

*Healthy  
Beautiful  
Refreshing*



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# Report Overview & Features

This is LG Household & Health Care, Ltd. (LG H&H)'s first Sustainability Report which is intended to disclose our sustainability efforts and performance to all stakeholders. We will continue our endeavors to communicate with our stakeholders through the annual publication of the Report.

## Report Overview

### Reporting Scope and Period

The scope of this Sustainability Report includes the economic, environmental and social performance of LG H&H's Seoul head office and four worksites (Cheongju, Ulsan, Onsan and Naju), and Coca-Cola Beverage Company's three worksites (Yeoju, Yangsan, Gwangju) acquired in October 2007. This Report covers the calendar year 2009 from 1 January to 31 December. For some data, the stated timeframe was extended to three years to identify trends. For issues deemed important to business activities, the stated timeframe was extended until the publication of the Report.

### Reporting Principle and Availability

The Report was prepared in line with the Global Reporting Initiative's (GRI) G3 guidelines. The full report is published in Korean and English and is made available through our company website (<http://www.lgcare.com>).

### Reporting Process

For the publication of the Report, key sustainability issues were selected based on in-depth interviews with various stakeholders and materiality test. The Sustainability Report TFT comprised employees from each department who planned, collected, prepared and reviewed the Report. Information on stakeholder engagement and materiality test can be found on pages 16~17 and TFT on page 88 of the Report.

### Assurance

To increase reliability of the Report, Korea Productivity Center was commissioned to conduct third-party assurance. The assurance was carried out in accordance with AA1000APS and AA1000AS (2008). Please refer to pages 80~81 for the assurance statement.

## Report Features

01. Structure that is focused on sustainability management strategy

The Report is structured around our four sustainability strategies of products, operations, social responsibility and communication.

02. Identification of sustainability management issues via in-depth interviews

Key sustainability issues were derived through in-depth interviews with stakeholders who offered expert opinions.

03. Disclosures on management approach

Disclosures on Management Approach (DMA) were provided for each performance area. They were further specified into detailed tasks and future action plans.

04. Inclusion of Coca-Cola Beverage Company

Reported sustainability performance of subsidiary Coca-Cola Beverage Company (refer to the sector on LG H&H for information regarding strategy, system and HR that apply the same standards)

## CEO Message

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Our strategic priorities are securing leadership in sustainable products, shifting to sustainable operations, improving quality of community life through social contribution and enhancing communication with stakeholders.

LG H&H is committed to fulfilling its economic, environmental and social responsibilities to become an admired and respected company.





**Dear stakeholders,**

As we stand at the dawn of a new decade, we face the daunting task of responding proactively to accelerating changes in the global economy. More than ever, businesses are reexamining priorities and values amid growing calls for environmental accountability with regards to tougher control on hazardous materials and reduction of greenhouse gas emissions. We are required a new strategic priorities, differentiated from the past, in an ethical and transparent way.

Under this background, LG H&H has established 2009 sustainability management strategies for responding proactively to the potential risks and reaching sustainable growth. To this end, we have identified sustainability strategies and established a dedicated team to pursue related tasks. In 2009, LG H&H reached a new high performance in sales and profits. We also secured future growth drivers by taking over THEFACESHOP and Diamond Pure Water. In terms of environmental sustainability, we made significant progress in reducing greenhouse gas emissions through development of green products and facility improvements. We redefined our social contribution program to focus on activities relevant to our business and expanded the scope and scale of our actions.

In 2010, we plan to pursue the following four strategies to strengthen our platform of sustainability management.

First, we will extend the development of sustainable product for 'Secure leadership in sustainable products'. To this end, we will continue to nurture our eco beauty brand 'Beyond' and naturalistic brand 'Borrowing Earth'. At the same time, we will intensify the use of natural and organic ingredients in our products and focus on the product development to reduce the use of energy and resources, and minimize waste production.

Second, we will minimize the environmental impact by business management for 'Shift to sustainable operations'. We are committed to reducing our environmental impact through such actions as devising a master plan to control greenhouse gas emissions and building up the inventory of greenhouse gas at worksites, research centers and logistics network. We will also increase green procurement to encourage our business partners to be more environmentally responsible.

