We create human-friendly and eco-conscious living spaces.
This report marks LG Hausys’ sixth sustainability report. We at LG Hausys use this report to reflect and disclose the concerns and requirements of our stakeholders in the areas of economy, environment and society. We aim to publish such reports every year to illustrate our achievements made in sustainability management and to use these reports as a communication channel to gather feedback from our internal/external stakeholders.

This report contains our economic, environmental and social initiatives and accomplishments between January 1st, 2016 and December 31st, 2016. The latest data is included for several sections (e.g. composition of the BOD). The data for the years 2014-2016 is provided for a portion of the quantitative data to allow for yearly trend analyses.

The contents of this report covers our headquarters and domestic plants. Some data covers our overseas subsidiaries in China, the U.S. and other regions. If any data discrepancy from the previous report occurs due to modification in data coverage or calculation methods, such differences are marked separately. The financial data of LG Hausys and its subsidiaries are reported on a consolidated basis in accordance with K-IFRS standards.

The preparation of this report is based on the Core Option of the Global Reporting Initiative (GRI) G4 guidelines. For further details, please refer to the GRI Index on pages 78-81.

This report was assured by an independent third-party assurance service provider in accordance with AA1000APS(2008), and the assurance statement appears on pages 76-77.

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Dear Stakeholders,

We present our sixth sustainability report to disclose our broad-ranging initiatives undertaken and accomplishments made in advancing our sustainable growth in the economic, environmental and social arenas. Through this report, we aim to help you better understand our sustainability management initiatives and integrate your valued feedback in our business conduct.

LG Hausys, as a global leader in the building & decorative materials business, is committed to meeting market demand by delivering innovative, eco-friendly products. Our leadership in the automotive components business provides us with the key capabilities needed to achieve superior performance in our building & decorative materials business.

At LG Hausys, we vow to fulfill our social responsibility in a way that befits our status as a globally-renowned company so that we earn your trust and respect in so doing.

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LG Hausys is Korea’s largest manufacturer of building & decorative materials, high-functional materials and automotive components. Guided by our core technology, we consistently explore new growth drivers, from energy-saving windows, noise-attenuation flooring, high-performance insulation materials to lightweight automotive parts, acrylic solid surfaces and high-functional interior design films.

In 2016, our sales amounted to KRW 2.9283 trillion, and operating profits were KRW 147.0 billion. Our sales and operating profits grew by 9.0% and 1.1% respectively over the past year, and we believe that this is attributable to our endeavors to remain focused on product innovation, cost innovation and sales innovation to ‘bring fundamental change to our business structure’.

Our top priority this year is to nurture our market-leading business and prepare for the future by identifying new growth drivers and focus on building a stronger executional capability. Driven by the overarching strategic direction of focusing on the automotive materials and parts business and positioning our building & decorative materials business in the high-end segment, we aim to implement the following five key initiatives: we will raise our domestic market share to 50% and above, increase the ratio of our overseas business to 50% and above, improve manufacturing costs, achieve 6σ quality, and consistently strengthen our R&D capability.

To bring about substantial change based on our successful implementation, our company-wide management system will shift into an ‘execution-driven management system’ from 2017 onwards. Furthermore, we will perform intensive reviews on all our work sites for their overall environment and safety management system and fully launch our productivity improvement and quality innovation initiatives. In so doing, we aim to enhance product quality, innovate our manufacturing process, and reduce internal/external failure costs while delivering products that lead the market with unrivaled quality.

To realize this vision, we will implement the following sustainability management initiatives in line with our execution-driven management system.

First, we take the lead in establishing the leadership of our green products. We build on our ‘Green Identity’ to provide energy-saving and eco-friendly building materials, lightweight automotive components and other green products, while expanding the delivery of new green products and gaining even more green certifications, both in Korea and abroad. Notably, our high-performance building material ‘PF insulation boards’ became the industry’s first to be ‘EPD (Environmental Product Declaration)’-certified. Our achievements in broadening our green product line-ups were also recognized as our ZEA Sorijam and PF insulation boards were honored as ‘Green Products of the Year Chosen by Korean Consumers’ for three consecutive years.

Second, we strive to create a safe workplace. We conduct self-inspections on the equipment and facility of our domestic and overseas plants to prevent accidents that could pose a grave impact on our operations. This year, all our plants will be subject to intensive inspections on their overall safety and environmental management system, and practical mock drills will be performed to ensure the accountability of our top management and to strengthen the prevention of any accident.

Third, we seek shared growth with our suppliers. We continue to expand our joint technology development and benefit sharing with our suppliers to pursue mutual benefits while offering financial and business support and promoting a close and continual communication. We also operate a mutually beneficial payment system to extend our support to suppliers, even at the tier 2 level and below. In so doing, we strive to disseminate shared growth along the entire supply chain.

Fourth, we contribute to the development of local communities through our social-giving initiatives. We put our capabilities to the best use in undertaking broad-ranging social-giving programs such as upholding the Dokdo Natural Preservation Zone (Jikimi initiative), renovating the historic sites of Korea’s Independence Movement, as well as the residence of men of national merit, and the ‘Make a Happy Space initiative’ designed to benefit public youth spaces and local child welfare centers.

We vow to fulfill our social responsibility in a way that befits our status as a globally-renowned company so that we earn your trust and respect in so doing. We look forward to your unwavering interest and support for LG Hausys.

Thank you.
Our sustainability management system is the foundation of our business and we are in ever-close communication with our stakeholders in order to solidify our status and position as a sustainable company.

BUILDING SPACE

LG Hausys Overview

LG Hausys is Korea’s largest manufacturer of building & decorative materials, in addition to high-performance and automotive materials & parts. From market-leading green energy-saving products and interior materials that decorate the space where our customers stay and relax, to automotive skin and lightweight components that complete the space where they drive and are on the move, we deliver differentiated features and designs to create sound and aesthetically-pleasing living spaces. In so doing, we aim not only to satisfy our customers; but also to earn their trust.

LG Hausys at a Glance

**Sales** (Unit: KRW 100 million)
- 29,283

**Operating profits** (Unit: KRW 100 million)
- 1,570

**Overseas sales** (Unit: KRW 100 million)
- 9,270

**Ratio of overseas sales** (Unit: %)
- 31.6

**Employees in Korea** (Unit: No. of persons)
- 3,140

**Employees abroad** (Unit: No. of persons)
- 1,284

**Corporate Overview**

LG Hausys is Korea’s largest manufacturer of building & decorative materials, in addition to high-performance and automotive materials & parts. From market-leading green energy-saving products and interior materials that decorate the space where our customers stay and relax, to automotive skin and lightweight components that complete the space where they drive and are on the move, we deliver differentiated features and designs to create sound and aesthetically-pleasing living spaces. In so doing, we aim not only to satisfy our customers; but also to earn their trust.

**History**

1952: Manufactured Korea’s first synthetic resin-formed products
1958: Manufactured and flooring
1976: Produced PVC windows
1984: Produced plastic automotive parts
1995: Produced acrylic solid surface HI-MACS
1997: Established a production branch in Tianjin, China
1999: Produced acrylic solid surface HI-MACS
2005: Completed a HI-MACS plant in the U.S.
2006: Initiated the operation of an automotive skin plant in the U.S.
2010: Produced the world’s first corn-based PLA wood flooring
2011: Initiated the operation of an engineered stone plant in the U.S.
2012: Produced laminated glass
2013: Produced PF lamination boards
2015: Expanded the engineered stone plant in the U.S.
2016: Initiated the operation of the Wuxi Plant in China

**THE MOTHER COMPANY OF LG GROUP**

**SINCE 1947**
To create safe and vibrant interiors, we create windows and laminated glass with exceptional insulation and durability, green flooring and wallpaper with surface lay materials made from a natural base, fire-proof insulation boards with outstanding insulation performance, acrylic solid surfaces favored by world-renowned architects, and decorative and interior design films recognized for their trendy designs and top-notch functionality.

Primary products
Windows, Glass, Flooring, Wallpaper, PF lamination boards, Acrylic solid surface & Engineered stone, Synthetic wood, Decorative films, Furniture films, Interior design films

Our automotive skin recognized for its exceptional functionality and eco-friendliness, lightweight parts that help improve fuel efficiency, and other automotive components fitted in both the interior and exterior of vehicles, lend to much safer and comfortable auto interiors.

Primary products
Automotive skin, Lightweight parts, Automotive parts
Sustainability Management

It is under our vision to create ‘human-friendly, eco-conscious happy living spaces’ that we advance sustainability management at LG Hausys. To become a company respected by society, we established our sustainability management system to focus on risk management, social contribution and stakeholder communication as the guiding principles of our sustainability management.

Sustainability Management Implementation System

<table>
<thead>
<tr>
<th>Vision</th>
<th>Objective</th>
<th>Implementation Task</th>
<th>Progress</th>
</tr>
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<tbody>
<tr>
<td>Create human-friendly, eco-conscious happy living spaces</td>
<td>- Conduct self-initiated assessments and make improvements initiatives</td>
<td>- Respond to external evaluations</td>
<td>- Facilitate leading programs - Explore new programs - Expand economic/social outcomes</td>
</tr>
<tr>
<td>Become a sustainable company in harmony with stakeholders</td>
<td>- Establish the global code of conduct on labor &amp; human rights</td>
<td>- Assess the risks of LG Hausys and suppliers</td>
<td>- Publish sustainability reports - Launch customer satisfaction initiatives</td>
</tr>
<tr>
<td>Stakeholder communication</td>
<td>- Improve the living conditions for men of national merit</td>
<td>- Strengthen external/internal communication</td>
<td>- Employee communication</td>
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Sustainability Management Roadmap

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Introduce global standards and differentiate programs</td>
<td>Systematize CSR initiatives</td>
<td>Expand CSR initiatives</td>
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</table>

Risk Management
- Introduce global CSR standards
- Adopt the sustainability reporting standards GRI 4.0
- Listed on the DSII Korea Index for the first time
- Strengthen external/internal communication
- Conduct self-initiated assessments and make improvements initiatives
- Respond to external evaluations
- Expand economic/social outcomes

Social Contribution
- Support undergraduate chemical engineering departments
- Make a Happy Space
- Expand local community/training facility programs
- Assist in the recovery from the damage typhoon ‘Chaba’ causes
- Support undergraduates chemical engineering departments
- Strengthen external/internal communication

Stakeholder Communication
- Launch social-giving initiatives for patriots
- Social contribution to honor patriots
- Dokdo Natural Preservation Zone Jikimi
- Voluntary activities, etc.
- Employee briefings & training
- Suppliers briefings & training
- Local communities
- Customers

Publication of Sustainability Reports
- Sustainability Report 2017 is our sixth such report, and presents issues of high interest among our stakeholders.

Materiality Analysis Process

We identified 35 issues in 2016 by benchmarking the GRI 4.0, ISO 26000, DSII and other international standards as well as global companies and by researching media publications. By integrating redundant issues, we narrowed them down to 15 issues.

Key Stakeholders and Communication Channels

Shareholders/Investors
- Corporate briefings, disclosures, etc.

Employees
- Labor-Management Council, counseling, etc.

Suppliers
- Supplier briefings & discussions, etc.

Local communities
- Volunteer activities, etc.

Customers
- Voice of customers, ZENNE, social networks, etc.

Stakeholder Communication and Materiality Analysis Process

We define shareholders & investor, employees, customers, suppliers, and local communities as our key stakeholders in accordance with their role, influence and responsibility, and identify them mainly by using our sustainability management system.

**External Awards Granted in Sustainability Management**

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<tr>
<td>Honored with the Special Carbon Disclosure Award (COD)</td>
<td>Graded A across all sectors by the Korea Corporate Governance Service</td>
<td>Listed on the DSII Korea Index</td>
<td>Joined the DSII Korea Index for two consecutive years</td>
<td>Ranked first in the building materials industry on the Korean Sustainability Index (KSI) published by the Korean Standards Association</td>
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**Issues Reported**

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</thead>
<tbody>
<tr>
<td>Business performance and strategy</td>
<td>9.5</td>
<td>8.7</td>
<td>8.5</td>
<td>9.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Development of green products</td>
<td>8.0</td>
<td>8.5</td>
<td>8.0</td>
<td>8.5</td>
<td>8.0</td>
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<tr>
<td>Sustainability management</td>
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<td>8.0</td>
<td>8.5</td>
<td>7.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Shared growth with suppliers</td>
<td>6.5</td>
<td>7.0</td>
<td>6.5</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Social contribution</td>
<td>7.0</td>
<td>7.5</td>
<td>8.0</td>
<td>7.5</td>
<td>8.0</td>
</tr>
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</table>

**Key Issues Addressed in the Report**

- Profitability-building
- Profit maintenance
- Financial structure improvement
- Intention of social contribution
- Intention of environmental protection
- Intention of social contribution
- Intention of social contribution
## Key Achievements in Sustainability Management and Major Issues Reported

### Business Performance and Preparation for the Future

**Promote our automotive materials and parts business as a flagship business**

- Promoted the automotive lightweight parts line-up
- Initiated the operation of our automotive skin plant in North America

**Position our building & decorative-material business in the high-end segment**

- Developed differentiated energy-saving products and premium products
- Increased the sales of high insulation windows, PP insulation boards, and engineered stone

**Strengthen our R&D competitive edge**

- Automotive materials and parts
  - Developed the materials adopted for automotive lightweight components and developed automotive skin that is produced by an innovation technology that reduces the emission of toxic gas
  - Building & decorative materials
- Developed products that improve customers’ convenience
- Conducted planned/theme-based assessments on high-risk equipment
- Set precision assessment and management standards for equipment safety

**Development of Green Products**

- Broader the green materials and product market
  - Launched new products: ZEA Finish, wall, floor, ceiling, ZEA Sensitive, ZEA Master, wood, furniture films, etc.

- Expand energy-saving products
  - Launched new products: Super Save series 3, 5, 7, and fire-resistant PP core film

**Workplace Safety Management**

- Establish a culture of workplace safety
  - Strengthened our CFTG Management by Wondering Around and operated the company-wide Safety and Health Committee
  - Conducted workplace safety training programs
  - Opened basic training on workplace safety to all employees
  - Introduced stick-training, work process training, and experience-based training

- Reduce workplace safety and environmental accidents to “zero”
  - Set precision assessment and management standards for high-risk equipment
  - Conducted planned/theme-based assessments on workplace safety
  - Built the Blocking System

**Promote employee health and safety**

- Operated a body-maintenance management program and other health promotion initiatives

**Shared Growth with Suppliers**

- Establish fair trade conditions
  - Expanded the signing of standard subcontracting agreements
  - Strengthened suppliers’ performance improvement
  - Improved payment terms for small/medium-sized suppliers

- Strengthen suppliers’ fundamental competitive edge
  - Provided financial support and technological, management and training support
  - Conducted CSR assessments of suppliers
  - Defined the scope of CSR management on our U.S. branch suppliers

- Ensure open communication
  - Implemented the transparency standardization of work procedures by upgrading the online procurement system OPEX System and strengthened communication channels
  - Developed a tier 2 supplier support system by introducing a mutually-beneficial payment system

**Social Contribution**

- Facilitate leadership programs
  - DUSDko Natural Protection Zone Management Initiative (2009 – present)
  - Make a Happy Space (14 locations)
  - Social contribution for patients (Kun Rong Gil Memorial Hall)

- Diversify social contribution initiatives
  - Improved the resilience for men of national merit
  - Extended its scope to include Korean War veterans
  - Assisted in the recovery of damaged property from typhoon Chaba

- Share with local communities
  - Make a Happy Space (2009 – present: 15 locations)
  - LG Happy Day (Networks of community volunteer program, One Company One Village, One Stream/One Mountain campaign

The sustainability management issues that had the most impact on our internal/external stakeholders during 2016 were business performance and strategies, R&D capacity-building, development of green products, social contribution, provision of a safe workplace, and supplier management. We set mid/long-term goals on key issues or respective areas and consistently endeavor to progress on these in order to maximize our efficiency.
EXPANDING SPACE

Material Issues

We focus on the key issues that were chosen based on stakeholder concerns and requirements to expand engagement and communication with our stakeholders and to develop solutions to these issues so as to advance sustainable growth.
In the face of such challenging business conditions of the sluggish growth of the upstream market and the intensifying competition in respective business areas, we posted KRW 2,928.3 billion in sales and KRW 157.0 billion in operating profits. We attribute this success to our commitment to product, cost and sales innovation aimed to bring fundamental change to our business structure. Our future priorities will be to focus on the automotive materials and components business and position our building & decorative materials business in the high-end segment. To this end, we plan to prepare for the future by reinforcing our R&D operations and expanding our overseas business.

