customers and enhance the functional quality experienced by them, and implement intensive research (by 2023) Strengthen R&D and open innovation in major overseas markets to develop leading technologies and products with global competence (by 2023)
<ul style="list-style-type: none"> Enhance brand leadership and corporate image 	Economic performance	<ul style="list-style-type: none"> Increase sales of luxury brands (by 2023) Expand the distribution channels (by 2023)
<ul style="list-style-type: none"> Secure employee diversity Work-life balance (welfare system, the 52-hour work week system) Performance evaluation and compensation for employees 	Diversity and equal opportunity	<ul style="list-style-type: none"> Continue to expand the global human resource pool (by 2023) Achieve 84 points in the employee engagement level assessment (by 2023)
<ul style="list-style-type: none"> Social contribution 	-	<ul style="list-style-type: none"> Expand activities to address the disparity between regions through education support for teenagers (by 2023) Accumulated number of beneficiaries of social contribution activities for women and children: 800,000 persons (by 2023) <i>(As of 2018: An accumulated total of 350,476 persons)</i>
<ul style="list-style-type: none"> Manage the treatment and utilization of waste through reuse and recycling Reduce GHG emissions 	Effluents and waste Emissions	<ul style="list-style-type: none"> Water intensity: 1.59 tons/product-ton (by 2020) Waste intensity: 10.554 kg/product-ton (by 2020) GHG emissions intensity: 0.055 tCO₂e/product-ton (by 2020)
<ul style="list-style-type: none"> Manage labor practices, safety and health, environment, product-related risks of suppliers 	Social supply chain management Environmental supply chain management	<ul style="list-style-type: none"> Provide suppliers (top 80% based on the sales amount) with constant support to achieve the World Best* level in the annual Safe Quality Certification Assessment (by 2024) *World Best: The highest level in the internal assessment standard



100

ECONOMIC
PERFORMANCE

102

ENVIRONMENTAL
PERFORMANCE

104

SOCIAL
PERFORMANCE

107

GRI INDEX



APPENDIX

109

UNGC & SASB

110

INDEPENDENT
ASSURANCE
STATEMENT

112

GHG EMISSION
VERIFICATION
STATEMENT

115

TAX
POLICY

Economic Performance

Financial Statement

(Unit: KRW million)






Category	LG H&H [Consolidated]		LG H&H [Non-consolidated]		Coca-Cola Beverage [Consolidated]		TFS [Consolidated]		HAITAI htb [Separate]	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
I. Current assets	1,513,346	1,691,203	950,324	94,433	235,618	202,864	123,934	147,908	72,317	80,432
Cash and cash equivalents	386,194	396,644	224,276	16,791	75,404	30,903	29,439	50,915	2,351	9,038
Short-term finance balance	16,900	16,900	16,900	1,690	-	-	-	-	-	-
Accounts and notes receivables	522,800	1,556,088	395,212	36,654	93,572	103,784	34,506	33,573	25,865	27,646
Other bonds	16,719	25,780	21,912	2,697	4,238	5,669	4,922	2,460	2,935	3,478
Inventories	546,906	614,748	283,339	30,246	57,758	60,347	52,406	55,867	40,578	39,814
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Non-current assets as held for sale	-	-	-	-	-	-	-	-	-	-
Other current assets	23,827	81,019	8,686	62,032	4,647	2,161	2,662	5,093	588	455
II. Non-current assets	3,264,623	3,584,671	2,534,840	2,742,885	500,725	534,220	176,496	163,134	316,255	337,963
Long-term finance balanced	26	24	17	12	6	6	3	3	-	-
Other long-term bonds	87,533	78,325	43,291	36,671	9,009	8,094	32,643	26,270	4,131	4,639
Available-for-sale financial assets	46,609	-	45,720	-	788	-	1	1	-	-
Stocks for subsidiaries	-	-	1,458,419	1,631,700	-	-	-	-	-	-
Stocks for affiliates and joint companies	55,515	52,393	16,487	10,682	-	-	-	-	-	-
Deferred tax assets	17,013	21,123	40,609	24,031	1,008	3,933	16,038	9,067	7,666	4,480
Property	1,616,594	1,813,289	746,638	819,250	466,388	507,928	32,816	32,580	301,178	325,697
Investments in properties	27,067	45,184	21,484	39,634	1,579	1,552	1,948	1,935	1,660	1,642
Goodwill	-	-	-	-	4,176	-	44,814	46,677	195	195
Intangible assets	1,392,799	1,544,973	150,289	154,545	8,840	12,029	47,130	45,897	1,367	1,202
Other non-current assets	21,468	10,397	11,887	9,902	8,930	55	1,103	704	58	108
Total assets	4,777,970	5,275,874	3,485,164	3,687,212	736,343	737,084	300,430	311,042	388,572	418,394
I. Current liabilities	1,244,057	1,358,883	849,775	759,177	136,613	149,143	111,857	121,891	93,363	127,776
II. Non-current liabilities	451,296	322,971	275,645	119,551	13,128	157,689	6,530	5,182	37,464	32,996
Total liabilities	1,695,353	1,681,854	1,125,420	878,728	149,741	164,912	118,386	127,074	130,827	160,772
Capital stock	88,589	88,589	88,589	88,589	25,000	25,000	1,018	1,018	87,737	87,737
Capital surplus	97,326	97,326	97,326	97,326	22,527	22,527	64,314	64,314	153,702	153,702
Retained earnings	3,044,977	3,563,365	2,243,400	2,693,294	571,030	524,982	114,533	116,319	16,833	16,710
Accumulated other comprehensive income	-132,784	-121,625	1,057	-97	-	-337	-5,478	-5,339	-	-
Other reserves	-101,039	-115,589	-70,628	-70,628	-31,955	-	7,657	7,657	-526	-526
Non-controlling interests equity	85,548	81,954	-	-	-	-	-	6,725	-	-
Total capital	3,082,616	3,594,020	2,359,744	2,808,484	586,602	572,172	182,044	183,969	257,745	257,622

Income Statement

(Unit: KRW million)