Third, we will improve quality of community life through social contribution. To this end, we will establish a culture of sharing by increasing the scope and scale of our community initiatives and offering greater employee volunteering opportunities.

Fourth, we will enhance communication with stakeholders. We will implement diverse channels to communicate with our customers, shareholders and employees to increase their engagement and incorporate their views in our decision-making process.

LG H&H, which delivers beauty and dreams to consumers, will remain focused on fulfilling its economic, environmental and social responsibilities to become an admired and respected company.

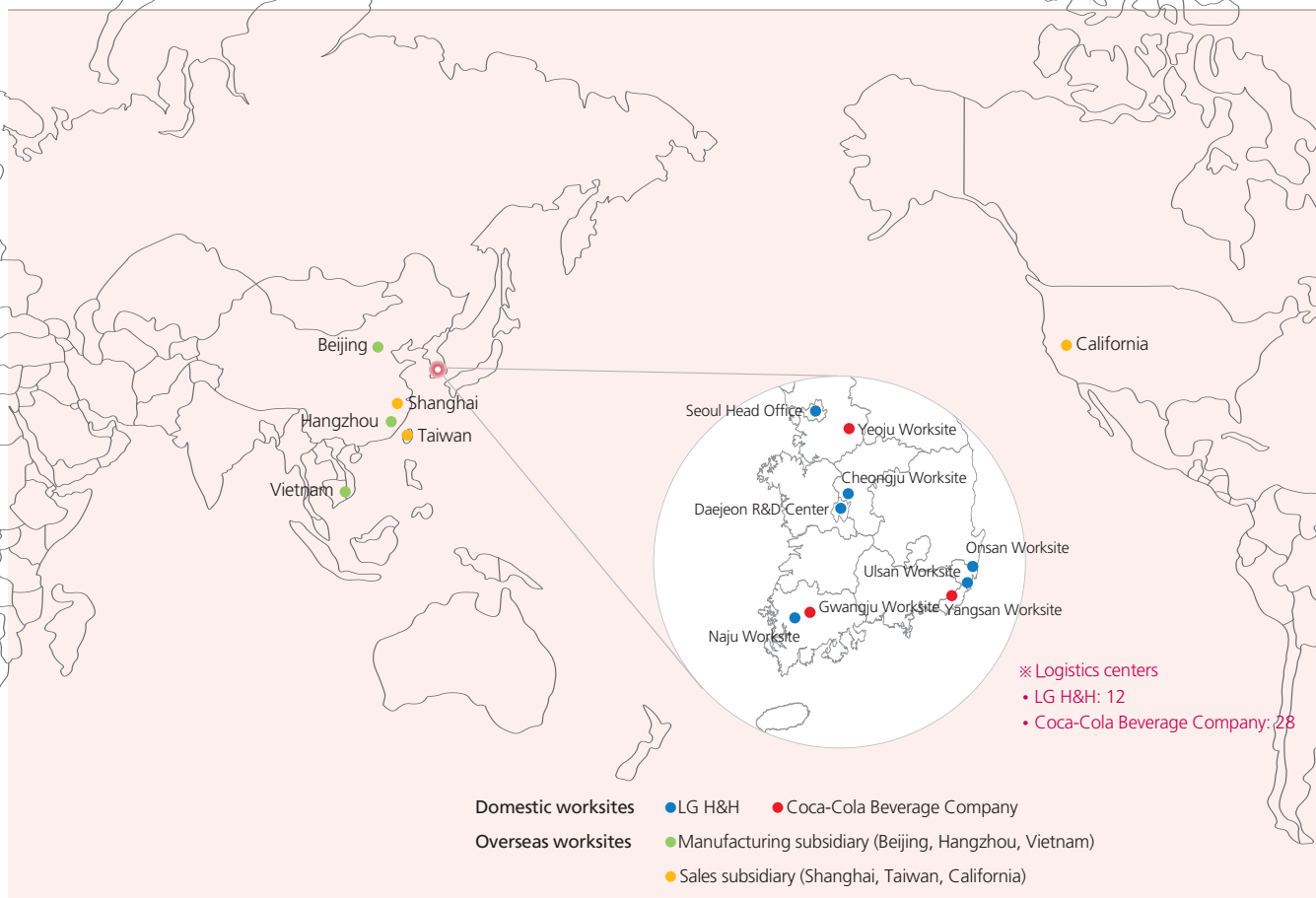
We invite your support and encouragement throughout this journey.