**Business Performance and Preparation for the Future**

**Focus on the automotive material and parts business**

**Key achievements in 2016**
- Expanded the automotive lightweight component line-ups
- Initiated the operation of the automotive skin plant in North America

**2017 plans**
- Accelerate the growth of our lightweight component business
- Develop differentiated automotive skin products and expand the market

**Mid/long-term goals**
- Lead the lightweight component market
- Expand the global automotive skin business

**Position the building & decorative materials business in the high-end segment**

**Key achievements in 2016**
- Developed differentiated energy-saving products
- Developed automotive skin produced based on lamination technology that reduces the emission of toxic gas

**2017 plans**
- Constantly improve the performance of energy-saving products and strengthen differentiated new premium products

**Mid/long-term goals**
- Continue to lead the domestic building & decorative materials market and increase the ratio of overseas business to 50% and above

**Strengthen the R&D competitive edge**

**Key achievements in 2016**
- Automotive materials and parts
  - Diversified automotive lightweight component materials and products
  - Developed automotive skin produced based on lamination technology that reduces the emission of toxic gas

**2017 plans**
- Develop automotive skin that mimics the feel of natural skin

**Mid/long-term goals**
- Strengthen technology in automotive lightweight components
- Strengthen technology in automotive lightweight parts line-up

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**Table: Business Performance and Preparation for the Future**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016 (Unit: KRW 100 million)</th>
<th>2017 (Unit: KRW 100 million)</th>
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</thead>
<tbody>
<tr>
<td>Sales</td>
<td>29,283</td>
<td>636</td>
</tr>
<tr>
<td>Sales of overseas business</td>
<td>9,270</td>
<td>15</td>
</tr>
<tr>
<td>Ratio of overseas business in total sales</td>
<td>31.6</td>
<td>50</td>
</tr>
</tbody>
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Key Achievements in 2016

- Developed PF insulation boards that prevent the spread of fire (Honored with the Grand Prize at the Fire Industry Awards)

2017 plans

- Develop products that improve ease of use (e.g., IoT-enabled windows)

Mid/long-term goals

- Strengthen technology in automotive lightweight components
- Strengthen technology in automotive lightweight parts line-up
- Develop next-generation building & decorative materials by researching future residential environments
- Strengthen open innovation to secure key/source technology and prepare for the future
Over the past two years, we have remained focused on advancing our business structure - we modified our existing business structure and explored new business opportunities. Now that we set our overarching strategic directions to focus on the automotive materials and parts business and to position our building & decorative materials business in the high-end segment, we will implement the five key priorities. To this end, we will be increasing our domestic market share to 50% and above, increasing the share of our overseas business to 50% and above, improving our production costs, achieving 6σ quality, and continuously strengthening our R&D to prepare for the future.

LG Hausys aims to set strategic directions to reach management goals, develop action plans under the five key priorities, and take action accordingly based on the execution-driven management model so as to implement such action plans.

At LG Hausys, our business portfolio consists of building & decorative materials, high-functional materials and automotive materials and parts. Building on our endeavors to expand our business presence and tap into new markets, our sales grew by 9% from 2015.

**Market Conditions**

Throughout Korea’s construction market, key construction indicators – y-o-y housing transactions and apartment sales - rather deteriorated in 2016 due to a Korean governmental policy to restrict the overheated real estate market. However, as the number of older apartment buildings increases, demand for housing renovation is on the quantitative rise. This warrants our forecast that the B2C business will grow mainly in providing total interior solutions. Meanwhile, the government continues to tighten regulatory standards in reducing energy consumption and building green houses to reduce carbon emissions, and in relation to building evacuation and fire-proof and fire-resistance buildings. As such, we expect to witness a growing demand for energy-saving windows and insulation materials with exceptional insulation performance and fire safety.

While the Chinese construction market is expected to suffer sluggish growth due to an oversupply of housing, the Chinese government’s eco-friendly and energy-saving construction policy may boost the demand for high-insulation products that cater to local needs. In North America, the recovery of the construction economy is leading to increases in new housing starts, and demand for green and high-end interior materials is expected to continue in line with increasing consumer demand for sophisticated residential materials.

Our automotive materials and parts, as well as the high-functional materials business, is expected to grow in the overseas markets, mainly in North America and emerging countries. As more and more lightweight vehicles are launched in the market, there will be an increasing demand for durable, lightweight components to improve fuel efficiency and cater to the aesthetic values of eco-friendliness and design. In the home appliances market, India and other emerging markets are forecast to grow primarily in the high-price premium segment.

**Our Performance by Region**

- **Europe**
  - 2017-2022
  - KRW 753 billion (100 million)

- **USA**
  - 2017-2022
  - KRW 4,047 billion (500 million)

- **China**
  - 2017-2022
  - KRW 2,260 billion (250 million)

- **India**
  - 2017-2022
  - KRW 607 billion (70 million)

**Roadmap**

- **2013-2014 Phase 1. Succeed in TA**
  - Secure profitability early on
  - Build a fundamental competitive edge

- **2015-2016 Phase 2. Strengthen the stability of our profit base**
  - Switch to a high-profit portfolio
  - Discover market-leading products and new business opportunities

- **2017-2022 Execution Model management**
  - Achieve our business structure
  - Focus on the automotive materials and parts business
  - Position the building & decorative materials business in the high-end segment
  - Continuously strengthen R&D operations to prepare for the future
North America is home to the world’s largest decorative and automotive materials market, and our localization strategy focuses on acrylic solid surfaces, automotive skins and other highly sought after products. We have HI-MACS (acrylic solid surface) and engineered stone plants in the State of Georgia, and our automotive skin plant initiated its operation in 2016 to further increase our share in the U.S. market.

Share in our 2016 regional sales

44%

In China, our business strategy focuses on the materials business – automotive materials and parts and high-functional materials – along with building & decorative materials that include windows and flooring. Our unrivaled product quality and eco-friendliness was widely recognized when we became the first ever foreign business to make it to the ‘Top 10 Green Building Materials Brands’ for four consecutive years in 2016. Presently, we rank first in the market share in China in the home appliance film and flooring product segments, and we also rank first among foreign businesses in the window segment, further solidifying our position in the mid-to-high price premium market.

As part of our localization strategy, we initiated the operation of our Tianjin and Wuxi plants to deliver differentiated value to customers - from production to distribution. We are also steadily improving the environmental and safety equipment at these plants to provide a greener workplace for our employees.

Share in our 2016 regional sales

24%

With a population of 1.2 billion, India is the world’s largest emerging market and is considered to have even greater potential than China. This is why we at LG Hausys are actively advancing into this market, especially in the home appliance film and surface materials segments. We are launching products that satisfy the design trends of the Indian market, raising our brand awareness through customized designs and regularly-hosted seminars, and discovering new customers. We are solidifying our No. 1 market share in the Indian home appliance film segment through our swift and proactive response to customer needs. We will strengthen our No. 1 status by focusing our marketing capabilities in the HI-MACS (acrylic solid surface) segment in the upcoming years.

Share in our 2016 regional sales

7%

Europe is literally the arena of competition among leading companies in the decorative and automotive materials and components industries. We established our sales branch in Germany and we are competing against these global players in Europe. We paved the way to fully tap into the furniture film segment by forming partnerships with large furniture companies in Western Europe and processing companies in Italy, while building strong growth engines by diversifying the sales channels for our HI-MACS (acrylic solid surface) products. Furthermore, we are working with European automobile makers through our advancement into the automotive skin segment, and we plan to tap into the automotive materials and parts market in Europe by delivering products that exceed the quality requirements of our customers.

Share in our 2016 regional sales

8%

We are experiencing rapid growth - mainly in the decorative materials market - in such emerging regions as the Middle East and Southeast Asia. Driven by our full-fledged localization strategy (attending local exhibitions and developing products that cater to the lifestyle specifications of local customers), we are successfully tapping into these emerging markets.

Flagship Products
• Middle East, Southeast Asia : Surface materials, Wallpaper, Flooring, etc.

Share in our 2016 regional sales

17%

USA

China

India

Europe
Strengthening R&D Activity and Capability

R&D Activity

Our R&D Center takes the lead in closely aligning its research with such business areas as automotive materials and parts, building & decorative materials, and high-functional materials, while developing customer-friendly products.

R&D Organization

At LG Hausys, our R&D organization consists of the R&D Center, the Design Center, and the research & design PFTs by business division. The R&D Center develops source technology, discovers new business opportunities and builds preparedness for the future, while the Design Center analyzes design trends and studies design solutions. The research & design PFTs, under the five business divisions, undertake short-term projects within their relevant business divisions.

R&D Achievements in 2016

At LG Hausys, our R&D is focused on strengthening the structural competitive edge of our existing business operations while exploring new business areas for our future growth. We are establishing a user-centered development system to deliver products that maximize customer satisfaction. Our R&D endeavors will allow us to develop customer-friendly products with exceptional eco-friendliness and safety and to emerge as a true global leader.

Windows that improve customer convenience • We developed windows based on our technology of improving customer convenience in areas related to windows. We expect our R&D to evolve into our future growth drivers.

Formulation technology for insulation materials that prevent the spread of fire • We developed fire-resistant insulation materials (fire belt/fire door), and they were honored with the Grand Prize at the Fire Industry Awards hosted by the Ministry of Public Safety and Security.

Automotive skin and lightweight parts • We developed automotive skin lamination technology, which enabled us to reduce the emission of toxic gases by 50% against its last year’s version.

(Weightless parts) We secured lightweight material technology that uses glass fiber and are expanding our mass-production spec-in parts while developing cost-saving technology on lightweight parts based on carbon fiber.

Expanding R&D Investments

To recruit and foster qualified R&D employees who hold MA degrees and PhDs in Korea and abroad, we engage in wide-ranging events and programs, including the LG Techno Conference and Industry-academia research courses. We also cooperate with academia, government-invested research institutes and other companies to reinforce our R&D capacity.

Recruiting and Fostering Outstanding R&D Talent in Korea and Abroad

LG Techno Conference • We attend the LG Techno Conference to recruit researchers with master’s degrees and PhDs as a way to secure a talented R&D workforce. In 2016, we mainly hired researchers in the fields of polymer and automotive materials and parts. We are determined to do our utmost to seek out qualified talent so that we can secure competent R&D workforce.

Customized Industry-Academia Research Courses • We opened customized R&D courses with Korea University and Hanyang University. We assist undergraduates whose passion is to conduct R&D in continuing their education into graduate courses. When these students join LG Hausys after graduation, we then assign them research projects that are closely aligned with their graduate courses so that we can foster talented R&D readiness.

Establishing Ties with Academy and Research Institutes

We cooperate with such prestigious universities in Korea as the Seoul National University and Korea University while conducting joint research with government-invested research institutes (Korea Institute of Civil Engineering and Building Technology, Korea Conformity Laboratories, etc.). Through such external collaboration, we continue with our R&D endeavors to seek out new technology that will evolve into our future growth drivers.

Signing an MOU with the Korea Conformity Laboratories • In June 2016, we signed a ‘memorandum of understanding (MOU) to research next-generation housing’ with the Korea Conformity Laboratories (KCL) with an aim to develop future housing solutions. Since then, we have been conducting joint research on the development of next-generation building and decorative materials and ‘developing area unit testing/certification systems’. We believe that our collaborative outcomes will evolve into our future growth drivers.

1.59 2014 2016
2.02 2015
2.17 2014
2.02 2015
1.59 2016
R&D expenditures against sales (Unit: %)

2014 4,497 2015 5,790 2016 6,822
R&D expenditures (Unit: 100 million)

KCI (R&D expenditures)
**Strengthening Design Activity and Capacity**

We take the customer's perspective in understanding market trends and designing products that customers most desire. We have the largest design center in Korea’s building materials market and we defined our own unique design culture 'Design Innovation'. We are also committed to fostering talented designers.

### Key Activities and Achievements

#### Earning Prestigious Design Awards

As a result of our R&D endeavors that aim to deliver new value to customers, our unrivaled design capacity has been widely recognized at world-renowned reputable domestic and international awards.

<table>
<thead>
<tr>
<th>Award</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>iF Design Award</td>
<td>31</td>
</tr>
<tr>
<td>Red Dot Design Award</td>
<td>13</td>
</tr>
<tr>
<td>IDEA Design Award</td>
<td>6</td>
</tr>
</tbody>
</table>

#### Analyzing Trends to Develop Market-Leading Products

Our 'Design Trend Seminar' and 'Trend Forum' represents our commitment to creating market-leading products.

- **Design Trend Seminar**: As the first of its kind initiated by LG Hausys, our Design Trend Seminar celebrated its 17th anniversary in 2016. Every year, nearly 1,000 design experts attend this seminar to share their views on domestic and international social/cultural issues, consumer lifestyles, and global design trends so as to forecast future design trends. We will identify shifting market conditions and trends and reflect them into our designs so that we can exert an even broader influence over the automotive, electronic and IT and interior industries.

- **Design Forum**: Our Trend Forum enables us to analyze market and consumer trends specific to respective business divisions to present product concepts catering to customer needs. This forum uses in-depth trend research outcomes to design new products through the customer's perspective, and set the course of our design strategy over the mid/long-term. Furthermore, the forum allows us to deliver tailor-made design solutions by approaching respective regions based on their local trends.

#### Collaboration with Well-Renowned Designers

We collaborate with world-acclaimed designers, including the well-known industrial designers Marcel Wanders, Karim Rashid, Alessandro Mendini, the architect Zaha Hadid, and the Hanbok designer Lee Hyo-Jae, to present to our customers unique designs that set us apart from the competition.

---

**TREND RESEARCH**

- **Social Consumer Trend**: Pinpoint the underlying psychology behind today's ideal home environment based on the analyses of social/environmental changes and consumer lifestyles, and use the outcomes to identify strategic implications.
- **Space Trend**: Identify diverse factors that carry implications regarding spatial changes to predict the appearance of home interiors in the near future, and study spaces from the LG Hausys product integrative perspective.
- **CMF Trend**: Discover and suggest new materials that deliver customer value by analyzing CMF (Color, Materials, Finishing) trends and studying material-specific trends.

**DESIGN SOLUTION**

- **Group Genius Day**: Host brainstorming sessions attended by designers from diverse fields on the outcomes of trend research and generate solutions in a collective intelligence program format.
- **NCI System**: Adopt the customers’ perspective to freely suggest New Creative Ideas.
- **Incubating**: Identify diverse ideas through the NCI system and refine them through expert mentoring to eventually develop them into pilot products.

**PRODUCT DEVELOPMENT**

The product ideas that have evolved along the way are materialized into final products and presented to customers.
Eco-Friendly Products

In line with the continuously increasing social demand for products devoid of the risk of any health or environmental harm, as well as tightening and widening environmental regulations, our sales of green products is growing accordingly. At LG Hausys, we aim to deliver natural green products and materials, provide systems and solutions that maximize energy efficiency, and evolve into a more accessible company by interacting with our customers in a trustworthy and heartfelt manner.