Category	LG H&H [Consolidated]		LG H&H [Non-consolidated]		Coca-Cola Beverage [Consolidated]		TFS [Consolidated]		HAITAI htb [Separate]	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Sales revenue	6,270,464	6,747,537	3,784,444	4,060,158	1,196,467	1,202,355	547,309	487,263	325,531	356,446
Cost of goods and services sold	2,460,927	2,696,414	1,506,928	1,593,622	673,246	728,121	221,768	196,087	237,103	256,678
Gross profit or loss	3,809,536	4,051,123	2,277,516	2,466,536	523,221	474,233	325,541	291,176	88,428	99,768
Selling and administrative expenses	2,879,187	3,011,873	1,580,916	1,705,154	397,312	345,164	309,970	275,173	86,988	92,502
Restructuring expenses	-	-	-	-	-	-	-	-	-	-
Operating income	930,349	1,039,250	696,600	761,381	125,909	129,069	15,571	16,004	1,441	7,266
Financial income	4,286	6,486	142,790	104,724	1,018	434	319	501	70	146
Financial expenses	15,427	12,707	16,156	9,481	21	370	977	1,315	1,083	1,210
Other non-operating profit and loss	-59,102	-75,705	-55,818	8,489	-107	-6,615	-15,359	-5,555	-799	-828
Profit and loss regarding equity method	1,299	-1,319	-	-	-	-	-	-	-	-
Income loss before income taxes expenses	861,404	956,005	767,415	812,527	126,800	122,517	-446	9,635	-371	5,374
Corporate tax	242,855	263,726	171,757	206,678	30,183	31,612	5,053	6,912	4,154	4,626
Net income or loss	618,550	692,279	595,659	605,849	96,617	90,904	-5,499	2,723	-4,526	747

Domestic/Overseas Economic Value Distribution (based on domestic company/subsidiaries and subsidiaries in China and Japan as of 2018)

Employees	Government	Suppliers	Local Community & NGOs	Shareholders & Creditors
				
KRW 826.4 billion	KRW 323.5 billion	KRW 4,470 billion	KRW 28.1 billion	KRW 150.4 billion
*Wages, bonuses, benefits, severance pay, education and training expenses	*Corporate taxes and other taxes	*Expenses for raw and subsidiary materials, outsourced processing costs, equipment investment, costs for external service companies, commission of stores, advertising and marketing costs, promotion costs	*Costs for activities for social contribution, associations and academic conferences	*Dividend payout ratio 25.6% (LG H&H, non-consolidated)

Corporate Tax Expense

(Unit: KRW 100 million)

Category	Region	Sales	Operating profit	Corporate tax expense	Category	Unit	2017	2018	Average
Country	Korea	63,096	9,306	2,552	Pre-tax profit	KRW 100 million	8,641	9,860	
	China	7,407	843	222	Nominal tax amount	KRW 100 million	2,473	2,322	
	Vietnam	328	9	1	Nominal tax rate	%	28.6%	23.5%	25.9%
	U.S.	347	28	7	Real tax amount	KRW 100 million	2,428	2,637	
	Taiwan	467	5	-1	Real tax rate	%	28.1%	26.7%	27.4%
	Japan	3,286	397	131					
	Others (consolidated adjustment)	-7,456	-196	-276					
	Total	67,475	10,393	2,637					

*Reasons for the difference between nominal and real tax: Non-taxable profit, non-deductible expense, tax deduction and exemption, corporate tax adjustment of the prior period, changes in tax due to consolidated tax payment, changes in unrealizable deferred corporate tax, the effect of corporate tax on the share of subsidiaries and affiliates in net profit or loss, the effect of changes in deferred corporate tax rate, additional tax amount due to special tax benefits for facilitating investment and cooperation for mutual growth, etc.

Environmental Performance

Major Environmental Index

Category	Domestic					Overseas					
	Company/subsidiary	Unit	2016	2017	2018	Company/subsidiary	Unit	2016	2017	2018	
Production volume	LG H&H	Ton	509,087	498,548	449,005	Beijing, China	Ton	8,519	10,352	8,421	
	Coca-Cola Beverage	Ton	710,181	662,000	676,307	Hangzhou, China	Ton	739	516	569	
	HAITAI htb	Ton	381,810	491,339	527,858	Dong Nai, Vietnam	Ton	1,894	1,788	1,781	
	Total	Ton	1,601,078	1,651,887	1,653,170	Total	Ton	11,153	12,656	10,771	
Energy	Consumption Intensity	LG H&H	TJ	992	1,004	1,119	Beijing, China	TJ	21	23	22
			GJ/product-ton	1.949	2.013	2.492		GJ/product-ton	2.485	2.251	2.626
	Consumption Intensity	Coca-Cola Beverage	TJ	874	889	887	Hangzhou, China	TJ	5	4	5
			GJ/product-ton	1.230	1.343	1.311		GJ/product-ton	6.763	8.299	8.336
	Consumption Intensity	HAITAI htb	TJ	550	626	640	Dong Nai, Vietnam	TJ	13	13	13
			GJ/product-ton	1.440	1.273	1.212		GJ/product-ton	6.795	7.477	7.4
	Consumption Intensity	Total	TJ	2,416	2,518	2,645	Total	TJ	39	41	40
			GJ/product-ton	1.509	1.524	1.600		GJ/product-ton	3.501	3.236	3.714
GHG	Emissions Intensity	LG H&H	tCO ₂ e	46,770	46,365	51,631	Beijing, China	tCO ₂ e	1,097	1,207	1,146
			tCO ₂ e/product-ton	0.092	0.093	0.115		tCO ₂ e/product-ton	0.129	0.117	0.136
	Emissions Intensity	Coca-Cola Beverage	tCO ₂ e	47,849	46,324	46,437	Hangzhou, China	tCO ₂ e	913	837	819
			tCO ₂ e/product-ton	0.067	0.070	0.069		tCO ₂ e/product-ton	1.235	1.622	1.439
	Emissions Intensity	HAITAI htb	tCO ₂ e	28,852	31,424	35,345	Dong Nai, Vietnam	tCO ₂ e	691	717	686
			tCO ₂ e/product-ton	0.076	0.064	0.067		tCO ₂ e/product-ton	0.365	0.401	0.348
	Emissions Intensity	Total	tCO ₂ e	123,471	124,113	133,413	Total	tCO ₂ e	2,690	2,761	2,650
			tCO ₂ e/product-ton	0.077	0.075	0.081		tCO ₂ e/product-ton	0.241	0.218	0.246
Water	Consumption Intensity	LG H&H	Ton	755,449	697,879	645,337	Beijing, China	Ton	9,273	19,102	15,047
			Ton/product-ton	1.484	1.400	1.437		Ton/product-ton	1.088	1.845	1.787
	Consumption Intensity	Coca-Cola Beverage	Ton	1,883,868	1,710,408	1,698,814	Hangzhou, China	Ton	9,668	5,232	5,339
			Ton/product-ton	2.653	2.584	2.512		Ton/product-ton	13.077	10.143	9.382
	Consumption Intensity	HAITAI htb	Ton	959,405	1,115,665	1,127,026	Dong Nai, Vietnam	Ton	30,923	30,067	32,947
			Ton/product-ton	2.513	2.271	2.135		Ton/product-ton	16.324	16.813	18.498
	Consumption Intensity	Total	Ton	3,598,722	3,523,952	3,471,177	Total	Ton	49,864	54,401	53,333
			Ton/product-ton	2.248	2.133	2.100		Ton/product-ton	4.471	4.298	4.951
Waste water	Emissions Intensity	LG H&H	Ton	130,077	129,313	131,096	Beijing, China	Ton	5,372	12,774	10,966
			Ton/product-ton	0.256	0.259	0.292		Ton/product-ton	0.631	1.234	1.302
	Emissions Intensity	Coca-Cola Beverage	Ton	1,063,677	971,312	926,066	Hangzhou, China	Ton	2,600	2,151	2,606
			Ton/product-ton	1.498	1.467	1.369		Ton/product-ton	3.517	4.170	4.580
	Emissions Intensity	HAITAI htb	Ton	452,199	530,107	577,474	Dong Nai, Vietnam	Ton	24,651	24,054	26,357
			Ton/product-ton	1.184	1.079	1.094		Ton/product-ton	13.013	13.451	14.798
	Emissions Intensity	Total	Ton	1,645,953	1,630,732	1,634,635	Total	Ton	32,623	38,979	39,929
			Ton/product-ton	1.028	0.987	0.989		Ton/product-ton	2.925	3.080	3.707
COD	Total amount Intensity	LG H&H	Ton	11.8	8.6	39.0	Beijing, China	Ton	0.1	0.2	0.6
			kg/product-ton	0.023	0.017	0.087		kg/product-ton	0.015	0.020	0.074
	Total amount Intensity	Coca-Cola Beverage	Ton	12.5	9.4	14.7	Hangzhou, China	Ton	0.8	0.7	0.5
			kg/product-ton	0.018	0.014	0.022		kg/product-ton	1.055	1.314	0.916
	Total amount Intensity	HAITAI htb	Ton	4.8	11	11.6	Dong Nai, Vietnam	Ton	1.8	0	2.0
			kg/product-ton	0.013	0.022	0.022		kg/product-ton	0.937	0.081	1.017
	Total amount Intensity	Total	Ton	29.1	19.6	65.3	Total	Ton	2.7	1	3.1
			kg/product-ton	0.018	0.012	0.040		kg/product-ton	0.241	0.081	0.292
Waste	Total amount Intensity	LG H&H	Ton	8,701	7,886	6,732	Beijing, China	Ton	178	194	186
			kg/product-ton	17.092	15.818	14.993		kg/product-ton	20.931	18.769	22.030
	Total amount Intensity	Coca-Cola Beverage	Ton	10,332	8,525	8,123	Hangzhou, China	Ton	45	74	24
			kg/product-ton	14.549	12.878	12.011		kg/product-ton	60.569	144.218	41.297
	Total amount Intensity	HAITAI htb	Ton	2,452	4,045	5,939	Dong Nai, Vietnam	Ton	168	191	49
			kg/product-ton	6.423	8.233	11.252		kg/product-ton	88.565	106.58	27.308
	Total amount Intensity	Total	Ton	21,486	20,457	20,794	Total	Ton	391	459	258
			kg/product-ton	13.420	12.384	12.578		kg/product-ton	35.046	36.290	23.921