Thank you.

April 2010  
CEO, Sook Cha



## Company Overview



### Company Profile

(as of end of Dec. 2009)

Head office	LG Twin Towers, 20 Yeouido-dong, Yeongdeungpo-gu, Seoul
Establishment date	January 1947
No. of employees	2,893 persons
Total assets	KRW 1,120.6 billion
Total shareholders' equity	KRW 620 billion
Sales	Parent: KRW 1,525.1 billion Consolidated: KRW 2,216.5 billion (IFRS-compliant)
Operating income	Parent: KRW 198.1 billion Consolidated: KRW 228.1 billion (IFRS-compliant)
Credit rating	AA (Korea Investors Service, Korea Ratings)

### Status of Domestic and Overseas Operations

Company name	Location	Equity capital	Equity ratio
Coca-Cola Beverage Company	Korea	KRW 100 billion	90.00
Diamond Pure Water Co., Ltd.	Korea	KRW 200 million	100.00
THEFACESHOP Korea Co., Ltd.*	Korea	KRW 890 million	90.00
Beijing LG Household & Health Care Co., Ltd.	Beijing, China	USD 11,430,000	78.00
Hangzhou LG Cosmetics Co., Ltd.	Hangzhou, China	USD 7,000,000	81.71
LG Household & Health Care Trading (Shanghai) Co., Ltd.	Shanghai, China	USD 2,950,000	100.00
LG Household & Health Care (Taiwan), Ltd.	Taipei, Taiwan	USD 2,000,000	90.00
LG VINA Cosmetics Company Limited	Dong Nai, Vietnam	USD 7,500,000	60.00
LG Household & Health Care America Inc.	California, USA	USD 1,000,000	100.00

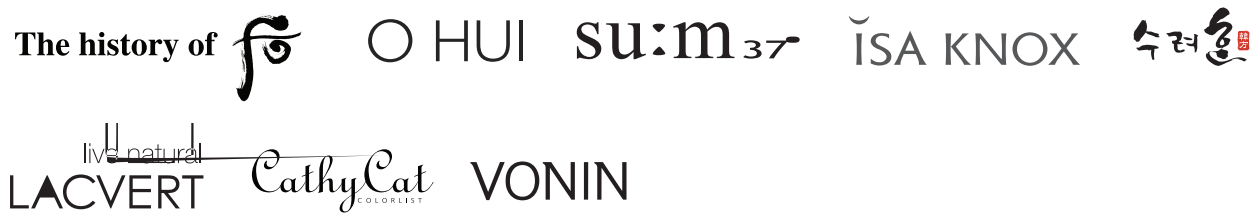
\* Incorporated as a subsidiary as of January 2010. The equity capital is as of end of March 2010.

| Major Brands |

• Healthy



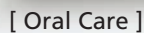
• Beautiful



• Refreshing



# HEALTHY







[ Home Care ]



[ Fabric Care ]



[ Paper Products ]



[ Others ]

Beauty, the value beyond everything

# BEAUTIFUL

The cosmetics business is realizing people's aspiration for beauty by offering premium products based on outstanding creativity and technology to meet diverse consumer needs.



[ The History of Whoo ]



[ OHUI ]





[ su:m37 ]



[ SooRyeHan ]

[ İSA KNOX ]

[ VONIN ]

[ LACVERT ]



[ SooRyeHan Soo ]



[ BEAUTI PLEX ]



Stimulus to  
monotonous daily routine

# REFRESHING



The beverage business has met the consumer needs for health and taste by offering a variety of refreshments including the ever-popular Coca-Cola as well as a bevy of other soft drinks, fruit juices, lifestyle beverages and sports drinks that delight consumer taste buds.









03



05



04

## 2009 Highlights / Top 10

### 01. Record Earnings

In 2009, LG H&H achieved the highest earnings since its inception. Sales grew 12.6% over the previous year to post KRW 1,525.1 billion while operating income rose 29.0% to KRW 198.1 billion. Backed up by the increase in sales of premium products and economies of scale, the operating income of our household business and cosmetics business rose 24.4% and 34.1%, respectively. In particular, accelerated growth of the household business greatly contributed to our overall performance.