### Key Achievements in 2016

**Certified green products* (Unit: No. of products)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>112</td>
</tr>
<tr>
<td>2015</td>
<td>113</td>
</tr>
<tr>
<td>2016</td>
<td>134</td>
</tr>
</tbody>
</table>

*Korea Eco Label, HB Mark, and Carbon Reduction Label

**Ratio of new green products* in sales (Unit: %)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>18.0</td>
</tr>
<tr>
<td>2015</td>
<td>21.7</td>
</tr>
<tr>
<td>2016</td>
<td>23.7</td>
</tr>
</tbody>
</table>

*The calculation of the sales of green new products is based on decorative materials and windows

### Achievements & Goals

#### Expand the green product market

**Key achievements in 2016**
- Launched new products: ZEA wallpaper Fresh, ZEA Sarangae, ZEA Maru Wood, furniture films, etc.

**2017 plans**
- Expand green product line-ups

**Mid/long-term goals**
- Broaden functional products made from eco-friendly materials
- Increase the sales of products made from eco-friendly materials

#### Expand energy-saving products

**Key achievements in 2016**
- Launched new products: Super Save series 3, 5, 7, and PF fire belts

**2017 plans**
- Widen high-insulation windows that increase customer convenience and boost the credibility of PF insulation boards

**Mid/long-term goals**
- Broaden new energy-saving products
- Increase the sales of energy-saving products
At LG Hausys, our products are created on the basis of three key values: ‘Eco-Friendly’ that uses green materials to deliver a healthy and pleasant living space, ‘Energy-Saving’ that prefers high-efficiency products and lightweight materials to reduce energy consumption, and ‘Human-Friendly’ that addresses such eminent social issues as preventing fires and reducing inter-floor noise.

### Developing Eco-Friendly Products

At LG Hausys, our products are created on the basis of three key values: ‘Eco-Friendly’ that uses green materials to deliver a healthy and pleasant living space, ‘Energy-Saving’ that prefers high-efficiency products and lightweight materials to reduce energy consumption, and ‘Human-Friendly’ that addresses such eminent social issues as preventing fires and reducing inter-floor noise.

#### Research Area

<table>
<thead>
<tr>
<th>Key Research Considerations</th>
<th>Products</th>
<th>Future Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy-saving, fire safety</td>
<td>Maximize the insulation performance of windows in addition to reducing the energy use of buildings.</td>
<td>Develop high-performance semi-non-combustible insulation materials.</td>
</tr>
<tr>
<td>Green building &amp; decorative materials</td>
<td>Use corn-based materials to develop products that are safer for people and the environment.</td>
<td>Secure high-insulation long-term insulation performance and fire safety.</td>
</tr>
<tr>
<td>Eco-friendly fabrics</td>
<td>Develop highly-durable and contamination-resistant green fabrics through the use of bio-based plastics to contribute to reducing GHG emissions.</td>
<td>Develop highly-durable and contamination-resistant green fabrics through the use of bio-based plastics to contribute to reducing GHG emissions.</td>
</tr>
<tr>
<td>High-strength lightweight materials</td>
<td>Develop automotive lightweight materials and research methods to improve shock-resistance performance to contribute to increasing mileage and fuel efficiency.</td>
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</tr>
</tbody>
</table>

We use natural and recycled materials, increase the sales of energy-saving products, and develop eco-friendly technology. In 2017, we will continue to strengthen our green product solutions by broadening our ZEA product line-ups and developing high-performance semi-non-combustible insulation materials.

### Green Product Awards and Certifications

Our products are widely recognized both in Korea and abroad for their excellence and contribution to broadening a culture of eco-friendliness.

**Awards**

- Joined the list of the Top 10 Eco-friendly Real Estate for four consecutive years (2014-2017, supervised by the Chinese National Construction Company Association)
- [ZEA Soraj®, PF insulation boards] Honored as the Green Product of the Year chosen by consumers for three consecutive years (2014-2016, supervised by the Kona Green Purchasing Network)
- [ZEA Maru, ZEA Fresh, House (flooring)] Obtained the Korean Green Star certification granted to green products (2017, Korea Management Registration)
- [PF fire-batts] Won the Minister of Public Safety and Security Award at the Fire Industry Awards (2016)
- [Furniture films] Obtained the World Class Product certification (2016)

### Domestic Certifications

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eco-friendly products</td>
<td>175</td>
<td>174</td>
<td>174</td>
</tr>
<tr>
<td>TE Mark</td>
<td>72</td>
<td>76</td>
<td>77</td>
</tr>
<tr>
<td>Carbon Reduction Label (Low-carbon certification)</td>
<td>141</td>
<td>197</td>
<td>207</td>
</tr>
<tr>
<td>Total</td>
<td>392</td>
<td>431</td>
<td>458</td>
</tr>
<tr>
<td>Energy efficiency grade scheme for windows (grade 1-3)</td>
<td>205</td>
<td>354</td>
<td>487</td>
</tr>
</tbody>
</table>

### Overseas Certifications

<table>
<thead>
<tr>
<th>Category</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building &amp; decorative materials</td>
<td>Flooring (7 kinds, homogeneous sheets) Became FloorScore-certified (U.S. eco-friendliness certification system for products related to indoor air quality)</td>
</tr>
<tr>
<td></td>
<td>Wallcovering [two-woven wallcoverings including RESTEX] Placed in the highest Baby-Class category under Oko-Teu® Standard 100, an European certification for the quality of green textile products</td>
</tr>
<tr>
<td></td>
<td>Acrylic solid surface</td>
</tr>
<tr>
<td></td>
<td>High-performance double Low-E glass, High-performance single Low-E glass, High-performance triple Low-E glass</td>
</tr>
<tr>
<td></td>
<td>High-performance double Low-E glass, High-performance single Low-E glass, High-performance triple Low-E glass</td>
</tr>
</tbody>
</table>

**SPECIAL ISSUE**

At LG Hausys, we perform life cycle assessments (LCA) to provide quantified environmental data in each phase of the product life cycle, from manufacturing and distribution to use and disposal. We have gathered data on our windows, Sum Tikt, flooring (shelves and tiles for export markets), PF insulation boards, and wallpaper (ZEA Fresh) ECOMO and KANGGREEN based on the six environmental factors of resource consumption, global warming, ozone layer impact, acidification, eutrophication, and photochemical oxide generation. We plan to extend the scope of these assessments to analyze and manage the environmental footprint of our products.
**ECO-Collection**

We use natural materials and recycled resources to deliver systems and solutions that maximize energy efficiency with an aim to provide a trustworthy and impressive customer experience. Our commitment will continue to increase the sales of our new green products and strengthen our green product solutions.

---

1. **Wall covering/materials**
   - **ZEA Fresh wallpaper**
     * Use corn-based resin (PLA) on the surface layer
     * Based on product class 1 under the European textile product quality certification Oeko-Tex, satisfy the highest HB grade criteria in TVOC (total volatile organic compounds)
     * Sumi Tile
       - Modulate indoor humidity, absorb harmful substances and deodorize

2. **Interior films**
   - **ZEA Surfaces**
     * Use eco-friendly resin: BTX (benzene, toluene, and xylene) is almost non-existent
     * Reduce the detection of phthalate-based plasticizer and HCHO (formaldehyde) to almost zero

3. **Flooring**
   - **ZEA Maru Wood**
     * Reduce lightweight floor impact noise generated in daily life* by 30% against LG Hausys’ plywood flooring
     * Cut heating costs by 30% thanks to outstanding thermal conductivity which is 70% higher than LG Hausys’ laminated flooring
     * Lightweight floor impact noise: Noise generated on the floor by heavy weight and its impact (e.g. sound of falling sheet)
   - **ZEA Sorijam**
     * 3rd generation premium eco-friendly flooring whose surface layer was made of natural wood and corn-based materials
     * Premium flooring that delivers the qualities of natural wood texture and color by brushing natural hardwood

4. **Windows**
   - **Super Save**
     * Graded 1 in energy consumption efficiency, reduce energy use by 40% against old windows
     * Use eco-friendly resin:
       - HI-MACS LE
       - PF boards
     * Produced through the use of recycled chips and thus help reduce the discharge of waste
     * Free from heavy metals and other hazardous substances thanks to the ban on the use of phthalate-based plasticizer
     * Lightweight parts
     * Use glass fiber to reduce weight and to improve fuel efficiency

5. **Home appliance materials**
   - **PVC-free home appliance films**
     * Use eco-friendly resin:
       - Heavy metals (lead, mercury, cadmium, hexavalent chrome, and arsenic) are rarely detected within products
       - PF boards
       - Furniture films
     * Reduce annual cooling/heating costs by up to 20% against general-purpose insulation panels with the same thickness
     * Use semi-non-combustible materials that generate less toxic gas in case of fire
     * Reduce annual cooling/heating costs by up to 20% against general-purpose insulation panels with the same thickness

6. **Decorative sheets**
   - **Furniture films**
     * Use eco-friendly resin:
       - HI-MACS LE
       --produced through the use of recycled chips and thus help reduce the discharge of waste
       - Aluminum composite over bacterial reproduction based on remarkable hygiene and durability performance

7. **Acrylic solid surface**
   - **HI-MACS LE**
     * Use eco-friendly resin: Heavy metals (lead, mercury, cadmium, hexavalent chrome, and arsenic) are rarely detected within products
     * Made from recycled chips and thus help reduce the discharge of waste
     * Use semi-non-combustible materials that generate less toxic gas in case of fire
     * Use glass fiber to reduce weight and to improve fuel efficiency

---

**What is Poly Lactic Acid?**

PLA is made from materials extracted from corn, sugarcane and other plants, and is known for its eco-friendliness and safety. At LG Hausys, we developed and are supplying the world’s first PLA-based green flooring and wallpaper, which demonstrates our firm commitment to delivering products that benefit both customers and the environment.

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**Research papers**

1. Research paper from the Daewoo Institute of Construction Technology (2013)
3. Research paper from the Korea Advanced Institute of Science & Technology (2002)

**Source**

- Research paper from the Daewoo Institute of Construction Technology (2013)
- Research paper from the Industry-Academia Research Institute of Science & Technology (2008)
- Energy Analysis Report (2011) from the Passive House Institute Korea
Workplace Safety Management

The environmental impact of routine business activities, combined with both significant and minor safety and environmental accidents, give rise to increasing social concern regarding workplace safety. Furthermore, local communities are increasingly interested in these issues and thus are reinforcing their monitoring while governments are taking on a stronger role as a supervisor. At LG Hausys, we set and manage company-wide workplace safety targets. To establish a ‘preventive workplace safety management system’ that enables us to identify and eliminate risk factors well before any accidents even occur, we perform a wide array of self-reviews to ramp up our system and management and make large-scale investments.

### Key Achievements in 2016

- **Investments in safety and fire control improvements** *(2016 Unit: KRW 100 million)*

- **Total EHS accidents** *(2016 achievement against 2015)*

- **Injury rate** *(2016 achievement against 2015 / Unit: %)*

- **Reduce by 6.5%**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Reduced by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.45</td>
<td>0.31</td>
<td>0.29</td>
<td>0.16</td>
</tr>
</tbody>
</table>

### Achievements & Goals

#### Establish a culture of workplace safety

- **Key achievements in 2016**
  - Operated the company-wide Safety and Environment Committee
  - Reinforced CEOs’ Management by Wandering Around
  - Provided basic workplace safety training to all employees
  - Introduced standardized work procedures and experience-based training

- **2017 plans**
  - Establish standardized work procedures and reinforce training to prevent any errors made on the part of shop-floor workers
  - Strengthen the capacity-building of supervising managers

- **Mid/long-term goals**
  - Reinforce management accountability at the executive level
  - Establish a workplace safety training system for all employees
  - Establish a Culture of Safety

#### Reduce workplace safety accidents to “Zero”

- **Key achievements in 2016**
  - Established in-depth analysis and management standards on high-risk equipment
  - Performed planned/theme-based assessments on workplace safety
  - Created the Blocking System

- **2017 plans**
  - Strengthen the on-site risk factor review system
  - Operate the preliminary review procedures (SE-Gate) to ensure the safety of equipment

- **Mid/long-term goals**
  - Secure workplace safety and business continuity by performing preliminary risk assessments and strengthening review and improvement activities

#### Manage employee health

- **Key achievements in 2016**
  - Launched health promotion initiatives, including the hyperlipidemia management program

- **2017 plans**
  - Reinforce health promotion initiatives, including a metabolic syndrome management program

- **Mid/long-term goals**
  - Improve employee health by preventing work-related diseases and providing health care programs
### Workplace Safety Operational System

We operate company-wide organizations and goals and strengthen our workplace safety system to create an injury-free workplace. We constantly improve our workplace safety management system in order to enhance the safety of our employees and local communities where we are based.

#### Strengthening Management Accountability on a Company-wide and Executive Level

We have developed a company-wide organizational structure and set management goals for workplace safety, and reflect them in performing organizational assessments in order to reinforce the management accountability of workplace safety.

#### Building a Workplace Safety Training System

We provide our employees with advanced training courses in line with their previous career and responsibilities to maximize the benefits of such courses and to create a culture conducive to minimizing risks.

### Operating Preliminary Safety Review Procedures for New/Expanded Facilities (SE-Gate)

We operate company-wide safety review procedures to integrate essential workplace safety features in investment plans for new and expanded facilities, and to secure safety through in-depth reviews prior to designing and installing such facilities.

### Establishing work safety standards to prevent employees from making errors (for manufacturing sites including the Ulsan/Oksan/Cheongju Plants)

- **Work Safety Procedures**
  - Work safety procedures for respective risk factors
  - Identify risk factors across the entire process / work safety procedures

- **Trouble-Shooting Procedures**
  - Major trouble-shooting and action procedures
  - Actions, work tools, etc. implemented to rectify identified problems

- **Precautionary Measures**
  - Abnormality criteria and action procedures by facility unit
  - Symptoms (oil leaks, vibrations, etc.), communication of the situations, action measures

### Regular Operation of the Safety and Environment Committee

Our Safety and Environment Committee meets each month to review the progress of major initiatives undertaken to improve workplace safety.

### Initiative

- Fire Prevention
  - Define management items - power, use of LNG, and overheated equipment
  - Construct measurement/lowering systems
  - Eliminate or limit static electricity
  - Reduce the risk of fires occurring through the Blocking System
  - Improve evacuation facilities and warning/monitoring systems

- Waste Management
  - Review ESH management status
  - Review feedback from the examination of relevant principles and the management of staff diagnosed with certain medical conditions

- **Description**
  - Define management items - power, use of LNG, and overheated equipment
  - Construct measurement/lowering systems
  - Eliminate or limit static electricity
  - Reduce the risk of fires occurring through the Blocking System
  - Improve evacuation facilities and warning/monitoring systems

### Data on Safety Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Total EHS Accidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
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</tbody>
</table>

*We established work standards to prevent human error and to set their action guidelines while developing a monitoring system in consideration of each employee's work experience and job characteristics. Furthermore, we operate preliminary review procedures to ensure that mandatory workplace safety features are fully considered from the initial investment review phase in constructing or expanding facilities in order to secure the safety of facilities and workplaces.*

### Executing Preliminary Safety Review Procedures

- Define the entire process flow and process-specific actions, work tools, etc. implemented to rectify identified irregularities
- Major trouble-shooting and action procedures
- Actions, work tools, etc. implemented to rectify identified problems
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### Executing Preliminary Safety Review Procedures

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<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
</tbody>
</table>
Preventive Initiatives

Safety Accident Prevention Initiatives
Our workplace safety/public affairs/production departments are responsible for operating a workplace safety review system. This system consistently works to identify and improve on pinpointing the precise location and timeframe of high risk of accidents. This helps us comply with regulatory requirements on workplace safety and to secure the safety of our facilities and workplaces.