Water Recycling

Company/Subsidiary	Category	Unit	2016	2017	2018
LG H&H	Amount of recycled water	Ton	61,649	50,797	29,380
	Recycling rate	%	7.5	7.3	4.6
Coca-Cola Beverage	Amount of recycled water	Ton	209,347	202,900	132,203
	Recycling rate	%	11.1	11.9	7.8
HAITAI htb	Amount of recycled water	Ton	19,825	26,674	26,697
	Recycling rate	%	2.1	2.4	2.4

Waste Treatment in 2018

Category	Unit	LG H&H	Coca-Cola Beverage	HAITAI htb	Total	
Designated waste	Amount of recycled waste	Ton	1,535.1	51.0	1.7	1587.9
	Amount of incinerated waste	Ton	1,778.0	7.6	1.4	1,786.9
	Amount of buried waste	Ton	0.0	0.8	0.0	0.8
	Others	Ton	83.9	0.0	10.8	94.7
	Total amount	Ton	3,397.0	59.4	13.9	3,470.3
General waste	Amount of recycled waste	Ton	1,233.7	7,960.8	5,824.3	15,018.8
	Amount of incinerated waste	Ton	1,396.8	103.0	9.6	1,509.4
	Amount of buried waste	Ton	704.3	0.0	91.7	795.9
	Others	Ton	0.0	0.0	0.0	0.0
	Total amount	Ton	3,334.8	8,063.8	5,925.5	17,324.1

Expenses for Environmental Protection in 2018

Category	Unit	LG H&H	Coca-Cola Beverage	HAITAI htb	Total
Environmental investment	KRW million	2,920	1,034	599	4,553
Environmental expenses	KRW million	4,718	1,550	82	6,350

Amount of Water Intake in 2018 by Source

Category	Unit	LG H&H	Coca-Cola Beverage	HAITAI htb	Total
Water supply*	Ton	460,711	1,358,300	838,443	2,657,454
Ground water	Ton	119,582	209,974	288,583	618,139
River water	Ton	65,044	130,540	-	195,584
Total amount	Ton	645,337	1,698,814	1,127,026	3,471,177

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

Amount of Recycled Containers

Company/Subsidiary	Unit	2016	2017	2018
LG H&H	Ton	18,683	19,229	18,022
Coca-Cola Beverage	Ton	42,178	43,958	44,730
HAITAI htb	Ton	11,425	11,850	11,392

Social Performance

Total Employees

Company/Subsidiary		Unit	2016	2017	2018
Total		Persons	8,090	7,931	7,918
Gender	Male	Persons	5,206	5,157	5,132
	Female	Persons	2,884	2,774	2,786

*Not including 2,598 employees at overseas subsidiaries

Detailed Status of Employees

Company/Subsidiary	Category		Unit	2016	2017	2018
LG H&H	Total		Persons	4,549	4,415	4,514
	Gender	Male	Persons	2,026	1,988	1,999
		Female	Persons	2,523	2,427	2,515
	Employment type	Permanent	Persons	4,321	4,294	4,332
		Temporary	Persons	228	121	182
	Job category	Office work	Persons	2,311	2,261	2,355
		Manufacturing	Persons	761	754	745
		Sales	Persons	1,477	1,400	1,414
	Diversity	Disabled	Persons	32	32	32
		Veterans	Persons	66	69	68
Foreigners		Persons	25	24	29	
Coca-Cola Beverage	Total		Persons	2,339	2,348	2,333
	Gender	Male	Persons	2,212	2,218	2,208
		Female	Persons	127	130	125
	Employment type	Permanent	Persons	2,086	2,079	2,052
		Temporary	Persons	253	269	281
	Job category	Office work	Persons	591	593	580
		Manufacturing	Persons	990	982	973
		Sales	Persons	280	280	281
	Diversity	Heavy equipment handling	Persons	222	221	214
		Disabled	Persons	54	55	52
Veterans		Persons	52	55	61	
	Foreigners	Persons	0	0	0	