### 02. Establishment of Sustainability Management Strategy

To generate stable and sustainable growth in a rapidly changing business climate and achieve mid-to long-term vision, we established the vision of becoming the 'The Best Sustainable Fast Moving Consumer Goods (FMCG) Company' in the first half of 2009. Under the vision, we identified four strategic priorities and set detailed action plans. Also, the Sustainability Management Team was newly launched to pursue companywide sustainability initiatives and coordinate interdepartmental cooperation.

### 03. Acquisition of THEFACESHOP

For effective entry into the growing mass market (mid to low-end cosmetics market), we took over THEFACESHOP. The acquisition is expected to strengthen our market position and create greater synergies by leveraging LG H&H's business expertise and THEFACESHOP's

extensive distribution channel. Moreover, it will allow us to capture consumers of all age groups by building diverse product portfolios.

### 04. Launch of LG H&H Music Academy

'LG H&H Music Academy' is a new social contribution initiative aimed at youths. Collaborating with the Seoul Royal Symphony Orchestra and the Juilliard School of Music, the Academy offers talented elementary, junior and high school students a chance to receive professional and systematic classical training. A total of 66 students selected as the first group will take part in one-on-one lessons, special classes, orchestral sessions and other high quality education.

### 05. Launch of Stem Cell-based Cosmetics

In June 2009, we entered into a strategic partnership with CHA Bio&, which owns stem cell technology, to develop Korea's first stem cell based cosmetics line, 'O HUI the First.' The line contains ingredients from stem cell extracts which were developed at Cha stem cell research center to fight signs of aging, wrinkles and enlarged pores.



06



07



08



#### 06. Launch of the Convenient Laundry Sheet

We introduced laundry sheets which are easy to use and good for the environment compared to conventional liquid or powder-type products. A pre-measured amount of ultra concentrated detergent is contained in a sheet of specially manufactured felt. A box containing 40 sheets weighs only 0.4kg, one tenth of that of liquid detergent. The product received the Ministry of Environment certified eco-label for reducing water pollution and using green packaging.

#### 07. Suk Cha, CEO Named Best Executive in Korea

Suk Cha, CEO of LG H&H was selected as the best CEO in Korea for 2009 by financial economic newspaper Asiamoney, which is an affiliate of Euromoney. He was selected for playing to key strengths and continuing to deliver shareholder value since taking over the keys of LG H&H. It also praised his leadership in successfully crossing over to the beverages business and building a respectable market presence.

In addition, the CEO was lauded for making well-timed acquisitions and partnerships, inking a strategic alliance with Danone to distribute its yogurt products and also acquiring THEFACESHOP.

09



#### 08. DJSI Korea\* Ranks LG H&H No.1 in Personal Care Sector

LG H&H was the highest-ranking firm in the personal care sector in the Dow Jones Sustainability Korea Index (DJSI Korea), the world's first national index tracking companies' sustainability performance. We received high marks not only in financial performance but also in non-financial performance including environmental and social responsibility.

\*DJSI Korea: DJSI Korea: Korea Productivity Center, Dow Jones (US-based leading global index provider) and SAM (Swiss-based sustainability assessment and investment firm, Sustainable Asset Management) jointly track and assess the stock performance of the top 200 companies in Korea in terms of sustainability.

#### 09. The Most Admired Company in Korea

Korea Management Association Consulting awarded LG H&H the top honor of Most Admired Company in Korea. The award is given to companies that generate outstanding business performance through ongoing innovation and contribute to society with CSR activities. The award reaffirmed our excellence in leadership, strategy and performance.

#### 10. Environment Minister Award in Promoting Green Industry

We expanded our portfolio of eco beauty brands like 'Beyond' and 'Borrowing Earth' and promoted green procurement to greatly enhance resource efficiency. Our efforts were recognized with the Environment Minister's Award for Green Industry Development & Low Carbon Green Growth in October 2009.

## Sustainability Management Strategy

Under our sustainability vision of 'The Best Sustainable Fast Moving Consumer Goods (FMCG) Company,' we have identified four strategic priorities.