Preventing Major Occupational Accidents
To prevent major occupational accidents, we expanded our fire-fighting devices in areas of high risk and installed leak detection devices near nitrogen-consuming facilities in order to build a choking accident prevention system. Furthermore, we reorganized emergency response manuals across all departments and conducted practical mock drills to prepare for any possible accidents.

Strengthening the Disaster Prevention System
Our Ulsan Plant invested a total of KRW 1.7 billion for three years between 2013 and 2015 to strengthen its disaster prevention system: its evaluation facilities were reinforced, its hazard warning/monitoring systems were expanded, and fire-fighting devices were reinforced in the power distribution room and at other vulnerable facilities. As social concerns regarding earthquake preparedness are mounting, we are benchmarking leading Japanese businesses and are investing in independently measuring the magnitude of earthquakes, practicing for swift communication in the event of any such situation, and building an automatic suspension system for high-risk facilities in order to prevent casualties in the case of earthquakes.

Supplier Workplace Safety Initiatives
We provide our on-premise suppliers with health and safety guidance and inspections on a quarterly basis to promote shared growth. We also set up meetings with the CEOs of on-premise/off-premise suppliers to offer monthly training on health and safety issues and regulatory changes. We conduct stringent inspections on construction sites and provide special daily safety training to workers from off-premise suppliers before initiating construction following any days off or holidays so that we can prevent any possible accidents.

Joint Health and Safety Cooperation Programs
We provide technical and financial assistance to our suppliers to help them build their own health and safety management system, improve their management capacity and raise their health and safety awareness.

Areas of Support
• Risk assessment training and support
• Daily inspections of outsourced off-premise suppliers
• Safety reviews performed following the installation of new/expanded equipment
Shared Growth with Suppliers

Growing social demand for shared growth between large businesses and SMEs and the need to eliminate risk factors along the entire supply chain, specifically in the human rights, environment and labor areas, are emerging as key considerations for any business today. This prompted us at LG Hausys to create a dedicated department to support shared growth and to execute a wide array of support policies with an aim to establish fair trade principles with suppliers and to improve our mutual competitive edge to ultimately pursue shared growth. Furthermore, we are strengthening our CSR management system along the domestic and overseas supply chain to assist our suppliers in preparing for any CSR risks that may occur with their business growth.

Key Achievements in 2016

- Expanded the signing of standard subcontracting agreements with eligible SMEs
- Strengthened reviews before/after the signing of subcontracting agreements
- Improved payment conditions for medium-sized suppliers

2017 plans

- Strengthen unfair trade prevention activities
- Expand investments in shared growth

Mid/long-term goals

- Establish reasonable and fair trade practices by complying with regulations and guidelines

Achievements & Goals

Create a fair trade environment

Key achievements in 2016

- Offered financial support (LG Partnership Fund, cash payment, etc.) and technical management and training support to improve productivity and quality
- Performed CSR assessments on suppliers and defined the scope of supplier CSR management for U.S. branch suppliers

2017 plans

- Expand the scope of supplier CSR management
- Identify additional tasks

Mid/long-term goals

- Improve our mutual competitive edge to build an industrial ecosystem that enables sustainable growth

Build our suppliers’ fundamental competitive edge

Key achievements in 2016

- Developed the online purchasing system 'OPEN System' to improve the transparency and standardization of work procedures and to strengthen communication channels
- Established a tier 2 supplier support system by adopting a mutually-beneficial payment system

2017 plans

- Increase the number of banks that support the mutually-beneficial payment system (4 → 5)
- Reward top-performing suppliers by supporting tier 1 suppliers with productivity improvement
- Monitor the status of payment support provided to tier 2 suppliers

Mid/long-term goals

- Solidify the foundation for shared growth and establish a sound collaboration culture

Promote open communication

Key achievements in 2016

- Upgraded the online purchasing system ‘OPEN System’ to improve transparency and standardization of work procedures and to strengthen communication channels
- Established a tier 2 supplier support system by adopting a mutually-beneficial payment system

2017 plans

- Increase the number of banks that support the mutually-beneficial payment system (4 → 5)
- Reward top-performing suppliers by supporting tier 1 suppliers with productivity improvement
- Monitor the status of payment support provided to tier 2 suppliers

Mid/long-term goals

- Solidify the foundation for shared growth and establish a sound collaboration culture
Shared Growth Programs

We believe that our suppliers are our partners in seeking shared growth and thus operated a dedicated unit to support shared growth in order to build an industrial ecosystem that enables sustainable growth by improving our mutual competitive edge. We also introduced the mutually-benefit payment system to extend the scope of shared growth to tier 2 and lower suppliers, while we rewarded high performing tier 1 suppliers in supporting tier 2 suppliers. In so doing, we raise the bar for shared growth along the entire supply chain.

Signing the Fair Trade Agreement
Since November 2008, we have been signing the shared growth and fair subcontracting agreements to comply with subcontracting and other relevant regulations and to consistently support our suppliers. We have been subject to shared growth index evaluations since 2012, and thus our annual progress in promoting shared growth has been objectively assessed by the Fair Trade Commission and the National Commission for Corporate Partnership ever since. In 2015, we were graded ‘Excellent’ in the shared growth index evaluations. Meanwhile, we signed the Fair Trade Agreement with 195 tier 1 suppliers in 2016 to provide a range of support policies from improving payment terms and offering financial assistance to providing technology protection and training support as a way to pursue mutually-beneficial growth. Our tier 1 suppliers also signed such an agreement with 58 tier 2 suppliers. This enabled them to join forces in expanding fair trade practices by improving payment deadlines and notifying the concerned suppliers regarding price adjustments.

Shared Growth Management Principles
Driven by the four fair trade principles, we at LG Hausys define five mutually-benefit support projects to consistently implement our shared growth policy.

Four Fair Trade Principles
To establish fair subcontracting practices between large businesses and SMEs and to pave the way for mutually-beneficial cooperation, we integrate the action theate presented by the Fair Trade Commission in our purchasing regulations and abide by such agenda as our fair trade principles.

<table>
<thead>
<tr>
<th>Fair Trade Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjust supply costs based on reasonable cost calculation methods</td>
</tr>
<tr>
<td>Comply with supplier registration and deregistration criteria and ensure procedural objectivity and transparency</td>
</tr>
<tr>
<td>Establish and operate an internal deliberation body</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price coupling and support program: In response to fluctuating exchange rates and market conditions concerning raw materials, we operate a price coupling and support program for major chemicals and raw building materials to offset high supplier prices and control the cost of sales.</td>
</tr>
<tr>
<td>Support for exchange initiatives: We share diverse issues, including global economic conditions and business plans, through plant-specific subcommittees. In addition, our CEO and purchasing executives attend meetings with our suppliers and visit their on-site to stay current on their pending issues and reflect their feedback in our business conduct.</td>
</tr>
<tr>
<td>Shared benefits through the renovation of old facilities: Covered costs to renovate old facilities and were thus able to share the cost savings</td>
</tr>
</tbody>
</table>

Five Growth Support Projects
We provide our suppliers with financial support, improved payment terms, support for quality and technology development, workforce and training support and management support.

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Support</td>
<td>We provide low-interest Network Loans, Family Loans, and the LG Partnership Fund for our suppliers. We also assist them in improving their financial conditions by providing outstanding suppliers with additional support.</td>
<td>Operated the LG Partnership Fund worth KRW 15 trillion and supported 55 suppliers</td>
</tr>
<tr>
<td>Improvement of Payment Terms</td>
<td>While our funding policy stipulates that cash payments be made only for those contracts valued at less than KRW 3 million, we are increasing the ratio of cash payments made to our suppliers to support their business operations.</td>
<td>Made KRW 224.2 billion cash payments for contracts that did not meet our funding policy criteria</td>
</tr>
<tr>
<td>Support for Quality and Technology Development</td>
<td>We invested approximately KRW 2 billion in assisting our suppliers with facility investments and improvements, productivity enhancements/quality stabilization, and system infrastructure support. In addition, we actively make joint patent applications to help our suppliers safeguard their technology.</td>
<td>Sent 47 technology/applicants to 31 suppliers</td>
</tr>
<tr>
<td>Workforce and Training Support</td>
<td>We continue to provide suppliers’ employees with training on compliance management, workplace safety management and quality management, while commissioning external training institutes to offer online training on business management for general and advanced job operations.</td>
<td>Provided recruitment opportunities to suppliers through the 2016 Korea Job Fair</td>
</tr>
<tr>
<td>Management Support</td>
<td>We provide our suppliers with financial support, improved payment terms, support for quality and technology development, workforce and training support and management support.</td>
<td>Made KRW 392.1 billion in the price coupling and support program</td>
</tr>
</tbody>
</table>

...
Supplier CSR Risk Management

STEP 1 - Establish the CSR Code of Conduct for suppliers

In 2016, we established the CSR Code of Conduct for all our suppliers and have since implemented these regulations. This Code of Conduct encourages our suppliers to fulfill their roles and responsibilities as a member of the global community and pursue shared growth with society in the areas of labor and work conditions, ethics management, health and safety, and environmental management. We recommend that lower-tier suppliers, as well as tier 1 suppliers, abide by this set of regulations.

STEP 2 - Define the scope of supplier management

We evaluate the level of CSR management for those suppliers from whom we purchase KRW 100 million or more, and thus manage their CSR risks. To reinforce our supplier CSR management, we are extending the scope of suppliers who receive evaluations and reflect the outcomes in selecting and managing our suppliers. We will gradually broaden the scope of our CSR management in the upcoming years.

STEP 3 - Perform supplier CSR evaluations

We evaluate our suppliers in such CSR-related areas as labor, human rights, the environment, and safety. We identified the status of our Korean suppliers, whose purchases exceeded KRW 100 million in the previous year, or who supplied items of high strategic importance, in our CSR management and reflected the review outcomes in performing supplier evaluations. In so doing, we strengthened our supplier impact assessments so that our suppliers can consider CSR factors in the entire purchasing process. Notably, CSR evaluations are mandatory in evaluating supplier candidates, and those whose CSR evaluation score is less than 70 points are reviewed for their possible exclusion from our pool of suppliers. From 2017 onwards, we will add on-site audits to the scope of supplier impact evaluations so that we can support our suppliers in areas that have proven to contain risks that need to be addressed.

Evaluation items

Our supplier CSR evaluations span their ethics management system, fair trade and other aspects of ethics management as well as social contribution, health and safety management, and environmental management. Specifically, human rights impact assessments are performed on written labor contracts, bans on discrimination and wage and labor conditions, along with other criteria for employees so as to prevent any legal violations and to make regular reviews to examine their legitimacy and to prevent any violation of subcontracting regulations.

Outcomes of the Fair Trade Compliance Program

We provide annual fair trade and subcontracting training for our business divisions and plants while making necessary reviews. In 2016, we trained employees from respective business divisions on the prevention of cartel practices and compliance with subcontracting and fair trade regulations. Our new team leaders and new hires with previous work experience received such training, and our working-level marketing staff received external training on labeling and advertising as a way to reinforce our compliance-oriented mindset across the board.

The Fair Trade Compliance Program is an in-house compliance system that ensures businesses voluntarily comply with fair trade regulations. This establishes fair trade criteria for employees so as to prevent any legal violations and to make regular reviews to identify and correct such violations early on.

At LG Hausys, we established our own fair trade compliance program in 2010. Our CEO declared our commitment to voluntarily abide by fair trade regulations and we were registered as an operator of the Fair Trade Compliance Program recommended by the Korean Fair Trade Commission.

Fair Trade Compliance Program

Our Fair Trade Compliance Program is operated by the dedicated working-level team under the leadership of the executive-level Compliance Program (CP) manager. We also created and are operating the Internal Subcontract Review Committee to ensure fairness in subcontracting with SME suppliers: contracts valued above a specific amount are subject to preliminary reviews to examine their legitimacy and to prevent any violation of subcontracting regulations.

Outcomes of the Fair Trade Compliance Program

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Social Contribution

At LG Hausys, we pursue mutually-beneficial development with the greater community through our social-giving initiatives that put our employees’ capacity into their best use and are closely aligned with our inherent business characteristics. We instigate positive changes in society by preserving cultural heritage and the environment, renovating the historic sites of Korea’s Independence Movement, improving the residence for men of national merit and undertaking sharing programs with local communities.

Key Achievements in 2016

Facilitate leading programs
- Dokdo Natural Preservation Zone Jikimi (2009 – present)
- Make a Happy Space (14 spaces)
- Renovated the historic sites of Korea’s Independence Movement (Yoon Bong-Gil Memorial Hall)

2017 plans
- Improve the quality and operation of programs
  - Patriotism-driven social-giving programs, Dokdo Jikimi, etc.
  - Evaluate and improve our social contribution programs

Mid/long-term goals
- Operate sustained and genuine programs in accordance with mid/long-term plans

Diversify social-giving initiatives
Key achievements in 2016
- Renovated the residence of men of national merit (Including more Korean War veterans)
- Assisted in recovering from Typhoon Chaba

2017 plans
- Identify and implement new programs
  - Develop social-giving programs that engage employees

Mid/long-term goals
- Develop and operate programs that use our business capabilities (human resources, budget, etc.) as well as our inherent business characteristics
- Widen initiatives that help address social issues

Undertake sharing programs for local communities
Key achievements in 2016
- Make a Happy Space (2009 – present, 15 spaces)
- LG Happy Day
- Briquettes of Love volunteer program
- One Company One Village/One Stream/One Mountain campaigns

2017 plans
- Engage more employees in talent donation programs
- Continue to contribute to local communities

Mid/long-term goals
- Facilitate communication with wide-ranging stakeholders and improve our corporate brand through sharing initiatives for local communities

Achievements & Goals

LG’s social contribution goals
Education for children and teens
Reflect our inherent business characteristics
Use our products for spatial improvement projects

LG Hausys’ unique social contribution programs

Investment in Local Communities (Unit : ₩ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>504</td>
</tr>
<tr>
<td>2014</td>
<td>999</td>
</tr>
<tr>
<td>2015</td>
<td>1,551</td>
</tr>
<tr>
<td>2016</td>
<td>1,731</td>
</tr>
</tbody>
</table>
Preserving Korea’s Cultural Heritage and Environment

We continue to provide educational youth programs to preserve our natural, historical and cultural heritage and to pass down this legacy to future generations.

Make Dokdo Green

This annual facility improvement initiative has been undertaken in Dokdo since 2009 to improve the quality of life for Dokdo residents while protecting the pristine environment of this natural preservation area.

- **Patrol Routes**
  - 2009 - 2015: Installed and repaired safety fences (Used ‘Woozen’)

- **Dokdo Police Guard**
  - 2009: Replaced the flooring (tiles) in the gym, internet cafe and cafeteria
  - 2010: Renovated the flooring (tiles) and walls (wallpaper) in the barracks and donated equipment
  - 2011: Renovated the kitchen facility (tiles and others) and donated cooking equipment
  - 2012: Renovated the operations room/guest rooms/hall flooring (tiles) and walls (films)
  - 2013: Replaced the flooring (tiles) in the changing room and donated furniture
  - 2014: Replaced the flooring (tiles) in the briefing room and donated electronic appliances
  - 2015: Constructed bathrooms/toilets
  - 2016: Replaced the flooring in the gym

- **Dokdo Residential Housing**
  - 2011: Donated construction materials for the expansion of Seodo residential housing (windows/wallcovering/linoleum, etc.)