Company/Subsidiary	Category		Unit	2016	2017	2018
HAITAI htb	Total		Persons	819	802	827
	Gender	Male	Persons	754	740	761
		Female	Persons	65	62	66
	Employment type	Permanent	Persons	723	714	725
		Temporary	Persons	96	88	102
	Job category	Office work	Persons	234	230	237
		Manufacturing	Persons	213	219	245
		Sales	Persons	275	264	242
	Diversity	Disabled	Persons	15	19	17
		Veterans	Persons	6	6	7
Foreigners		Persons	0	0	0	
TFS	Total		Persons	383	366	244
	Gender	Male	Persons	214	211	164
		Female	Persons	169	155	80
	Employment type	Permanent	Persons	380	366	244
		Temporary	Persons	3	0	0
	Job category	Office work	Persons	359	335	214
		Manufacturing	Persons	20	30	29
	Diversity	Disabled	Persons	4	5	3
		Veterans	Persons	9	7	5
		Foreigners	Persons	0	0	0

Employee Education & Training

Company/Subsidiary	Category		Unit	2016	2017	2018
LG H&H	No. of participants		Persons	28,839	26,326	40,013
	Training hours per employee		Hours	63.5	59	59
	Training expense per employee		KRW	1,240,640	1,265,042	1,202,902
Coca-Cola Beverage	No. of participants		Persons	9,197	8,565	21,196
	Training hours per employee		Hours	12.3	13	22
	Training expense per employee		KRW	100,829	108,759	72,663
HAITAI htb	No. of participants		Persons	446	1,949	10,077
	Training hours per employee		Hours	2.9	11	28
	Training expense per employee		KRW	105,265	97,782	160,988
TFS	No. of participants		Persons	7,568	2,545	4,525
	Training hours per employee		Hours	137.1	99	96
	Training expense per employee		KRW	1,167,898	1,074,779	722,070

Parental Leave

Company/Subsidiary	Category		Unit	2016	2017	2018
LG H&H	No. of reinstated persons/No. of persons applicable for reinstatement		Persons	105/116	138/152	154/171
	No. of persons who have worked for a year after returning/ No. of persons applicable		Persons	92/106	90/105	125/152
Coca-Cola Beverage	No. of reinstated persons/No. of persons applicable for reinstatement		Persons	3/3	3/4	3/3
	No. of persons who have worked for a year after returning/ No. of persons applicable		Persons	4/4	2/3	3/4
HAITAI htb	No. of reinstated persons/No. of persons applicable for reinstatement		Persons	2/2	6/7	3/3
	No. of persons who have worked for a year after returning/ No. of persons applicable		Persons	1/2	2/2	5/7
TFS	No. of reinstated persons/No. of persons applicable for reinstatement		Persons	17/17	13/15	17/17
	No. of persons who have worked for a year after returning/ No. of persons applicable		Persons	8/11	15/17	10/15

Job Creation in 2018

Category	Unit	LG H&H	Coca-Cola Beverage	HAITAI htb	TFS
Male	Persons	40	27	54	0
Female	Persons	143	0	2	2
Total	Persons	183	27	56	2

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

Turnover in 2018

Category	Unit	LG H&H	Coca-Cola Beverage	HAITAI htb	TFS	Total
Male	Persons	47	9	39	6	101
Female	Persons	172	1	2	10	185
Total	Persons	219	10	41	16	286

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

Labor Union Membership Rate

Company/Subsidiary	Unit	2016	2017	2018
LG H&H	%	22.4	35.3	31.3
Coca-Cola Beverage	%	95.8	97.2	98.2
HAITAI htb	%	75.1	81.3	77.6
TFS	%	N/A	N/A	N/A

*Major agreements, including collective bargaining agreements with the labor union, are applied to all employees (100%).

Industrial Accidents

Company/Subsidiary	Unit	Unit	2016	2017	2018	
LG H&H	No. of cases	Male	Case	3	2	4
		Female	Case	1	3	3
		Subtotal	Case	4	5	7
	Accident rate	Male	%	0.15	0.10	0.20
		Female	%	0.04	0.12	0.12
		Subtotal	%	0.09	0.11	0.16
Coca-Cola Beverage	No. of cases	Male	Case	13	11	13
		Female	Case	1	0	0
		Subtotal	Case	14	11	13
	Accident rate	Male	%	0.59	0.50	0.59
		Female	%	0.79	0	0.00
		Subtotal	%	0.60	0.47	0.56
HAITAI htb	No. of cases	Male	Case	6	2	3
		Female	Case	0	0	1
		Subtotal	Case	6	2	4
	Accident rate	Male	%	0.80	0.27	0.39
		Female	%	0	0	1.52
		Subtotal	%	0.73	0.25	0.48
TFS	No. of cases	Male	Case	0	0	0
		Female	Case	0	0	0
		Subtotal	Case	0	0	0
	Accident rate	Male	%	0	0	0
		Female	%	0	0	0
		Subtotal	%	0	0	0

Lost-Time Injuries Frequency Rate (LTIFR)

Company/Subsidiary	Category	Unit	2016	2017	2018
LG H&H	Employees	Case/M Work-Hour	0.42	0.54	0.75
	In-house suppliers	Case/M Work-Hour	1.98	1.96	0.56
Coca-Cola Beverage	Employees	Case/M Work-Hour	2.88	2.25	2.68
HAITAI htb	Employees	Case/M Work-Hour	3.52	1.2	2.33
TFS	Employees	Case/M Work-Hour	0.00	0.00	0.00

Occupational Illness Frequency Rate (OIFR)

Company/Subsidiary	Unit	2016	2017	2018
LG H&H	Case/M Work-Hour	0.00	0.00	0.00
Coca-Cola Beverage	Case/M Work-Hour	0.00	0.00	0.00
HAITAI htb	Case/M Work-Hour	0.00	0.00	0.00
TFS	Case/M Work-Hour	0.00	0.00	0.00

Supply Chain Spending Analysis in 2018

Country	Purchase Amount (KRW 100 M)	Ratio (%)
Korea	22,707	91.6%
China	567	2.3%
Japan	360	1.5%
Other Asian countries	575	2.3%
Europe	256	1.0%
North America	274	1.1%
South America	31	0.1%
Oceania	29	0.1%

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

Number of Suppliers in 2018

Business Division	Unit	Type	Suppliers
Beautiful	Company	Products	158
	Company	Raw Materials	345
	Company	Subsidiary Materials	189
Healthy	Company	Products	124
	Company	Raw Materials	289
	Company	Subsidiary Materials	157
Refreshing	Company	Products	33
	Company	Raw Materials	162
	Company	Subsidiary Materials	48

Social Contribution Investment and Volunteer Work Hours

Company/Subsidiary	Unit	2016	2017	2018	
Social contribution investment	Total	KRW million	19,324	23,882	22,140
	Cash	KRW million	13,960	12,870	6,287
	Investment in kind	KRW million	5,364	11,011	15,852
Indirect cost	KRW million	515	569	882	
Volunteer work hours	Hours	6,956	7,351	6,834	