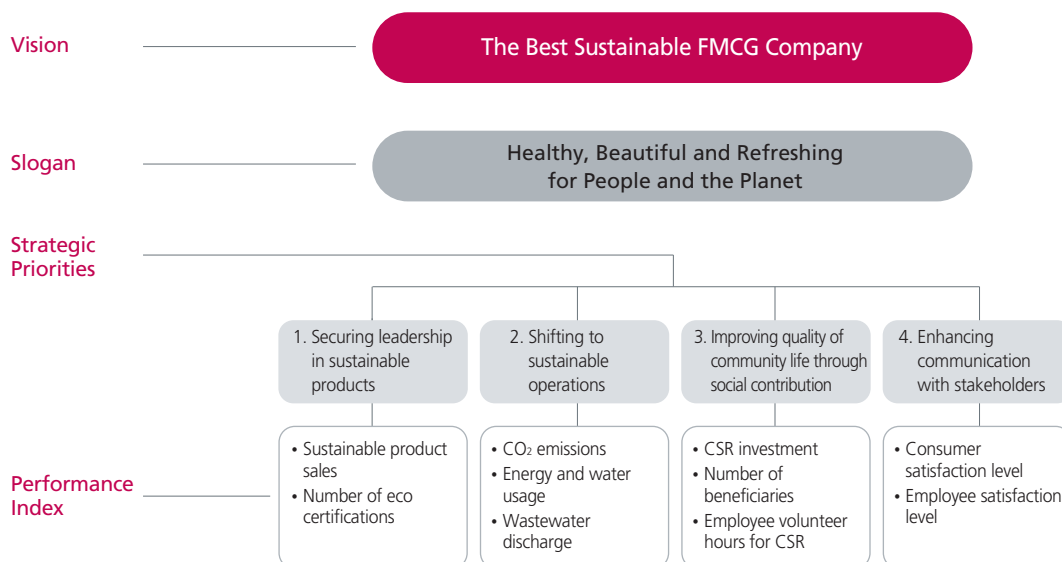
### Direction of Sustainability Management Strategy

In this rapidly-changing business landscape, we believe a systematic approach to sustainable management is crucial to developing into a company that fulfills its economic, environmental and social responsibilities. That is why in 2009, we conducted an internal evaluation to identify and address key sustainability issues that are material to our business.

This process enabled us to set the vision of 'The Best Sustainable Fast Moving Consumer Goods (FMCG) Company,' and the slogan 'Healthy, Beautiful and Refreshing for People and the Planet,' under which we will pursue four strategic priorities of products, operations, social contribution and communication.

Moving forward, we plan to refine our performance index to monitor the execution of strategic tasks and set more detailed goals. We will discuss our various initiatives and progress with stakeholders through the annual publication of Sustainability Report.