- **Dokdo Management Office**
  - 2013-2016: Donated electronic devices

- **Dokdo Lighthouse**
  - 2011: Donated air-conditioning equipment
  - 2013 – 2016: Donated electronic devices

- **Ulleung Police Guard**
  - 2013: Installed flooring (tiles) and wallpapered (wallcovering) the official residence and patrol division offices
  - 2014: Installed flooring (tiles) and wallpapered (wallcovering) the official residence and patrol division offices / Donated heating equipment
  - 2015: Installed flooring (tiles) and windows, and wallpapered (wallcovering) the official residence and patrol division offices
  - 2016: Renovated the flooring at the official residence and patrol division offices

- **Ulleung-do Dokdo**
  - Patrol Routes 2009 - 2015: Installed and repaired safety fences

- **Dokdo Love Youth Camp**
  - We select approximately 20 undergraduates every year to directly/indirectly experience Dokdo through such broad-ranging programs as visits to the island, exchanges with Dokdo keepers, admission to special lectures given by experts, opportunities to engage in Love Dokdo conservation tasks, and nature trekking. In so doing, we help the younger generation understand the historic and geographical significance of this island.

Renovating the Historic Sites of Korea’s Independence Movement and the Residence for Men of National Merit

We renovate facilities related to Korea’s Independence Movement as well as the residence for men of national merit so that the spirit of this historic movement and the sacrifice and national contribution of our ancestors will be forever remembered by future generations.

Renovating the Historic Sites of Korea’s Independence Movement

Inheriting the spirit of the LG Group founder (the late Chairman Goo In-Hoe) to support Korea's Independence Movement, we used our top-quality products, including high-insulation windows and eco-friendly flooring, in renovating the Seo Jae-Pil Memorial Hall, the Yoon Bong-Gil Memorial Hall, and the Lee Hoe-Young Memorial Hall. In 2016, we signed a contract to restore the U.S. legation of the Korean Empire Government.

- **Before construction**
  - **After construction**

Renovating the Residence for Men of National Merit

We improve the living environment for men of national merit (Korean War veterans, descendants of Independence Movement activists, etc.). Since 2015, this housing renovation initiative has benefited five people in Korea and two people overseas (U.S. and India). We will continue with this housing renovation initiative in the upcoming years.

- **Before construction**
  - **After construction**
We launch broad-ranging sharing initiatives to demonstrate just how much we care for the less-privileged in our local communities. Such initiatives are undertaken by respective worksites and in cooperation with central and local governments. In so doing, we actively explore and capitalize on opportunities to lend a helping hand to local communities.

Make a Happy Space
Our Make a Happy Space initiative was launched to encourage our future leaders to dream and hope for a better future by improving public youth spaces with our specialized products and execution design capabilities. Since opening of the 1st Happy Space created at the Ilsan Holt Children’s Services, we have renovated approximately three public youth spaces every year. Notably, this initiative benefited 14 such spaces in 2016 through our cooperation with the Korea Association of the Community Child Center (KACCC).

Key Social-Giving Initiatives by Plant
At our Ulsan and Oksan Plants, employees are fully engaged in social contribution programs designed to contribute to the development of local communities and to protect the environment in the vicinity of these plants.

<table>
<thead>
<tr>
<th>Plant</th>
<th>Initiative</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oksan Plant</td>
<td>One Company One Village</td>
<td>Support the events held in villages near the plant and purchase agricultural produce from these villages.</td>
</tr>
<tr>
<td></td>
<td>One Company One Stream</td>
<td>Project the water quality of Hoeya River near the plant and conduct clean-ups along the river.</td>
</tr>
<tr>
<td></td>
<td>Make a Mountain</td>
<td>Clean up Daeun Mountain with Ulsan City and Ulju-gun.</td>
</tr>
<tr>
<td>Ulsan Plant</td>
<td>Make a Happy Day</td>
<td>Donate kimchi to local children’s center in Onyang and the elderly living alone with the funds raised by employees at year-end events.</td>
</tr>
<tr>
<td></td>
<td>Labor for Love</td>
<td>Donate TVs, washers, and refrigerators, etc. to three senior welfare centers (Gaon Senior Welfare Center, etc.).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Donate washers, refrigerators, etc. to three senior welfare centers (Gaon Senior Welfare Center, etc.).</td>
</tr>
<tr>
<td>Oksan Plant</td>
<td>One Company One Stream</td>
<td>Donate washers, refrigerators, etc. to three senior welfare centers (Gaon Senior Welfare Center, etc.).</td>
</tr>
<tr>
<td></td>
<td>Delivery of Briquettes with Love</td>
<td>Donate briquettes to seniors living alone with Chungbuk Briquette Bank.</td>
</tr>
<tr>
<td></td>
<td>Delivery of Kimchi with Love</td>
<td>Donate kimchi to children centers and senior welfare centers in the region.</td>
</tr>
<tr>
<td></td>
<td>Labor for Love</td>
<td>Donate washers, refrigerators and other home electronics to a senior welfare center (Bogunamji Senior Welfare Center).</td>
</tr>
</tbody>
</table>

Creating Value for Local Communities through Private-Public Partnerships
We cooperate with central and local governments to fully mobilize our business capabilities and infrastructure in renovating old residential facilities in local communities and enabling people to enjoy a more eco-friendly and pleasant living space.

Engagement in the Green Remodeling Project
The Green Remodeling Project is supervised by the Ministry of Land, Infrastructure and Transport to improve the energy performance of old buildings whose energy efficiency has degraded. This not only helps in balancing the energy supply/demand, it also serves to reduce energy costs. We provide our high-insulation windows and other high energy-efficiency products to expand the cause of this meaningful project. We replaced old windows on 1,774 houses on nearly 6,200 occasions in 2015 and 2016 respectively, which translates into approximately 80% of the total Green Remodeling Project.

Assisting Areas Affected by Typhoon Chaba
We donated necessary supplies to Ulsan, Busan, Yangsan and other flooded areas affected by Typhoon Chaba. Our flooring and wallpaper were delivered to nearly 60 households in these regions, and their installation was performed consecutively by undergraduate volunteers working under the Korea Disaster Relief Association.

Renovating the Residence for Socially-Underprivileged with the Ministry of Environment
For socially-underprivileged groups – low-income families, broken families, and children suffering from environmental diseases – whose living conditions are often substandard, we offer free-of-charge assistance in renovating their residence; we assess their residence for hazard factors that may cause environmental diseases and if necessary, we install our eco-friendly wallcovering and flooring. This initiative benefited 540 households in 2015 and 361 households in 2016 and the indoor living conditions of these people improved through the execution of our eco-friendly wallcovering and flooring. For those suffering atopic diseases, asthma and other environmental diseases, we provided free-of-charge medical treatment in alignment with the Environmental Health Center, as a way to cooperate with the government in creating a better living space for these vulnerable groups.
Driven by the ceaseless pursuit of innovative values all across our business operations, we at LG Hausys bring about change and innovation on multiple levels, fulfill our social responsibility, and help create a sustainable economy and environment as well as a sharing-oriented society.
We are building a fair decision-making system that will increase our credibility from our stakeholders. Since 2014, our Board of Directors has been responsible for discussing social responsibility issues as a way to improve the capability of our execution in advancing sustainability management.

Shareholder Composition and Rights
We established a fair and stable ownership structure to become a sustainable company. Our shareholders are entitled to wide-ranging shareholder rights, and information on major business issues is disclosed through the electronic information disclosure system of the Financial Supervisory Service or on our corporate website.

BOD Composition and Operation
Our Board of Directors (BOD) is responsible for making decisions regarding our major business conduct and for supervising the operations of our board members. The board also votes on matters specified by relevant laws and the Article of Association, matters delegated by the general shareholder meetings, and other important business-related matters. The separation of the CEO from the BOD chairmanship and the participation of outside directors in BOD activities guarantee that decisions are made in a reasonable and transparent manner.

BOD Composition
Our Board of Directors consists of two executive directors, two non-executive directors and three outside directors.

Appointment and Responsibility of the BOD and Outside Directors
The appointment of our BOD members follows the procedures stipulated by the Commercial Code and other relevant regulations, and should be approved by the BOD and at the general shareholder meetings. Our outside directors should account for at least one fourth of the total BOD members. Outside directors are selected from a pool of experts who have no special interest in LG Hausys and bring with them extensive experience and expertise in the fields of economy, business management, and chemical engineering. Once appointed, outside directors can access LG Hausys’ strategic directions and pending issues in the areas of the economy, society and the environment while actively voicing their opinions on such issues.

BOD Activities
Our BOD met 10 times in 2016, and the average percentage of directors in attendance was 98.5%. The BOD deliberated on a total of 33 agenda items including the approval of business plans, out of which 24 were approved and nine were reported.

BOD Remuneration
Our BOD remuneration criteria are determined each year in consideration of the annual evaluation of its performance, inflation, and the external competitiveness of outside director compensation. The remuneration limit is approved by the general shareholder meeting in accordance with the set criteria, and any modification of BOD remuneration must be proposed to and ultimately approved by the BOD.

BOD Committees
Audit Committee
We operate the Audit committee under the BOD to ensure the independence and transparency of our auditing. The committee consists of three outside directors, all of whom are exempt from the disqualification criteria stipulated in the Commercial Code.

Audit Committee Operation and Activity
The Audit Committee is responsible for inspecting LG Hausys’ accounting and business practices, and reserves the right to request board members to report on business operations and to investigate the business conduct and assets of our subsidiaries and investigate their operations and transactions.

SPECIAL ISSUE

To lay the groundwork to report Corporate Social Responsibility (CSR) activities to the BOD, we added “Important issues concerning CSR activities” to the BOD report agenda in 2014. In so doing, we aim to enhance our management’s interest in sustainability management and proactively fulfill our corporate social responsibility.

Revising BOD Regulations on CSR

Status

Adding "Important issues concerning CSR activities" to the BOD report agenda

Goal: Establish a decision-making process on sustainability management within the BOD

Collect feedback

Suggest agenda items

Convene BOD meetings

Make decisions
LG Hausys’ Jeong-Do Management

At LG Hausys, we are fully aware of the importance of Jeong-Do Management not as an option but as a prerequisite for our survival as a company. Thus, we operate a dedicated Jeong-Do Management organization and ensure that this management philosophy is built into the fabric of our corporate operation so as to prevent any corruptive or illegal behaviors of our employees and to establish a culture of Jeong-Do Management. For us at LG Hausys, Jeong-Do Management means more than a mere ethics management, but forms the basis of our competence to outperform our competitors. To this end, we sharpen our competitive edge through constant innovation to ‘Create Value for Customers’ while providing equal opportunity and performance-based compensation to our employees so that the proceeds can be used for social-giving causes.

Shinmungo System

Any violation of the Jeong-Do Management principles is reported via the Shinmungo System. These include unfair practices committed by our employees through the misuse of authority, acceptance of bribes, and any other practices that go against the LG Code of Ethics. If for any reason this is not possible, the concerned articles should be reported to the Ethics Bureau and be donated to welfare organizations or sold through in-house auctions so that the proceeds can be used for social-giving causes.

Whistle-Blowing System

We at LG Hausys prohibit all our employees from accepting any bribe or reward from stakeholders under any circumstances. In the case such bribes or gifts are offered, they should be politely refused and returned in accordance with the Code of Ethics. If the employee accepts the bribe, the concerned articles should be reported to the Ethics Bureau and be donated to welfare organizations or sold through in-house auctions so that the proceeds can be used for social-giving causes.

Jeong-Do Management Programs

We practice Jeong-Do Management through such wide-ranging programs as the Jeong-Do Management Pledge, the Whistle-Blowing and Shinmungo Systems, and Jeong-Do Management training.

Jeong-Do Management Pledge

All our employees sign the Jeong-Do Management Pledge online and our suppliers do the same through signing contract documents upon the start of business relationships. This further serves to commit both employees and suppliers to abide by the LG Code of Ethics and practice Jeong-Do Management.

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Jeong-Do Management Training and Promotion

We offer annual Jeong-Do Management training and promotional programs to our employees in Korea and at overseas subsidiaries in accordance to their job or position. Furthermore, we disseminate our culture of Jeong-Do Management to suppliers and distributors through relevant training, discussions, and newsletters. In 2016, we developed video learning materials on the LG Way, the Code of Conduct, regulatory compliance and other topics concerning Jeong-Do Management and used them in offering online training to our Chinese subsidiaries and suppliers.

We aim to assist our overseas subsidiaries and suppliers in improving their understanding of Jeong-Do Management by strengthening regular communication and by providing continual training and promotional programs in the upcoming years.

LG Housey Sustainability Report 2017

Chapter 4

Chapter 2

Chapter 1

Responsibilities and Duties to Customers

Fair Competition

Basic Ethics of Employees

Corporate Responsibilities to Employees

Responsibilities to the Nation and Society

The LG Way and Jeong-Do Management

Office of Ethics

Capacity Building

Fair Treatment

Ensure fairness and equality in all business relationships

Integrity

Maintain transparency in business conduct in accordance with principles and standards

To become a broadly recognized market leader

To compete fairly on the basis of ethics management

Purpose of business conduct and principles of business operations

Creating value for customers

Respecting human dignity

Jeong-Do Management Organization

Operational System

• Jeong-Do Management training and promotion
• Ethics Counseling Center
• Jeong-Do Management Pledge
• Shinmungo System

Audit System

• Regular audits
• Year-end audits
• Report audits

Training at Chinese Subsidiaries

<table>
<thead>
<tr>
<th>Employee Attendance (No. of employees)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training at Chinese Subsidiaries</td>
<td>4,460</td>
<td>6,415</td>
<td>4,500</td>
</tr>
</tbody>
</table>

Ethics Management

We practice Jeong-Do Management to fulfill our responsibility towards customers, suppliers, shareholders, employees and society so that we grow into an even more respected company.

The LG Way and Jeong-Do Management

As LG’s unique corporate culture, the LG Way aims to put LG’s Management Philosophy of “Creating Value for Customers” and “Respecting Human Dignity” into practice by abiding by Jeong-Do Management to ultimately achieve the “No. 1 Vision” of LG. LG’s Jeong-Do Management drives us to consistently build capacity and compete in a fair manner, and it springs from the foundation of ethics management.

LG Code of Ethics

LG established its Code of Ethics and is practicing these ethical norms to help guide the practices and values judgments of its employees. The Code of Ethics Handbook is available in Korean, English, and Chinese and is distributed to our employees.

Code of Ethics: Composition and Details

Chapter 1

Responsibilities and Duties to Customers

Chapter 2

Fair Competition

Chapter 3

Fair Transactions

Chapter 4

Basic Ethics of Employees

Chapter 5

Corporate Responsibilities to Employees

Chapter 6

Responsibilities to the Nation and Society

LG Jeong-Do Management Website (http://ethics.lg.co.kr/)

Purpose of business conduct and principles of business operations

Creating value for customers

Respecting human dignity

Vision

No. 1 LG

To become a broadly recognized market leader

To compete fairly on the basis of ethics management

Management Philosophy

Creating value for customers

Respecting human dignity

Integrity

Maintain transparency in business conduct in accordance with principles and standards

Fair Treatment

Ensure fairness and equality in all business relationships

Capacity Building

Fair Competition

Build capabilities to compete and win fairly
Talent Management

We stand by our business philosophy of ‘Respecting Human Dignity’ as a company that grows with its employees. We respect the creativity and autonomy of our employees and fairly evaluate and compensate them.

HR Principles

We respect the individuality and diversity of our employees to help them fully use their creativity while setting and operating procedures required to secure and nurture highly-competent talent.