Memberships to Associations in 2018

Green Company Council	The Society of Cosmetic Scientists of Korea	Organization of Consumer Affairs Professionals in Business	Korea International Trade Association
Korea Industrial Safety Association	Korea Foods Industry Association	Korea Listed Companies Association	Korea Chamber of Commerce and Industry
Korea Fire Safety Association	Korea Products Safety Association	Korea Intellectual Property Association (KINPA)	UN Global Compact
Korean Standards Association (KSA)	Korea Health Supplements Association	Korea Patent Attorneys Association	Korea Chemicals Management Association
Korea Industrial Technology Association	Fair Competition Federation	Seoul Bar Association	

Contribution to Associations & Organizations

Amount of contribution	Unit	2015	2016	2017	2018
Total annual amount of contribution	KRW	710,874,535	710,940,430	710,945,837	710,953,604

*In accordance with the Political Funds Act and the instructions of LG H&H's Code of Ethics, any donation or sponsorship using the company's assets and budget for political purposes is strictly prohibited, and we never made political donations in 2018.

Major associations	Amount of contribution 2018
Korea Cosmetic Association	183,590,000
Korea Health Supplements Association	12,000,000
Korea Foods Industry Association	9,840,000
Korea Products Safety Association	3,000,000
Korea Industrial Safety Association	1,008,000

Major External Assessments and Awards in 2018

Title	Award	Institution for Assessment/Award
2018 Win-Win Growth Index	First Class for four consecutive years	Korean Commission for Corporate Partnership
Dow Jones Sustainability Index	Newly listed in the DJSI World	S&P Dow Jones Indices, RobecoSAM, KPC
Dow Jones Sustainability Index	Listed in the DJSI Asia-Pacific for nine consecutive years	S&P Dow Jones Indices, RobecoSAM, KPC
National Health Contribution Assessment and Study	1 st -ranked company for contribution to national health	Korean Academic Society of Health
The 19 th Mecenat Awards	Cultural Contribution Award	Korea Mecenat Association
The 20 th Best Masterpiece Awards by Women	Social Contribution Company Award for Women	Ministry of Gender Equality and Family
Korea-China Management Awards 2018	Grand Prize in the corporate sector	Korea Marketing Association, Rénmín Ribào of China
2018 HWB (Health Wellness Beauty) Awards	Best Prize – Himalaya Pink Salt Toothpaste	Watsons China
The 8 th Green Packaging Awards 2018	Excellence award – Ink Lasting Foundation Slim Fit EX of THEFACESHOP	Korea Environment Packaging Promotion Institute

Management System Certifications in 2018

Category	ISO 14001	ISO 9001	OHSAS 18001	HACCP	KS	Green Company	FSSC 22000
LG H&H	Cheongju-Ulsan-Onsan-Beijing-Vietnam	Cheongju-Ulsan-Onsan-Naju-Beijing-Vietnam	Cheongju-Ulsan-Beijing	N/A	Cheongju-Ulsan	Cheongju-Ulsan	N/A
Coca-Cola Beverage	Yeoju-Yangsan-Gwangju	Yeoju-Yangsan-Gwangju	Yeoju-Yangsan-Gwangju	Yeoju-Yangsan-Gwangju	N/A	Gwangju	Yeoju-Yangsan-Gwangju
HAITAI htb	Cheonan-Pyeongchang-Cheorwon-Iksan	Cheonan-Pyeongchang-Cheorwon-Iksan	Cheonan-Pyeongchang-Cheorwon-Iksan	Cheonan-Iksan	N/A	Cheonan	Cheonan-Pyeongchang-Cheorwon-Iksan

GRI Index

GRI Standards Index (Core Option)

General Standards					
Topic	Index	Indicators	Page	Remarks	Independent Assurance
Organizational Profile	102-1	Name of organization	4		●
	102-2	Activities, brands, products, and services	4-11		●
	102-3	Location of headquarters	4-5		●
	102-4	Location of operations	4-5, 42-43		●
	102-5	Ownership and legal form	84-85		●
	102-6	Markets served	6-11		●
	102-7	Scale of organization	101, 104		●
	102-8	Information on employees and other workers	55, 104		●
	102-9	Supply chain	80-81, 106		●
	102-10	Significant changes to the organization and its supply chain		No significant changes	●
	102-11	Precautionary principle or approach	86-89		●
	102-12	External initiatives	106		●
	102-13	Membership of associations	106		●
Strategy	102-14	Statement from senior decision-maker	2-3		●
Ethics and Integrity	102-16	Values, principles, standards, and norms of behavior	90-91, 116-117		●
Governance	102-18	Governance structure	84-85		●
Stakeholder Engagement	102-40	List of stakeholder groups	92-93		●
	102-41	Collective bargaining agreements	116-117	All employees are covered by a general agreement except additional conditions	●
	102-42	Identifying and selecting stakeholders	92-93		●
	102-43	Approach to stakeholder engagement	92-93		●
	102-44	Key topics and concerns raised	94-97		●
Reporting Practice	102-45	Entities included in the consolidated financial statements	Business Report		●
	102-46	Defining report content and topic boundaries	About this Report		●
	102-47	List of material topics	94-97		●
	102-48	Restatements of information	About this Report		●
	102-49	Changes in reporting	About this Report		●
	102-50	Reporting period	About this Report		●
	102-51	Date of most recent report	About this Report		●
	102-52	Reporting cycle	About this Report		●
	102-53	Contact point for questions regarding the report	About this Report		●
	102-54	Claims of reporting in accordance with the GRI Standards	About this Report		●
	102-55	GRI content index	107-108		●
	102-56	External assurance	110-111		●

Topic-Specific Standards					
Topic	Index	Indicators	Page	Remarks	Independent Assurance
Economic Performance	MA		40		●
	201-1	Direct economic value generated and distributed	12-13, 40-43, 100-101	KPIs Assurance	●
Indirect Economic Impacts	MA		30, 62		●
	203-1	Infrastructure investments and services supported	63-67	KPIs Assurance	●
	203-2	Significant indirect economic impacts	30-39	KPIs Assurance	●
Energy	MA		68		●
	302-1	Energy consumption within the organization	70, 102	KPIs Assurance	●
	302-2	Energy consumption outside of the organization	70, 102	KPIs Assurance	●
	302-3	Energy intensity	70, 102	KPIs Assurance	●
Water	MA		70, 102		●
	303-3	Water withdrawal	71, 103	KPIs Assurance	●
	303-4	Water discharge	71, 102	KPIs Assurance	●
	303-5	Water consumption	71, 102	KPIs Assurance	●
Emissions	MA		-		●
	305-1	Direct (Scope 1) GHG emissions	112-114	KPIs Assurance	●
	305-2	Energy indirect (Scope 2) GHG emissions	112-114	KPIs Assurance	●
	305-3	Other indirect (Scope 3) GHG emissions	112-114	KPIs Assurance	●
	305-4	GHG emissions intensity	70, 102	KPIs Assurance	●
	305-5	Reduction of GHG emissions	70, 102	KPIs Assurance	●
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	-	KPIs Assurance	●