### I Sustainability Vision and Strategy I

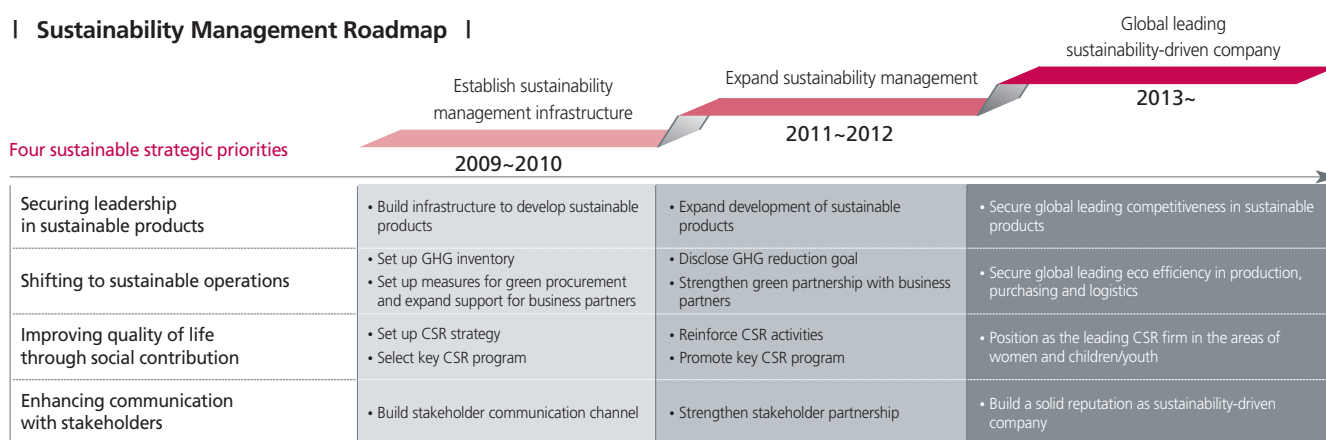


### Mid-to Long-Term Sustainability Management Plan

A three-phase roadmap was set up to determine specific long-term goals for sustainable management and pursue the systematic business. Under each phase, we identified a set of tasks and objectives. The first phase of the roadmap involves building an infrastructure for sustainable management.

To achieve our management vision, we will focus on streamlining our organization and setting up the necessary infrastructure. This will help us to continue to the second and third phases of the roadmap, which are expanding sustainable management (2011 to 2012) and becoming a global leading sustainability-driven company (2013~).

### I Sustainability Management Roadmap I

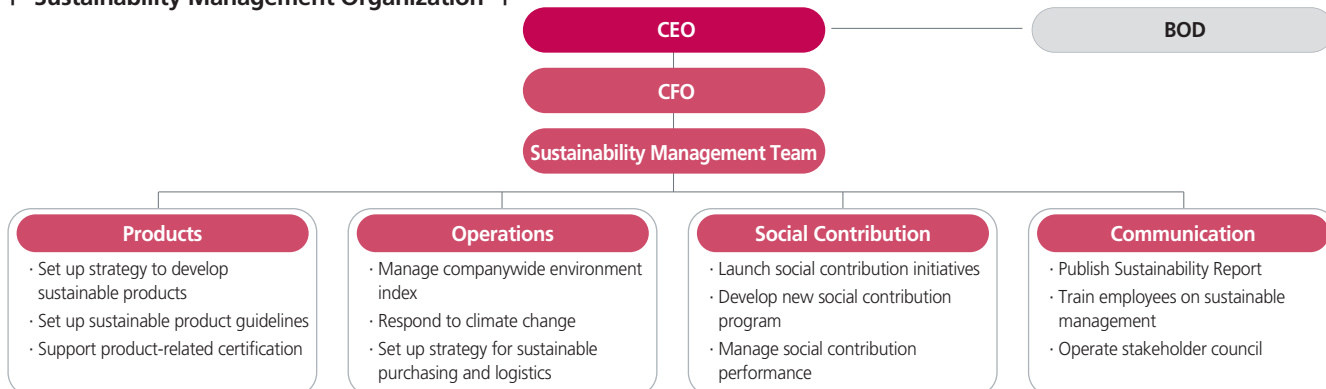


### Sustainability Management System

In July 2009, we launched the Sustainability Management Team to ensure that we take a more structured and systematic approach in pursuing sustainable strategies. The team is tasked to strengthen the company's sustainable growth by achieving balanced progress in economic, environmental and social issues and promote stakeholder engagement.

Its role includes executing and monitoring sustainability-related challenges, creating consensus within the company and raising awareness regarding external stakeholders. In addition, the team is responsible for classifying sustainability related issues into four strategic priorities of products, operations, social contribution and communication and effectively conveying the CEO's sustainability commitment to stakeholders.