**Source of Value Creation**

- **Operational Approach**
  - Respect for individual creativity and autonomy
    - Value diversity and individual personality and respect their autonomy to help them fully unleash their creativity
  - Emphasis on competency
    - Fairly compensate outcomes, and compensate in accordance with individual and organizational contributions
    - Recruit and nurture employees based on their individual competence, and set and operate necessary requirements and procedures
  - Fair opportunity
    - Provide fair opportunities to employees according to their capabilities and qualifications
  - Long-term perspective
    - Take a long-term consistent perspective in undertaking HR decision-making and relevant initiatives

**Achievements and Goals**

1. Develop a training system to nurture business leaders and job experts
   - Key achievements in 2016
     - Operated a key talent (FT) to nurture business leaders (selection and promotion)
     - Operated a leadership change (LDC)
     - Strengthened advanced job training
   - 2017 plans
     - Reinforce the promotion of market leading job experts
     - Focus on technology seminars and other manufacturing capabilities
     - Strengthen global business competency
     - Operate a ‘lead by setting an example’ leadership development (LDS)

2. Take a performance-driven approach through fair evaluations
   - Key achievements in 2016
     - Performed quarterly reviews and offered feedback
     - Conducted feedback status surveys and posted feedback guides
     - Offered capacity building training for evaluators (mandatory)
     - Hosted Assessment Review Committee meetings
   - 2017 plans
     - Facilitate labor management communication to support the generation of business outcomes
     - Improve the execution capability in undertaking labor-management projects

3. Operate stable labor relations based on compliance with principles
   - Key achievements in 2016
     - Operated labor relations sustainably
     - Promptly responded to the labor relations environment
   - 2017 plans
     - Maintain advanced job training for evaluators (mandatory)

4. The Ideal LG Hausys Employee
   - The ideal LG Hausys employee “believes in and is capable of practicing the LG Way.” As such, we strive to recruit and nurture globally competent individuals who fall within the parameters of this definition.

**HR Management Principles**

Value is created from individual creativity, while performance is driven by employee capability. At LG Hausys, we provide fair opportunities in accordance with an individual’s abilities and qualifications, fairly evaluate the delivered outcomes, and compensate according to the individual and organizational contributions made. Furthermore, we take a long-term and consistent approach in making all HR management decisions while guaranteeing equal employment opportunities, respecting human rights, and compensating our employees for their performance without any discrimination on the grounds of gender, age, or religion as specified in our Code of Conduct and our employment policy.

**Employee Data**

The number of our employees in Korea and abroad amounted to 4,424 on a consolidated basis as of the end of 2016. The ratio of office and production workers was 67.5% and 32.5% respectively. We hired 324 new employees in 2016, and ranked among the top 100 job creators for our contribution to creating jobs for young people.

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of locally-hired employees (as %)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employees in Korea</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Type of employment</td>
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<tr>
<td>Regular</td>
<td>3,365</td>
<td>3,242</td>
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<tr>
<td>Contract-based</td>
<td>3,050</td>
<td>3,157</td>
<td>3,058</td>
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<td>Term employees</td>
<td>87</td>
<td>83</td>
<td>84</td>
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<tr>
<td><strong>Total</strong></td>
<td>6,412</td>
<td>6,482</td>
<td>6,278</td>
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<tr>
<td>Semi-skilled/unskilled</td>
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</tr>
<tr>
<td>Workers with disabilities</td>
<td>55</td>
<td>61</td>
<td>62</td>
</tr>
<tr>
<td>Employees in national service</td>
<td>99</td>
<td>100</td>
<td>99</td>
</tr>
<tr>
<td>By age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>597</td>
<td>573</td>
<td>568</td>
</tr>
<tr>
<td>30%</td>
<td>877</td>
<td>895</td>
<td>817</td>
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<tr>
<td>40%</td>
<td>1,009</td>
<td>1,035</td>
<td>1,018</td>
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<tr>
<td>50% and older</td>
<td>671</td>
<td>720</td>
<td>717</td>
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<tr>
<td><strong>By job level</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Executives</td>
<td>19</td>
<td>22</td>
<td>21</td>
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<tr>
<td>Employees</td>
<td>3,116</td>
<td>3,220</td>
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<tr>
<td><strong>By job category</strong></td>
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<tr>
<td>Office workers</td>
<td>2,043</td>
<td>2,151</td>
<td>2,142</td>
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<tr>
<td>Production workers</td>
<td>1,092</td>
<td>1,097</td>
<td>1,092</td>
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<tr>
<td><strong>By region</strong></td>
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<td></td>
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<tr>
<td>Headquarters (Seoul)</td>
<td>786</td>
<td>808</td>
<td>769</td>
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<tr>
<td>Window plant in Cheongju</td>
<td>302</td>
<td>253</td>
<td>184</td>
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<tr>
<td>Asian plants</td>
<td>337</td>
<td>377</td>
<td>397</td>
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<tr>
<td>Smart/Urban Plants</td>
<td>1,011</td>
<td>1,119</td>
<td>1,099</td>
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<tr>
<td><strong>New recruitment</strong></td>
<td>672</td>
<td>666</td>
<td>720</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>168</td>
<td>165</td>
<td>154</td>
</tr>
<tr>
<td>R&amp;D/Design Centers</td>
<td>285</td>
<td>309</td>
<td>315</td>
</tr>
</tbody>
</table>

1) Criteria: Includes subsidiary employees and expatriate employees at the end of December of the concerned year
2) Others: Non-Seoul sales teams, overseas subsidiaries/offices, other plants, Design Center R&D Center
3) Turnover: Employees who resigned voluntarily
We fully recognize that nurturing talented individuals is the key to becoming a market leader, and thus provide talent-nurturing programs in alignment with our business strategy. First, we offer specialized job training to nurture business leaders for our future and for their expertise, and secondly, we offer position-specific mandatory training based on global competency and core values for our global operations.

**Business Leader Training System**

Becoming a market leader requires that we discover and nurture future business leaders with business execution and leadership capabilities early on. This is why we at LG Hausys established a business leader training system and operate this system as follows: Young HPIs in assistant manager positions and next-generation talent in manager and senior manager positions are placed on the two different training tracks of Biz Talent for future business leaders and Pro Talent for future professionals. Furthermore, we identify key talent among locally hired employees at our overseas subsidiaries/branches and provide online training to nurture their leadership potential.

**Talent Nurturing Programs**

In-house promotion courses are provided exclusively for promoted employees, relocated employees, and office execution employees.

**Business Leader Training System**

- **CEO**
- **General Managers**
- **Senior Managers**
- **Managers**
- **Assistant Managers**
- **Level III**
- **Level II**
- **Level I**
- **Promoted**
- **Promoted to Level IV**
- **Promoted to Level III**
- **Promoted to Level II**
- **Promoted to Level I**
- **Refresh Start**
- **In-House Promotion Courses**

**Training Roadmap**

<table>
<thead>
<tr>
<th>Category</th>
<th>Position-specific Mandatory Training</th>
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<tbody>
<tr>
<td>Executives</td>
<td>Senior management courses, financial management courses</td>
</tr>
<tr>
<td>General Managers</td>
<td>Business strategy courses, human resource courses</td>
</tr>
<tr>
<td>Senior Managers</td>
<td>Leadership development programs, communication development programs</td>
</tr>
<tr>
<td>Managers</td>
<td>Professional development courses, project management courses</td>
</tr>
<tr>
<td>Assistant Managers</td>
<td>Job-specific training, leadership development programs</td>
</tr>
</tbody>
</table>

**Total Employee Training Expenditures**

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Business Leader Training</td>
<td>3,825</td>
<td>3,888</td>
<td>4,372</td>
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</table>

**Innovation of Organizational Culture**

To become a recognized market leader, we have declared and have remained true to our commitment to ‘execution-driven management’ which defines our mental attitude, organizational culture, work attitudes and methodology, as well as providing a set of virtuous required of leaders. To help firmly embed the root of this “execution-driven management” philosophy into our organizational culture, we operate continuous communication programs such as Green Board and We-Ha-Yeo while innovating our organizational culture through self-initiated employee engagement in the Community of Practice, the Futurist, the Idea Tree, and other future-oriented programs.

**Culture that Values Employee Communication**

We provide a wide array of programs to facilitate employee communication.

At LG Hausys, ‘Green Board’, a gathering of employee representatives from respective divisions, and ‘We-Ha-Yeo’, a group of female employee representatives, serve to facilitate communication between employees and the top management and to pursue the innovation of our organizational culture. Both ‘Green Board’ and ‘We-Ha-Yeo’ help develop our own organizational culture through quarterly CEO meetings, division-level communication, training, volunteer work, charity bazaars and other bottom-up approaches that engage employees. They have also served as facilitators in disseminating and spreading execution-driven management in 2017 by promoting communication of this new management philosophy to respective divisions, sharing best practices, and by identifying leaders to take the initiative in practicing execution-driven management.

**Future-Oriented Activities**

Driven by the self-initiated engagement of our employees, we are building a future-oriented organizational culture at LG Hausys.

**Future-oriented Programs**

- **Idea Incubating**
- **Idea Creating**
- **Idea Prototyping**
- **Commercialization**

**Idea Tree**

An idea suggestion program to allow employees to present their ideas on specific business topics.
Compensation System

We operate a performance-based employee evaluation system to build a market-leading organizational culture and to reinforce our execution capability to maximize business outcomes. It is based on such performance-oriented HR management principles that respect the creativity and autonomy of individual employees that we provide competitive wages and reward programs.

Fair Assessment System and Continuous Feedback

Our endeavors to ensure fairness in assessing the performance of our employees include regular reviews, the Assessment Review Committee, and evaluator capacity-building training. We conduct quarterly progress reviews to help employees strengthen their execution capability to reach the set goals while offering regular performance feedback and coaching to improve the fairness and accountability of evaluation outcomes. As part of the year-end assessments, the Assessment Review Committee performs comprehensive assessment reviews that take into account any contributions to business operations and organizational specificity, in addition to individual performance and competence. We also provide mandatory e-learning to evaluators to improve their capacity in conducting fair and objective assessments.

Performance-based Compensation System

Our compensation system consists of cumulative and non-cumulative components based on performance-driven principles: the cumulative annual salary scheme compensates individuals differently based on their previous year’s evaluation outcomes while the non-cumulative scheme is comprised of role-based pay, performance pay, On-Spot Incentives that reward exceptional performance, and organizational unit-level reward programs. Furthermore, we operate the R&D Awards, Design Jump, the Innovation Festival and other project-level reward programs for R&D and innovation initiatives in order to solidify our performance-driven HR principle of “High Performance, High Return.”

Expanding and Supporting Female Talent

We operate a wide range of programs to ensure the vocational security of our female employees. We provide maternity leave and flexible work hours to help women secure a proper work-life balance as well as options for part-time hours to fully support the Korean government’s policy to promote a better work-life balance. Furthermore, we consistently manage and assist our female employees to be assigned to appropriate positions and promoted to leadership positions.

Employee Welfare

At LG Hausys, we offer a broad range of welfare programs to create a work environment that satisfies the needs of our employees. Our communication programs highlight the psychological stability of our employees, along with our employee health care programs, ensure that our employees can fully engage in their work based on their physical and mental well-being.

Counseling Programs

We are clearly aware of the importance of mutual understanding among employees and the need for each employee to be psychologically stable. Thus, we provide our employees with specialized EAP counseling, occupational counseling and other diverse counseling programs to help them improve their psychological well-being.

Employee Health Care Management

We place top priority on promoting the health and safety of our employees, and provide education, training, and assessment programs at respective work sites.

Occupational Safety and Health Committee

We sign official agreements with our labor union in relation to employee health and safety, and host the quarterly Occupational Safety and Health Committee meetings attended by equal numbers of labor and management representatives. In addition to preventive initiatives focused on production departments and possible health and safety loopholes, employee representatives are engaged in half-yearly reviews of the work environment as a way to address health and safety issues.
Global Labor Policy

We fully respect the provisions set by the agreements made by the International Labor Organization (ILO), the UN Guiding Principles on Business and Human Rights, other standards and regulations set by international organizations and groups in the fields of labor and human rights. In 2016, we established the “LG Hausys’ Global Human Rights & Labor Policy” which declares out commitment to ‘guaranteeing and respecting the right to human dignity, freedom and happiness as fundamental value’, and its full version is available on our corporate website.

Labor Relations

We build and practice a labor-management partnership that values engagement and cooperation. In so doing, we generate sustained outcomes and secure a top-notch competitive edge to improve the quality of our employees’ life. The ultimate goal of this partnership is to establish community-oriented labor relations that contribute to the development of our society. To this end, we operate a unique three-dimensional labor relations model on the three pillars of business management, shop floor operations and collective bargaining to fully engage and seek cooperation from our employees. Furthermore, major changes in business operations require sincere consultations with the labor union as stipulated by the collective agreement to strengthen the foundation for labor-management cooperation. If there is any expected change of status concerning union members or their work conditions, the labor union must be notified in advance to allow for sufficient consultation. As of the end of 2015, the ratio of unionized production workers amounted to 99.2%.

Labor Relations Vision

Vision of LG’s Community-oriented Labor Relations

Secure a top-notch competitive edge as a company

Enrich the life of employees

Contribute to social development

LG’s unique labor-management practices to achieve the vision of community-oriented labor relations

LG’s purpose of business conduct and operational principles

Basic philosophy behind LG’s community-oriented labor relations

Labor-Management Community

We pursue engaging and cooperative labor relations: labor relations are built horizontally, not vertically, and employees and the top management respect each others’ role on equal footing. Our executives host regular dialogues with employees, and we host quarterly management meetings. Annual sports events held by respective workites also help revitalize our organization. Furthermore, we host quarterly labor-management conferences, and continuously undertake such activities as consultations concerning the scheduling of jointly-held events, the improvement and expansion of employee welfare facilities, and sharing business outcomes and major corporate schedules.

Achievements and Goals

Green Management

As social interest increases regarding both workplace safety and the environmental impact imposed by business conduct, we at LG Hausys advance ‘Green Management’ to minimize our environmental footprint throughout our entire business operations and pursue the beauty that comes from truly harmonizing with nature.

Green Management Philosophy

At LG Hausys, green management is based on the LG Management Philosophy to ‘create value for customers’ and to ‘respect human dignity.’ This fundamental principle guided us to develop our workplace health and safety policy, which is based on LG’s green management. It highlights corporate social responsibility and its role in the fields of environmental preservation and employee health and safety, which ultimately enables us to pursue harmony between our business conduct and the natural environment.

1. Build an eco-friendly workplace

Key achievements in 2016

- Switched to high-efficiency air pollution control equipment (Installed KRW 2.3 Billion in total)
- Designated as a Green Company
- Promptly responded to the Chemicals Management Act

1770 plans

- Improve the quality of the ESH system by reinstalling position-based roles and in-house regulations
- Strengthen the monitoring system to prevent accidents
- Identify and improve unnecessary risk factors
- Set long-term goals
- Minimize the discharge of environmental pollutants as well as the environmental impact during the manufacturing process
- Key achievements in 2016
- Improved energy-consuming equipment and their operational efficiency
- Used outside surplus steam
- Operated power storage devices

2. Respond to climate change

Key achievements in 2016

- Reduced energy consumption through process innovation and operational optimization
- Introduced renewable energy and external heat sources to reduce energy costs and GHG emissions

2017 plans

- Operate the operation of heavy energy-consuming equipment and use external heat sources
- Reduce the energy intensity by 10%
We also installed such safety devices as dykes and gas detectors around the storage facilities of harmful chemicals to prevent fires, explosions or leaks caused by these chemicals within the workplace while appointing managers at each spot in charge of managing hazardous chemicals to thoroughly examine the relevant facilities. We are constantly increasing our investment in environmental improvements – from process enhancements, eco-friendly product design and production, reduction of GHG emissions and energy use, to work environment improvements and environmental conservation.

Minimizing Our Impact on the Ecosystem
Since 1990, our Ulsan Plant has voluntarily conducted quarterly water quality inspections and environmental impact assessments on the Heoya River system as part of its ecosystem conservation initiatives. A total of 1.3 locations, from the Heoya Dam to Ganggunaru where the river meets the sea, are analyzed and managed for six items (COD, SS, pH, etc.), and if deemed necessary, measurement data is provided to the relevant authorities. Our Oksan Plant signed an agreement with the Geum River Basin Environmental Office to improve the water quality of the nearby Miha Stream, and is engaged in such activities as ditch clean-up, planting, and daily environmental education for local residents.