Topic-Specific Standards					
Topic	Index	Indicators	Page	Remarks	Independent Assurance
Effluents and Waste	MA		68		●
	306-1	Water discharge by quality and destination	102	KPIs Assurance	●
	306-2	Waste by type and disposal method	103	KPIs Assurance	●
Employment	MA		54		●
	401-1	New employee hires and employee turnover	105	KPIs Assurance	●
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	55-57	KPIs Assurance	●
Occupational Health and Safety	401-3	Parental leave	104	KPIs Assurance	●
	MA		-		●
	403-8	Workers applicable to the occupational health and safety management system	105	KPIs Assurance	●
	403-9	Work-related injuries	105	KPIs Assurance	●
Customer Health and Safety	403-10	Work-related health conditions	105	KPIs Assurance	●
	MA		16		●
	416-1	Assessment of the health and safety impacts of product and service categories	17-21	KPIs Assurance	●

Other Standards					
Topic	Index	Indicators	Page	Remarks	
Strategy	102-15	Key impacts, risks, and opportunities	2-3		
Ethics and Integrity	102-17	Mechanisms for advice and concerns about ethics	90-91, 116-117		
Governance	102-22	Composition of the highest governance body and its committees	84-85		
	102-23	Chair of the highest governance body	84-85		
	102-24	Nominating and selecting the highest governance body	84-85		
	102-25	Conflicts of interest	84-85		
	102-26	Role of highest governance body in setting purpose, values, and strategy	84-85		
	102-27	Collective knowledge of highest governance body	84-85		
	102-28	Evaluating the highest governance body's performance	84-85		
	102-29	Identifying and managing economic, environmental, and social impacts	84-85		
	102-30	Effectiveness of risk management processes	86-89		
	102-31	Review of economic, environmental, and social topics	92-93		
	102-32	Highest governance body's role in sustainability reporting	85, 94		
	102-34	Nature and total number of critical concerns	94-97		
	102-35	Remuneration policies	84		
	102-36	Process for determining remuneration	84		
	Economic Performance	201-2	Financial implications and other risks and opportunities due to climate change	69-71	
201-4		Financial assistance received from government	-		N/A
Market Presence	202-2	Proportion of senior management hired from the local community	-		93%(392/422persons)
Procurement Practices	204-1	Proportion of spending on local suppliers	106		
Anti-corruption	205-1	Operations assessed for risks related to corruption	87-91		
	205-2	Communication and training about anti-corruption policies and procedures	87-91		
	205-3	Confirmed incidents of corruption and actions taken	87-91		
Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	87-91		
Materials	301-3	Reclaimed products and their packaging materials	36-38		
Effluents and Waste	306-3	Significant spills	-		No significant spills
Environmental Compliance	307-1	Non-compliance with environmental laws and regulations	-		No significant incidents
Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	80		
	308-2	Negative environmental impacts in the supply chain and actions taken	80-81		
Labor/Management Relations	402-1	Minimum notice periods regarding operational changes	57		
Training and Education	404-1	Average hours of training per year per employee	104		
	404-2	Programs for upgrading employee skills and transition assistance programs	56-57		
	404-3	Percentage of employees receiving regular performance and career development reviews	57		
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	104		
	405-2	Ratio of basic salary and remuneration of women to men	-		No difference in basic salary by gender
Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	-		No such incidents
Freedom of Association and Collective Bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	58-59		
Human Rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	58-59		
Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	63-67		
	413-2	Operations with significant actual and potential negative impacts on local communities	-		N/A
Supplier Social Assessment	414-1	New suppliers that were screened using social criteria	80		
Customer Health and Safety	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	-		No significant incidents
Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	-		No significant incidents
	417-2	Incidents of non-compliance concerning product and service information and labeling	-		No significant incidents
Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	-		No significant incidents
Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	-		No significant incidents

UNGC & SASB

UNGC Communication on Progress

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

Aspects	LG H&H system and policy	Relevant activity	Page
Human rights			
Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.	Human rights policy Code of Ethics Chapter 1. Responsibilities and Duties for Customers 1. Respecting Customers	LG H&H prohibits gender/background discrimination, forced labor, etc., and respects human rights of individual employees.	58-59, 90-91
Principle 2. Businesses should make sure that they are not complicit in human rights abuse.	Code of Ethics Chapter 5. Responsibilities for Executives and Employees 2. Fair Treatment		54-57
Labor rules			
Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Human rights policy Know-how for Operating the Labor management Council Code of Ethics Chapter 5. Responsibilities for Executives and Employees 1. Respecting Human Beings 2. Fair Treatment	LG H&H continuously makes extensive efforts to train employees into autonomous and creative talented people	54-59
Principle 4. Businesses should eliminate all forms of forced and compulsory labor.			
Principle 5. Businesses should effectively abolish child labor.			
Principle 6. Businesses should eliminate discrimination in respect of employment and occupation.			
Environment			
Principle 7. Businesses should support a precautionary approach to environmental challenges.	Code of Conduct for Suppliers Code of Ethics Chapter 6. Responsibilities for the Country and Society 4. Environmental Protection - Policy on Environmental Health and Safety - Regulations on Environmental Management	LG H&H continues to carry out activities enhancing environmental value by considering environmental impacts on the supply chain by business activities.	68-75
Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.			
Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.			
Anti-corruption			
Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	Code of Ethics Chapter 2. Fair Competition 2. Legal Compliance Chapter 4. Basic Ethics for Executives and Employees 4. Fair Implementation of Work	LG H&H, based on Jeong-Do Management, practices ethical business activities and fair trade with its suppliers.	84-91

Sustainability Accounting Standards Board(SASB)

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

Aspects	Issues	Non-alcoholic beverage sector	Household and personal product sector	Page
Environment	Energy management	●	●	70
	Water management	●	●	71
Social	Health and nutrients	●	●	16-29
	Transparent labeling and marketing	●		90-91
Business Model	Management and innovation of packaging cycle	●	●	16-29
	Product composition safety		●	16-29
	Management of supply chain	●	●	80-81
Governance	Business ethics		●	90-91

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

Independent Assurance Statement

Foreword

This Assurance Statement has been prepared for LG Household & Health Care 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 LG Household & Health Care Ltd. to provide independent assurance on its 'LG Household & Health Care 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 LG Household & Health Care Ltd.'s operations and activities in Korea specifically the following requirements:

- Evaluating adherence to AA1000 Account Ability Principles of Inclusivity, Materiality and Responsiveness
- Confirming that the report is in accordance with: GRI Standards¹ : Core option
- Evaluating the accuracy and reliability of data and information for only the selected indicators listed below:
 - GRI 200 (Economic): 201-1, 203-1, 203-2
 - GRI 300 (Environmental): 302-1, 302-2, 302-3, 302-4, 303-3, 303-4, 303-5, 305-1, 305-2, 305-3, 305-4, 305-5, 306-1, 306-2
 - GRI 400 (Social): 401-1, 401-2, 401-3, 403-8, 403-9, 403-10, 416-1

Our assurance engagement excluded the data and information of LG Household & Health Care Ltd.'s suppliers, contractors and any third-parties mentioned in the report.