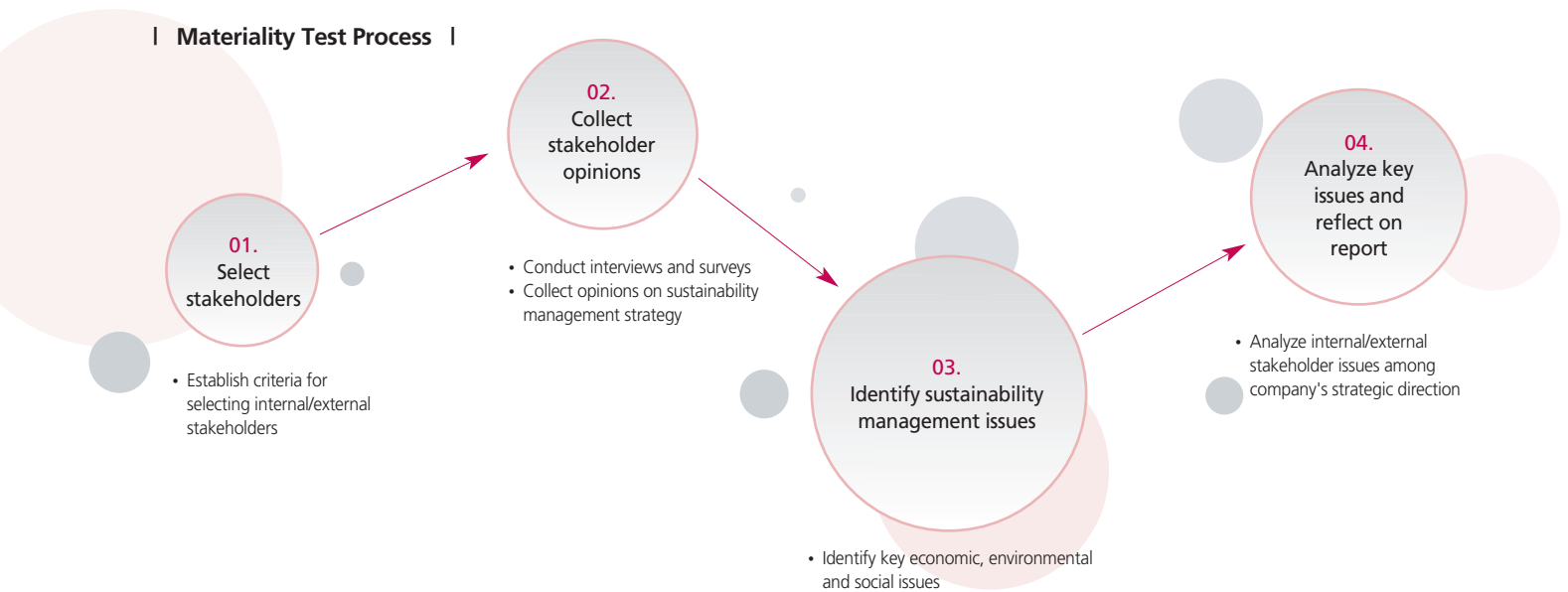
### I Sustainability Management Organization I



## Materiality Test

The core objective of a sustainability report is to reveal information related to the key economic, environmental and social issues that are relevant to our business and stakeholders. To identify LG H&H's key material issues, we conducted a materiality test by engaging stakeholders.

### | Materiality Test Process |



**Select of Stakeholders** LG H&H adheres to an internal set of criteria to select internal and external stakeholders who are most impacted by our business activities, products or services, or play significant roles in the company's ability to successfully implement its business strategy and achieve goals.

**Collect Stakeholder Opinions** We gathered opinions on our sustainable management strategy through stakeholder interviews and surveys. Additionally, an internal strategy review, media analysis, focus group interview and benchmarking of other companies' sustainability reports were conducted to determine the management issues that are of greatest significance to stakeholders. Additionally, we held a workshop in November 2009 to promote greater awareness of sustainability among our employees and to identify the key issues for internal stakeholders.

• List of interviewed stakeholders (organizations)  
 Center for Corporate Social Responsibility, Ministry of Labor, Busan Regional Ministry of Labor, Be Communications, Samsung Global Environment Research Center, Solability, The Beautiful Foundation, SFC, Yonhee Chemical, Woori Bank, Ulsan Fire Station, Wonji Co. Ltd, Business Institute for Sustainable Development (BISD), POSCO Research Institute, Korea Ratings, Korea National Council of Consumer Organizations, Korea Environment & Resources Corporation (ENVICO), Korea Green Foundation, Nakdong River Basin Environmental Office, LG Corp. and LG Economic Research Institute.