Hazardous Chemicals Management
Our Ulsan and Oksan Plants handle 14 types of hazardous chemicals – ranging from lead compounds and MEK to acetic acid ethyl. This prompted us to focus on developing alternatives to reduce our consumption of such harmful chemicals. We also installed such safety devices as dykes and gas detectors around the storage facilities of harmful chemicals to prevent fires, explosions or leaks caused by these chemicals within the workplace while appointing managers at each spot in charge of managing hazardous chemicals to thoroughly examine the relevant facilities.
Response to Climate Change

We proactively respond to climate change risks through continued energy conservation and process innovation. We are subject to the GHG emissions trading scheme launched in Korea in 2015, and thus will endeavor to reduce our GHG emissions in multiple ways, including the adoption of renewable energy and external heat sources.

Mid/Long-term Climate Change Strategy

2012 Lay the basis for green management (Promptively respond to climate change risks)
  - Install incinerators and boilers
  - Reduce and adopt renewable energy
  - Register reduction projects
  - Make reductions early on
  - Nearly 50,000 tons

2015 Promote green energy innovation
  - Review and adopt renewable energy
  - Photovoltaics, geothermal power
  - Energy Storage System (ESS)
  - Strengthen energy monitoring
  - Build a power monitoring system
  - Reduce/adopt a stream monitoring system
  - Improve the efficiency of the energy production and supply system
  - Introduce external surplus energy

2020 Achieve the best green workplace and green partnership
  - Review/adopt renewable energy
  - Improve on the ratio of fossil fuel energy use
  - Increase the use of renewable energy by improving the ratio of fossil fuel energy use
  - Introduce co-generation and photovoltaics to improve on the ratio of KEPCO power use
  - Establish joint local partnerships by reducing GHG emissions and energy use

Reducing Energy Use and GHG Emissions

We constantly reduce our energy consumption and GHG emissions. In 2016, we invested KRW 4,090 million to undertake such reduction projects, which resulted in KRW 6,229 million in total savings and in 9,612 tCO₂eq in reduced GHG emissions.

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Annual Savings in reduced operational costs (KRW million)</th>
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<tbody>
<tr>
<td>Energy</td>
<td>1,726</td>
<td>1,822</td>
<td>1,748</td>
<td>1,691</td>
</tr>
<tr>
<td>Consumption(1)</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Direct energy (1)</td>
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<td>977</td>
<td>1,691</td>
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<tr>
<td>Indirect energy (1)</td>
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<td>Total energy consumption (1)</td>
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<td>GHG</td>
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<td>Scope 1 + Scope 2 (2014)</td>
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<td>161,868</td>
<td>9,612</td>
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<tr>
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<td>647,472</td>
<td>647,472</td>
<td>647,472</td>
<td>9,612</td>
</tr>
</tbody>
</table>

Key Energy Use/GHG Emissions Reduction Initiatives

Energy Saving TPT

We established energy saving TPTs across our Korean plants to engage all our employees in energy conservation.

Improving Heavy Energy-Consuming Equipment

We are replacing old boilers, compressors, water equipment and pipes with new ones to improve the efficiency of our utility equipment while making system improvements and supplementing our cooling/heating devices, air-conditioning equipment and other HVAC systems to reduce our energy consumption. The Ulsan Plant improved on the losses generated from thermal materials and utility pipes, as well as its heating performance, while the Oksan Plant examined its steam traps and replaced old traps with new ones throughout the plant. This resulted in KRW 1.69 billion in annual savings of operational costs and in 9,612 tons in total CO₂ emissions reduction.

GHG Emissions Target and Achievement in 2016

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2015</th>
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<th>Annual Savings in reduced operational costs (KRW million)</th>
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<tr>
<td>Scope 1 + Scope 2 (2015)</td>
<td>323,736</td>
<td>323,736</td>
<td>323,736</td>
<td>9,612</td>
</tr>
<tr>
<td>Scope 1 (2016)</td>
<td>323,736</td>
<td>323,736</td>
<td>323,736</td>
<td>9,612</td>
</tr>
<tr>
<td>Scope 2 (2016)</td>
<td>323,736</td>
<td>323,736</td>
<td>323,736</td>
<td>9,612</td>
</tr>
<tr>
<td>Scope 1 + Scope 2 (2016)</td>
<td>647,472</td>
<td>647,472</td>
<td>647,472</td>
<td>9,612</td>
</tr>
</tbody>
</table>

Building an Energy Storage System at the Ulsan Plant

We have been operating a 1.5MWh-capacity Energy Storage System (ESS) since 2015, and this enabled us to save KRW 26 million in 2016 for day/night-time charging and discharging.

<table>
<thead>
<tr>
<th>Year</th>
<th>KRW million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>51,403</td>
</tr>
<tr>
<td>2016</td>
<td>4,348</td>
</tr>
<tr>
<td>2017</td>
<td>6,229</td>
</tr>
</tbody>
</table>

Promoting Shared Growth through Green Partnerships

Since 2015, we have assisted our suppliers in minimizing (eliminating) risk factors from carbon emissions generated by the manufacturing process and in supporting their initiatives to develop reasonable energy use plans. This ultimately reduces their GHG emissions and energy consumption through the energy-saving journey joined together by large businesses and SMEs.

Energy-Saving Slogans at the Cheongju/Oksan Plants

- 'Measure water independently, use the right indoor temperature, check for any leaks from steam traps, maintain the right moist temperature and stop heating!'
- 'Turn off energy equipment, lighting, computers'
- 'Pull - Unplug - Cut off standby power'
- 'Funct' - Prevent losses due to the leak of solids, liquids or steam
- 'Comply' - Equipment maximum/minimum heat standards, standard cooling/heating temperatures (19℃ in winter, 27℃ in summer)
- 'Focus' - Focus on work (job) to improve yield (efficiency) (Frequent losses from having to do things twice)

Energy-Saving Slogans at the Ulsan Plant

- 'Make Energy Deposits!' Campaign, professional energy diagnosis service provider
- 'Focus' - Focus on work in 2015 for day/night-time charging and discharging
- 'Utilities' - Energy equipment, HVAC equipment
- 'Loss Improvement' - Energy equipment

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- 'Utilities' - Energy equipment, HVAC equipment
- 'Loss Improvement' - Energy equipment

Five Energy-Saving Habits

- 'Turn-off' - Turn-off energy equipment, lighting, computers
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Discover Energy-Saving Projects

- 'Utilities' - Energy equipment, HVAC equipment
- 'Loss Improvement' - Energy equipment

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- 'Comply' - Equipment maximum/minimum heat standards, standard cooling/heating temperatures (19℃ in winter, 27℃ in summer)
- 'Focus' - Focus on work (job) to improve yield (efficiency) (Frequent losses from having to do things twice)
Quality Management

Our vision “Global No. 1 Quality” embodies our commitment to deliver top-notch quality goods and services to our customers. Thus, we expand our direct communication with customers along the entire process of production, sales, and the use of our products.

Quality Management System

In line with the quality management policy of our CEO, we set the key management targets of quality level improvements, talent promotion, and an internal/external failure cost ratio review through Q-COST management, while focusing on the following four strategies to achieve our quality vision.

Achievements and Goals

Strengthen our new product quality competitiveness from the customers’ perspective

Principle & Strategy
- Thoroughly verify the quality of new products, all the way from their development phase, to prevent any quality issues following their initial release.

Key achievements in 2016
- Strengthened the operation of Q-Gate.
- Expanded the engagement of internal/external experts.
- Reinforced the management of mass-production versions following the completion of development.
- Laid the basis to conduct long-term reliability research in consideration of diverse use conditions.
- Established the Reliability Research Team (intrust).
- Developed testing equipment that allows for simulations under extreme conditions and varied use environments.

2017 plans
- Standardize the Q-Gate verification.
- Develop a system-level mandatory verification items by development phase and phase, and reinforce the long-term reliability verification at the research institute.
- Develop acceleration testing tools, matchability analysis tools, and lifespan prediction simulation tools.

Foster Six Sigma talent

Principle & Strategy
- Foster quality experts to improve our execution capability in quality management and improvement activities.

Key achievements in 2016
- Nurtured Six Sigma talent in the manufacturing and R&D sectors.
- Realized our talent training system across MBB/BB/GB levels.
- Reflected the job promotion results in our HR system.

2017 plans
- Revitalize the Six Sigma initiative by accelerating talent nurturing.
- Upgrade all employees in the development, manufacturing, and quality operations to the GB level.
- Accelerate the nurturing of BB-level employees.
- Foster key talent in respective subgroups to MBB.

QAS (Quality Assurance System)

Our quality management system takes a consistent and customer-centered viewpoint, from product planning to the provision of services. We reflect customer complaints and needs in all our processes, build and operate a quality assurance system from the customer’s perspective, and constantly upgrade our key infrastructure to implement a consistent quality strategy.

Quality Management Programs

To realize our Quality Vision, we at LG Hausys operate broad-ranged programs, from product development to sales, to establish our quality management system. We have also developed a supporting IT system to pay even closer attention to quality management.

Quality Management Programs

Resilience at the R&D Center

At LG Hausys, we monitor all our product line-ups for their quality in terms of market, development, production and use quality. Specifically, long-term reliability verifications are performed in the

QV (Quality Assurance System)

- QV (Quality Management) + QF (Quality Field) + QA (Quality Assurance) + QM (Quality Control) + QI (Quality Improvement)
- QF: Quality assurance of the finished product.
- RB: Reliable factors in the production process.
- MBB/BB/GB: Six Sigma Black Belt, Six Sigma Master Black Belt, Six Sigma Green Belt.

Key Infrastructure

Quality strategy from the customer’s perspective
- Develop acceleration testing tools.
- Matchability analysis tools.
- Develop a systemic list of mandatory verification items by consideration of diverse use conditions.
- Revitalize the Six Sigma initiative by accelerating talent nurturing.
- Strengthen the operation of Q-Gate.
- Reinforce the management of initial mass-production versions.
- Expanded the engagement of internal/external experts.

Quality Organization

- Quality planning
- Quality assurance
- Quality management
- Quality improvement
- Customer care quality
- Supplier quality

Sustainability Performance

Goal 3: Quality Indicators/Management Policy

- Establish a quality management system for customer satisfaction.
- Thorough quality management.
- Establish the Reliability Research Team (Institute).
- Developed testing equipment that allows for simulations under extreme conditions and varied use environments.
- Established the Q-Gate for new products.
- Developed a systemic list of mandatory verification items by consideration of diverse use conditions.
- Revitalize the Six Sigma initiative by accelerating talent nurturing.
- Strengthened the operation of Q-Gate.
- Reinforced the management of initial mass-production versions.
- Expanded the engagement of internal/external experts.
- Strengthened the operation of Q-Gate.
- Expanded the engagement of internal/external experts.
- Established the Q-Gate for new products.
- Developed a systemic list of mandatory verification items by consideration of diverse use conditions.
development phase to ensure that our consumers can use our products easily across wide-ranging conditions. To this end, our R&D Center is researching ways to verify the durability, light stability and weather resistance of our products, as well as acceleration testing methods, to verify quality in a more expedient and accurate manner. For products with urgent quality issues, we conduct precision analyses to identify root causes and to support the development of solutions to ultimately contribute to preventing the recurrence of such issues.

Fostering Six Sigma Talent
Since 2013, we have reinstituted our Six Sigma programs and laid the groundwork for them by offering quality training. In 2016, we aligned our MBB/BB/GB certification program with our HR system to strengthen our talent fostering policy. In so doing, we nurture problem-solving experts who take the lead in undertaking quality projects, and encourage our employees to engage in quality improvement initiatives. In 2017, we aim to reach 3.5% and 40% in the ratio of MBB and BB respectively.

Expanding Customer Communication
We operate wide-ranging communication channels, from on/off-line programs to community operation, in order to facilitate customer access to our products and to reflect their feedback in our products and business conduct.

Strengthening Online Customer Contact Points
We are diversifying our online contact points for customers. From the Z:IN brand website that provides total interior information to the Z:IN Mall where customers can purchase our materials and our corporate social network channels created to communicate with customers, we are reinforcing our online service to improve consumer accessibility to our products. In 2017, we plan to open a Z:IN instgram webpage to reflect the latest communication trends, and to identify premium content through Naver Post, an content platform operated by Korea’s largest online portal: Naver.

Z:ENNE
Z:ENNE represents our interior community that consists of our brand ambassadors and prosumers and is engaged in our overall product promotion and marketing activities. During their one year term, Z:ENNE disseminated the diverse news of LG Hausys through word of mouth and created high-quality content to ultimately serve as a communication channel between LG Hausys and its customers. From 2017 onwards, we expanded the scope of Z:ENNE member recruitment from Seoul and Gyeonggi to the whole nation to broaden its operational zone.

Represent customer needs and suggest possible improvements. These prosumers suggest their ideas on ZIN products and services to that we can create a green and healthy living environment for customers.

Perform on/off-line promotional activities in relation to Z:IN. These brand ambassadors practice the brand values of Z:IN – eco-friendliness, trust and expertise – and disseminate these values via on/off-line channels.

Create content from the customer’s perspective. These content creators observe Z:IN from the customer’s viewpoint and talk about the experience they have had with the interior solutions we offer.

Facilitating Customer Communities
Our representative interior community Z:ENNE, which consists of prosumers and brand ambassadors as well as our PPL (product placement programs) that sponsor our materials and showrooms for TV shows, allow us to take a step closer to our customers. By providing information to customers while collecting their instant feedback, we will deliver products and conduct business in a way that caters to customer needs.

Customer Data Privacy
We undertake broad-ranging security initiatives in accordance with Korea’s ‘Act on the Promotion of Information & Telecommunications Network Use and Information Protection’ and ‘Personal Information Protection Act.’ Furthermore, our capability to safeguard customer’s personal information was further enhanced as we obtained the ISMS (Information Security Management System) certification in April 2017. Notably, separate data privacy training is provided to our employees and supplier employees who handle customer’s personal information in their business operations. We also established company-wide data security policies and a long-term roadmap to strengthen our data security system and organization while operating a data security organization to improve relevant execution capabilities.