LRQA's responsibility is only to LG Household & Health Care Ltd.. LRQA disclaims any liability or responsibility to others as explained in the end footnote. LG Household & Health Care 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 LG Household & Health Care Ltd..

LRQA's Opinion

Based on LRQA's approach nothing has come to our attention that would cause us to believe that LG Household & Health Care 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 LG Household & Health Care 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 LG Household & Health Care 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 LG Household & Health Care 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 LG Household & Health Care Ltd. makes informed business decisions that may create opportunities that contribute towards sustainable development.
- Auditing LG Household & Health Care 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.

¹ <https://www.globalreporting.org>

- Reviewing supporting evidence made available by LG Household & Health Care Ltd. at their head office at LG Gwanghwamun Building in Seoul as well as at Magok, Pyung-Chang, Ul-san, On-san offices in Korea.
- Checking that the GRI Content Index allows stakeholders to access sustainability indicators.

Observations

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 LG Household & Health Care Ltd.'s stakeholder engagement process.
- Materiality We are not aware of any material issues concerning LG Household & Health Care Ltd.'s sustainability performance that have been excluded from the report. It should be noted that LG Household & Health Care Ltd. has established extensive criteria for determining which issue/topic is material and that these criteria are not biased to the company's management.
- Responsiveness LG Household & Health Care Ltd. set up and reported its key economic, environmental, and social performance indicators. LG Household & Health Care Ltd. enhanced responsiveness through inclusive risk management. In the report, LG Household & Health Care Ltd. provided comprehensive summary on last 10 year history of CSR reports.
- Reliability LG Household & Health Care Ltd. has reliable data management systems for the indicators in the report.

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 LG Household & Health Care Ltd. and as such does not compromise our independence or impartiality.

27th April 2019

Hee-Jeong Yim 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: SEO00000437



Lloyd's Register Group Limited, its affiliates and subsidiaries, including Lloyd's Register Quality Assurance Limited (LRQA), and their respective officers, employees or agents are, individually and collectively, referred to in this clause as 'Lloyd's Register'. Lloyd's Register assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.

The English version of this Assurance Statement is the only valid version. Lloyd's Register Group Limited assumes no responsibility for versions translated into other languages.

This Assurance Statement is only valid when published with the Report to which it refers. It may only be reproduced in its entirety.

Copyright © Lloyd's Register Quality Assurance Limited, 2019. A member of the Lloyd's Register Group.

GHG Emission Verification Statement (LG Household & Health Care)

Introduction

DNV GL Business Assurance Korea Ltd. ("DNV GL") was commissioned by LG Household & Health Care Ltd. ("LG Household & Health Care") to verify the LG Household & Health Care's Greenhouse Gas Inventory Report for the calendar year 2018 ("the report") based upon a limited level of assurance. LG Household & Health Care is responsible for the preparation of the GHG emissions data on the basis set out within the WRI/WBCSD GHG protocol: 2004 and the principles set out in ISO 14064-1:2006. Our responsibility in performing this work is to the management of LG Household & Health Care only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

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

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

Verification Approach

The verification has been conducted by DNV GL from April to May in 2019 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2006. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

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

Conclusions

Based on the above verification of core elements, it is the DNV GL's opinion that nothing comes to our attention to suggest that GHG emissions are not properly calculated, and a significant uncertainty and error are included in the GHG Emissions of LG Household & Health Care for the year 2018 below;

Greenhouse Gas Emissions of LG Household & Health Care from Yr 2018

(Unit: ton CO₂ equivalent.)

LG Household & Health Care	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Other indirect emissions (Scope 3)	Total emissions Scope 1&2
Year 2018	8,771	42,860	3,747	51,631

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO₂eq.

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



Lee, Jang Sup Country Representative
DNV GL Business Assurance Korea Ltd

21st May 2019
Seoul, Korea

GHG Emission Verification Statement (Coca-Cola Beverage Company)

Introduction

DNV GL Business Assurance Korea Ltd. ("DNV GL") was commissioned by Coca-Cola Beverage Company ("Coca-Cola Beverage") to verify the Coca-Cola Beverage's Greenhouse Gas Inventory Report for the calendar year 2018 ("the report") based upon a limited level of assurance. Coca-Cola Beverage is responsible for the preparation of the GHG emissions data on the basis set out within the WRI/WBCSD GHG protocol: 2004 and the principles set out in ISO 14064-1:2006. Our responsibility in performing this work is to the management of Coca-Cola Beverage only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

The emissions data covered by our examination comprise Direct emissions (Scope 1 emissions), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 emissions) from Coca-Cola Beverage boundary of the report;

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

Verification Approach

The verification has been conducted by DNV GL from April to May 2019 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2006. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

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

Conclusions

Based on the above verification of core elements, it is the DNV GL's opinion that nothing comes to our attention to suggest that GHG emissions are not properly calculated, and a significant uncertainty and error are included in the GHG Emissions of Coca-Cola Beverage for the year 2018 below;

Greenhouse Gas Emissions of Coca-Cola Beverage from Yr 2018

(Unit: ton CO₂ equivalent.)

Coca-Cola Beverage	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Other indirect emissions (Scope 3)	Total emissions Scope 1&2
Year 2018	23,021	23,416	439	46,437

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO_{2e}.

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



Lee, Jang Sup Country Representative
DNV GL Business Assurance Korea Ltd

21st May 2019
Seoul, Korea

GHG Emission Verification Statement (HAITAI htb Co., Ltd.)

Introduction

DNV GL Business Assurance Korea Ltd. ("DNV GL") was commissioned by HAITAI htb Co., Ltd. ("HAITAI htb") to verify the HAITAI htb's Greenhouse Gas Inventory Report for the calendar year 2018 ("the report") based upon a limited level of assurance. HAITAI htb is responsible for the preparation of the GHG emissions data on the basis set out within the WRI/WBCSD GHG protocol: 2004 and the principles set out in ISO 14064-1:2006. Our responsibility in performing this work is to the management of HAITAI htb Co., Ltd. only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

The emissions data covered by our examination comprise Direct emissions (Scope 1 emissions), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 emissions) from HAITAI htb boundary of the report;

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

Verification Approach

The verification has been conducted by DNV GL from April to May 2019 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2006. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

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

Conclusions

Based on the above verification of core elements, it is the DNV GL's opinion that nothing comes to our attention to suggest that GHG emissions are not properly calculated, and a significant uncertainty and error are included in the GHG Emissions of HAITAI htb for the year 2018 below;

Greenhouse Gas Emissions of HAITAI htb from Yr 2018

(Unit: ton CO₂ equivalent.)