APPENDIX
Data Summary
Independent Assurance Statement
GRI G4.0/ISO 26000 Index
Membership and Initiatives
## Data Summary

### Economic Data

#### Profit/Loss Statement (Unit: KRW million)

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2015*</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>2,762,135</td>
<td>2,696,852</td>
<td>2,599,937</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>2,126,715</td>
<td>1,947,243</td>
<td>2,133,198</td>
</tr>
<tr>
<td>Gross profit</td>
<td>671,383</td>
<td>739,709</td>
<td>795,139</td>
</tr>
<tr>
<td>Selling &amp; administrative expenses</td>
<td>52,837</td>
<td>584,375</td>
<td>638,448</td>
</tr>
<tr>
<td>Operating income</td>
<td>148,583</td>
<td>155,294</td>
<td>150,997</td>
</tr>
<tr>
<td>Non-operating profit &amp; loss</td>
<td>△ 34,795</td>
<td>△ 39,186</td>
<td>△ 41,087</td>
</tr>
<tr>
<td>Continuing business profit before tax</td>
<td>113,816</td>
<td>116,166</td>
<td>115,181</td>
</tr>
<tr>
<td>Corporate tax</td>
<td>45,924</td>
<td>26,588</td>
<td>35,225</td>
</tr>
<tr>
<td>Profit &amp; loss from discontinued operation</td>
<td>△ 4,325</td>
<td>△ 18,416</td>
<td>△ 5,759</td>
</tr>
<tr>
<td>Net income</td>
<td>63,089</td>
<td>73,162</td>
<td>74,766</td>
</tr>
</tbody>
</table>

#### Balance Sheet (Unit: KRW million)

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2015*</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>931,684</td>
<td>1,064,985</td>
<td>1,051,445</td>
</tr>
<tr>
<td>Notes and accounts receivable</td>
<td>482,143</td>
<td>486,825</td>
<td>604,179</td>
</tr>
<tr>
<td>Inventories</td>
<td>249,218</td>
<td>264,776</td>
<td>268,539</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>1,092,765</td>
<td>1,235,271</td>
<td>1,234,937</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>992,493</td>
<td>1,110,499</td>
<td>1,113,613</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>32,616</td>
<td>21,195</td>
<td>0</td>
</tr>
<tr>
<td>Total assets</td>
<td>2,095,065</td>
<td>2,251,751</td>
<td>2,285,896</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>718,249</td>
<td>712,261</td>
<td>803,725</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>508,755</td>
<td>616,902</td>
<td>644,410</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,227,004</td>
<td>1,327,163</td>
<td>1,348,533</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>618,208</td>
<td>618,208</td>
<td>616,466</td>
</tr>
<tr>
<td>Other capital items</td>
<td>△ 8,189</td>
<td>△ 8,189</td>
<td>△ 8,189</td>
</tr>
<tr>
<td>Aggregate of other universal profit &amp; loss</td>
<td>△ 16,609</td>
<td>△ 12,060</td>
<td>△ 13,449</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>182,864</td>
<td>226,559</td>
<td>292,353</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>3,667</td>
<td>3,070</td>
<td>0</td>
</tr>
<tr>
<td>Total equity</td>
<td>830,847</td>
<td>973,588</td>
<td>937,367</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>2,095,065</td>
<td>2,251,751</td>
<td>2,285,896</td>
</tr>
</tbody>
</table>

* On a consolidated basis  

#### Risk Management Strategy

Due to our broad-ranging business operations, we are exposed to diverse financial risks from market risks and credit risks to currency risks. In general, our risk management policy focuses on minimizing any potentially negative impact on our financial outcomes.

### Risk Management System

Our central funding department (Financial Departments of companies who operate on a consolidated basis) is responsible for risk management, and the Financial Departments of companies that operate on a consolidated basis closely cooperate with their working-level departments in order to identify, assess and avoid financial risks. The central funding department provides not only documented policies on such specific areas as currency risks, interest rate risks, credit risks, the use of derivatives and non-derivatives and investments that exceed our available liquidity, but also on general risk management policies.

#### Market Risk Management

We systematically manage market-induced risks, which include currency risks as well as cash flow and fair value interest rate risks.

#### Currency Risk

Since our sales operations span the globe, we are exposed to currency risks and specifically to exchange rate risks related to the U.S. dollar. Currency risks usually occur in relation to expected future transactions as well as perceived assets and liabilities. Our top management develops policies so that companies that operate on a consolidated basis can manage the currency risks of their own functional currency, and such companies consult with their financial departments to manage their perceived assets and liabilities along with any possible currency risks related to expected future transactions. Currency risks occur when expected future transactions, as well as perceived assets and liabilities, are denominated in currencies other than functional currency. Thus, companies on a consolidated basis use their currency risk management model to ensure that their maximum currency losses generated by exposure to currency risks do not exceed the acceptable risk boundary. Meanwhile, we make a specified number of investments at our overseas worksites, and their net assets are exposed to currency translation risks. Such risks are managed by way of loans denominated in relevant currencies.

### Cash Flow and Fair Value Interest Rate Risks

At LG Hausys, our interest rate risks are primarily caused by loans. Loans extended at floating interest rates naturally expose us to cash flow and interest rate risks, and a portion of such interest rate risks are offset by the interest rate risks generated from cash equivalents at floating rates. Furthermore, loans extended at fixed interest rates expose companies that operate on a consolidated basis to fair value interest rate risks. As of the end of the reporting period, loans taken out by companies that operate on a consolidated basis with floating rates are floating-rate loans denominated in foreign currencies. Companies that operate on a consolidated basis perform multi-faceted analyses on their exposure to interest rate risks. They reduce the ratios of high-interest rate loans in their loan portfolio, improve on their long/short-term loan structure, conduct comparative analyses on loan conditions (fixed vs. floating rates), and monitor interest rate movements in Korea and overseas while developing countermeasures as a way to manage their interest rate risks. Based on such interest rate risk management policies, our profits/losses for the current term may increase or decrease by up to KRW 203 million (previous term: KRW 136 million) due to fluctuations in financial profits/losses that may occur when interest rates rise or dip by 0.1% in relation to loans at floating rates.

### Tax Strategy

LG Hausys stringently complies with the tax laws and relevant regulations of Korea and those nations where our overseas branches are based while faithfully meeting our obligation for tax reporting and payment. We implement tax policies to effectively reduce tax payments and prevent double taxation within the boundary of tax laws to strengthen our competitive edge in the global market and to enhance shareholders’ value. We also respond to the requirements of tax authorities in a reasonable manner. Each year, we specify in our audit report information on our corporate tax expenses, deferred corporate taxes and valid tax rates while externally disclosing such information through the Data Analysis, Retrieval and Transfer System of the Financial Supervisory Commission. In so doing, we vow to sincerely fulfill our responsibility to pay taxes in a transparent and sound manner so that we become a company respected by society and customers.
Creating and Distributing Material Economic Value

**Dividend payout to shareholders (KRW 100 million)** 18

**Goods and services purchased (KRW 100 million)** 1,785.5

**Salary, welfare benefits and retirement pay (KRW 100 million)** 405.8

**Corporate taxes & other taxes and public utility charges** 51.7

**Local community investment (KRW 100 million)** 1.7

**Employees** We paid our employees with salary, welfare benefits and retirement pay. We will continue to expand the distribution of economic value to our employees by sharing our business outcomes fairly and introducing diverse welfare programs.

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**Government** We transparently disclose the outcomes created through our business conduct, and faithfully pay corporate taxes, income taxes, real estate taxes and other taxes to the central and local governments.

**Suppliers** We procure goods and services from our suppliers and we maintain fair and sustained business relationships with them. In 2016, we purchased goods and services worth KRW 1,785.5 trillion in total from 1,413 suppliers. Nearly 44% of those purchases are made directly in the local community where we are based.

**Shareholders & investors** LG Hausys constantly strives to maximize value for shareholders who are the true owners of the company. We return profits we generated to our shareholders via cash dividend payout. In 2016, KRW 1,800-worth cash dividends per common share were paid to our shareholders, and our EPS amounted to KRW 7.52.

**Local community** We undertake social-giving initiatives via local infrastructure support funds, sponsorship for arts & educational events and programs. In so doing, we return the economic value that we generated to our local communities.

Data Summary

**Local Community**
- **Creating and Distributing Material Economic Value**
  - Dividend payout to shareholders (KRW 100 million): 18
  - Goods and services purchased (KRW 100 million): 1,785.5
  - Salary, welfare benefits and retirement pay (KRW 100 million): 405.8
  - Corporate taxes & other taxes and public utility charges: 51.7
  - Local community investment (KRW 100 million): 1.7

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**Environmental Data**

**Plant-Specific Environmental Data**

<table>
<thead>
<tr>
<th>Category</th>
<th>2014 (ton)</th>
<th>2015 (ton)</th>
<th>2016 (ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steam</td>
<td>54,493</td>
<td>53,335</td>
<td>52,291</td>
</tr>
<tr>
<td>Electricity</td>
<td>14,368</td>
<td>13,335</td>
<td>12,291</td>
</tr>
<tr>
<td>Gasoline</td>
<td>14,368</td>
<td>13,335</td>
<td>12,291</td>
</tr>
<tr>
<td>Diesel</td>
<td>14,368</td>
<td>13,335</td>
<td>12,291</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>83,525</td>
<td>79,969</td>
<td>77,873</td>
</tr>
</tbody>
</table>

**Management System Certification (Initial Certified Date)**

<table>
<thead>
<tr>
<th>Name of System</th>
<th>Ulsan</th>
<th>Cheongju</th>
<th>Oksan*</th>
<th>Tianjin</th>
<th>Atlanta</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISO 9001</td>
<td>2016</td>
<td>2017</td>
<td>2017</td>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>OHSAS 18001</td>
<td>2015</td>
<td>2015</td>
<td>2015</td>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>ISO14001</td>
<td>2013</td>
<td>2013</td>
<td>2015</td>
<td>2017</td>
<td>2017</td>
</tr>
</tbody>
</table>

* Our Oksan Plant was grouped together with our Cheongju Plant during the certification process and thus shares the same initial certification date.

**Consumption of Primary Raw Materials (ton, %)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2014 (ton)</th>
<th>2015 (ton)</th>
<th>2016 (ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PVC</td>
<td>138,241</td>
<td>136,278</td>
<td>134,312</td>
</tr>
<tr>
<td>Calcium carbonate</td>
<td>82,093</td>
<td>96,131</td>
<td>98,275</td>
</tr>
<tr>
<td>Plasticizer</td>
<td>33,701</td>
<td>31,345</td>
<td>30,089</td>
</tr>
<tr>
<td>MMA</td>
<td>17,982</td>
<td>19,040</td>
<td>19,790</td>
</tr>
<tr>
<td>Total</td>
<td>284,543</td>
<td>284,653</td>
<td>284,543</td>
</tr>
</tbody>
</table>

* Consumption of recycled materials: 2.673 t

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Independent Assurance Statement

Introduction
LG Hausys, Ltd. ("LG Hausys") commissioned DNV GL Business Assurance Korea Ltd. ("DNV GL"), part of DNV GL Group, to undertake independent assurance of Sustainability Report 2017 (the "Report"). DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review has been provided in good faith.

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

- Evaluation of the Report on the adherence to the principles for defining the sustainability report content set forth in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 4.0
- Evaluation of adherence to AccountAbility principles set forth in AA1000 Accountability Principles Standard (APS) 2008
- Evaluation of the process to determine the material aspects for reporting and the management approach to material issues and the process for generating, gathering and managing the quantitative and qualitative data in the Report.

Basis of Our Opinions
We performed our work as per AA1000AS (2008) and we provide Type 1 engagement and a moderate level of assurance as stated in AA1000AS. The audit was carried out in April through June 2017 and the site visits were made to the Headquarters and the site visits were made to the Headquarters in Seoul and Oksan Plant in Korea. We undertook the following activities as part of the assurance process:

- Challenged the sustainability-related statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls; interviewed representatives from the various departments
- Conducted document reviews, data sampling and interrogation of supporting databases and an associated reporting system as they relate to selected content and performance data; reviewed the materiality assessment report
- Paid site visits to LG Hausys' Oksan Plant and tested its data gathering process

Limitations
The engagement excludes the sustainability management, performance and reporting practices of LG Hausys’ associated companies, subsidiaries, suppliers, contractors and any third-parties mentioned in the Report. DNV GL did not interview external stakeholders as part of this Assurance Engagement. Financial statements of LG Hausys, data announced on DART system of the Financial Supervisory Service (http://dart.fss.or.kr), and data on its website (www.ghausys.co.kr) are not included in the scope of assurance. Data assurance was conducted by checking the basis in a limited scope, including inquiry, analysis, and limited sampling method, on the data collected by LG Hausys. The aggregation and calculation process for building economic performances is reviewed by the verification team. Also, environmental and social data were verified using the aggregated data. The directors of LG Hausys have sole responsibility for the preparation of the Report. The responsibility of DNV GL in performing the assurance work is to the management of LG Hausys in accordance with the terms of reference. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Conclusions
On the basis of the work undertaken, nothing comes to our attention to suggest that the Report does not properly describe the adherence to the Principles in AA1000AS (2008) nor is prepared 'in accordance' with GRI G4 Core option. Further opinions with regards to the adherence to the following Principles in the AA1000AS (2008) are made below:

The Foundation Principle of inclusivity
LG Hausys has identified internal and external stakeholder groups such as Shareholders and Investors, Employees, Customers, Suppliers, Local Communities. LG Hausys engages with the stakeholders at the company and business unit levels through various channels. In the future, LG Hausys could present the reasonable expectations and interests of stakeholders and report more actively corresponding actions taken in the Report.

The Principle of Materiality
LG Hausys has conducted materiality assessment to prepare the Report. 35 issues have been derived by analyzing the topics covered in various global initiatives and standards, industry peers’ reports and journalists reports. Subsequently 6 material issues are prioritized based on the stakeholder survey results. In particular, LG Hausys has tried to normalize materiality assessment result with internal sustainability panel consisting of the representatives from respective departments. The verification team has reviewed the materiality assessment process and nothing comes to our attention that would cause us to believe that material issues identified from the assessment are not reported.

The Principle of Responsiveness
LG Hausys has established the sustainability governance and implements sustainability management. Stakeholders’ opinions and expectations are considered. Sustainability key issues for each area are presented with performances in 2016, management plan for 2017 and mid-to-long-term goals, which helps a reader of the Report understand the sustainability of LG Hausys. The Report covers all sustainability aspects including economic, environmental and social. The verification team has reviewed the governance and performance management processes. Nothing comes to our attention that would cause us to believe that the Report does not respond to stakeholder issues that affect its performance.

Accuracy & Reliability
We found a limited number of non-material errors and these were corrected prior to inclusion in the Report. The data presented in the report were gathered from the teams responsible for data control in LG Hausys. The verification team interviewed the Person-in-Charge, reviewed the process of gathering and processing data and information, and the supporting documents and records. The depth of data verification is limited to the aggregated data. Based on sampling verification and other reported information and available evidence, nothing comes to our attention that would cause us to believe that the data and information presented in the Report have any intentional error or material misstatement.

Findings in Relation to Specific Sustainability Performance Information
DNV GL reviewed Other indirect greenhouse gas emissions (Scope 3 emissions) in 2016 for purchased goods and services, downstream leased assets, upstream and downstream transportation and distribution, Waste generated from operations, employee commuting and overseas business trip. The emission is calculated in the GHG accounting tool (MS-Excel based) provided by LG Hausys. Nothing comes to our attention that would cause us to believe that the Scope3 emissions presented in the Report have any intentional error or material misstatement. As part of the verification process, the audit team:

- Reviewed formula and emission factors applied in LG Hausys’ Scope 3 accounting tool (MS-Excel based)
- Interviewed data owner of LG Hausys’ for the emission information and data collection process.

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

June 2017
Seoul, Korea

In Kyoon Ahn
Country Representative
DNV GL Business Assurance Korea Ltd.
The LG Hausys Sustainability Report 2017 was prepared in accordance with the Core Options of the GRI (Global Reporting Initiative) G4 Guidelines, and indicates the level of reporting for both general and specific standard disclosures as well as external assurance indexes.
## GRI G4.0/ISO 26000 INDEX

### GRI G4 Specific Standard Disclosures-Other Disclosures

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- Significant risks identified operations with significant actual and potential negative impacts on local development programs.
- Percentages of new suppliers that were screened using human rights criteria.
- Total number and percentage of operations that have been subject to human rights reviews or monitoring.
- Significant environmental impacts of transporting products and other goods and materials for the organization’s operations, and transporting members of the workforce.
- Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
- Proportion of spending on local suppliers at significant locations of operation.
- Significant indirect economic impacts, including the extent of impacts on the organization’s operations, and transporting members of the workforce.
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- Percentage of new suppliers that were screened using labor practices criteria.
- Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.
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Membership and Initiatives

Membership

| Korea Chamber of Commerce and Industry | Korea Fair Competition Federation | Korea Specialty Construction Association |
| Korea Vinyl Environmental Council | Korea Employers Federation | Korea Economic Research Institute |
| Korea Listed Companies Association | Green Company Council | Korea Air Cleaning Association |
| Korea Packaging Recycling Cooperative | Korean Association of Occupational Health Nurses | Korean Association of Occupational Health Nurses |
| Korea Industrial Safety Association | Korea Fire Safety Association | Korea Environmental Preservation Association |
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This Report was Prepared By

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