HAITAI htb	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Other indirect emissions (Scope 3)	Total emissions Scope 1&2
Year 2018	18,068	17,277	108	35,345

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO_{2eq}.

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



Lee, Jang Sup Country Representative
DNV GL Business Assurance Korea Ltd

21st May 2019
Seoul, Korea

Tax Policy

Complying with tax laws and fulfilling various tax liabilities are part of the social responsibilities of a company. LG H&H abides by domestic and overseas tax regulations, promptly reporting tax information and fulfilling its tax liabilities. Our employees in charge of tax payment handle their tasks conscientiously to maintain a transparent relationship with the tax authorities.

Tax Risk Management

LG H&H clearly specifies the roles and responsibilities of employees in charge of each category for tax payments to run the tax management group and hire tax professionals for higher expertise, thereby minimizing tax risks that may occur in business transactions. We reduce risks by reviewing tax information prior to the decision-making process. When it is unclear to understand any part of the tax law, we consult with external tax professionals, including accounting firms, to find the optimal solution.

Disclosure of Tax Payment Records

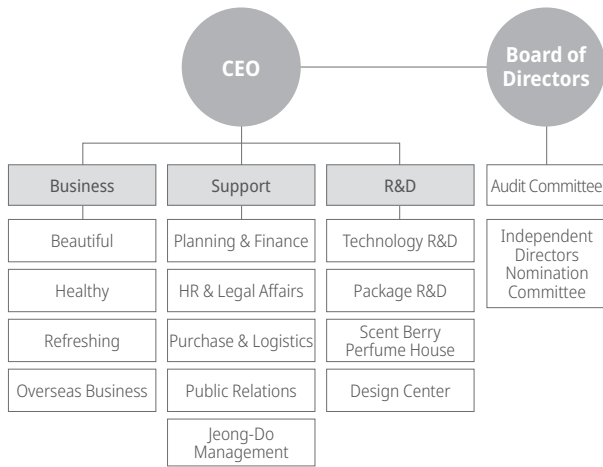
We provide corporate tax information in the audit report publicly announced on DART (Data Analysis, Retrieval and Transfer System) run by the Financial Supervisory Service. We disclose the standards for calculating corporate tax expenses, deferred tax assets, liabilities, the details of corporate tax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

Fulfillment of Tax Payment Obligations

In terms of international transactions with overseas subsidiaries, LG H&H applies the transfer pricing policy that corresponds to the tax law in Korea and the OECD transfer price guidelines, as well as the Arm's Length Principle. If there is any expected conflict between different countries, we proactively respond to double taxation based the APA (Advance Pricing Arrangement) system. We also comply with duties for the documentation of transfer prices and the submission of a report by country under the BEPS (Base Erosion and Profit Shifting) project.

LG H&H does not employ a tax structure that abuses the differences and loopholes in the tax system between different countries to unreasonably reduce its tax liabilities. We legally allocate the taxable income depending on values generated in each country where we operate our business. In particular, we prohibit the transfer of values, including intangible or financial assets, to any region with a loose tax jurisdiction, such as low effective tax rates. We also stringently restrict the use of tax havens.

Organizational Chart



Committee

- | | |
|---|--|
| <ul style="list-style-type: none"> CSR Committee Compliance Committee Green Product Review Committee Preventive Management Committee Safety Ethics Committee | <ul style="list-style-type: none"> CCM Operation Committee Investment Deliberation Committee Subcontract Internal Deliberation Committee Win-Win Growth Review Committee |
|---|--|

Cover History



2018 LG HOUSEHOLD & HEALTH CARE CSR REPORT

MEMBER OF
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM



This report is printed with soy ink on paper made of materials from well-managed, FSCTM-certified (FSC®) : Forest Stewardship Council) forests and other controlled sources.

Those who helped in developing the CSR Report

Ri-u Gang	Ji-hye Park	Beom-seok Seo	Myeong-sang Lee	Yeon-hui Choe
Il-man Gang	Hyeon-su Park	Jeong-ho Seo	Mun-yeong Lee	Eun-ho Choe
Hye-jin Guk	Ho-hyeon Park	Yeon-hui Seol	Bo-eun Lee	Ik Choe
Do-yeong Kim	Eun-yeong Baek	Yu-jin Seong	Su-yong Lee	Jin-seong Choe
Dong-wan Kim	Jae-yeon Byeon	Hyeon-gwan Son	Ju-su Lee	Ji-yeon Ha
Mi-sun Kim	Geon-heon Seo	Dong-min Sin	Ju-yeong Lee	Seong-won Han
Seong-sam Kim	Gwan-ha Seo	Cheol-hun Yang	Seong-hyeon Im	Jin-yeong Heo
Seong-eun Kim	Beom-seok Seo	Ju-yeong Oh	Jin-hwan Im	Hyeong-jong Heo
Su-ok Kim	Jeong-ho Seo	Nam-geun U	Da-yeon Jang	Hui-seon Heo
Su-hyeon Kim	Yeon-hui Seol	Jong-hwa Won	Hyo-jin Jeon	Gi-beom Hong
In-cheol Kim	Yu-jin Seong	Yong-hyeon Yu	Seung-yeon Jeong	Sang-eun Hwang
Jeong-un Kim	Hyeon-gwan Son	Yong-hui Yu	U-jeong Jeong	Jae-seon Hwang
Han Kim	Dong-min Sin	Taek-seong Yu	Jin-rak Jeong	Beom-taek Oh
Hae-ri Kim	Cheol-hun Yang	Jin-mo Yun	Gyu-sik Jo	Dong-wook Kim
Hye-rim Kim	Ju-yeong Oh	Gang-seob Lee	Ye-gyeong Jo	Hye-ji Yoo
Hun Kim	Nam-geun U	Gyeong-a Leel	Ye-ryeong Jo	Jae-hun Sin
Dong-un Min	Jong-hwa Won	Gwang-seon Lee	Jeong Jo	
Min-gyeong Park	Geon-heon Seo	Gi-beom Lee	Hyeong-min Jo	
Il-gui Park	Gwan-ha Seo	Gi-hyeon Lee	Seong-heum Choe	

We thank all of the individuals who helped to develop the CSR Report.

Published in June 2019 Published by Suk Cha Designed by Reddot Branding
LG H&H CSR Team 12F, LG Gwanghwamun Bldg., 58, Saemunan-ro, Jongno-gu,
Seoul, Korea

 **LG Household & Health Care**