### | Communication Channel |



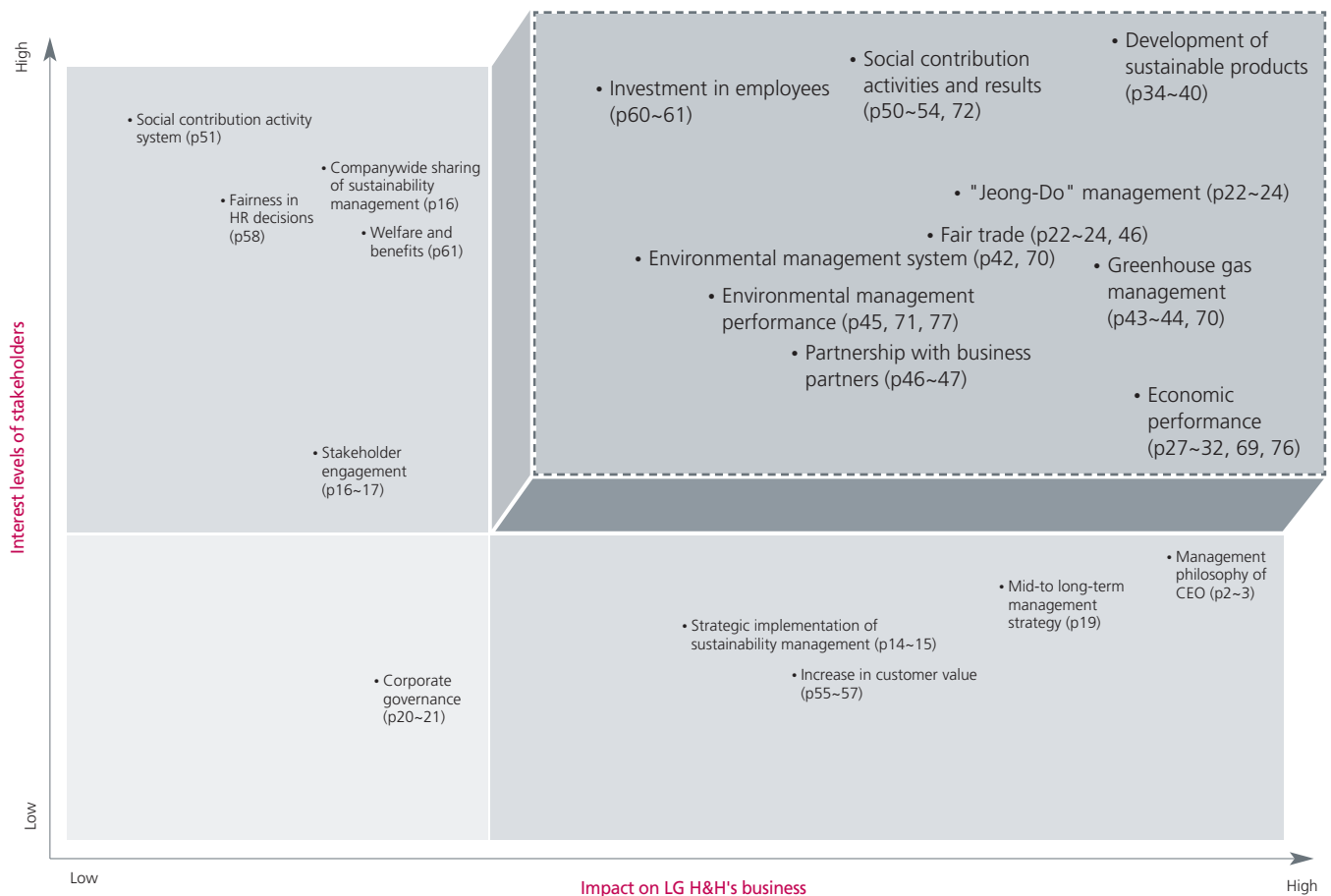


**Identify Sustainability Management Issues** An internal review of management issues derived from stakeholders identifies the sustainability management issues of greatest significance to the company's economic, environmental and social activities in relation to its business activities, products and services.

**Analyze Key Issues and Reflect on Report** After analyzing the impact on the company's business and interest levels of stakeholders, a total of 20 issues were extracted for the materiality test. Key issues and their application on the Report are detailed below.

**Future Plans** LG H&H plans to implement a process of identifying the issues most important to stakeholders, reflecting those issues on our sustainable management strategy and then reporting on our progress. Additionally, we will organize regular forums and other communications channels to collect and reflect the diverse opinions of stakeholders. Our long-term goal is to understand the major management issues from the viewpoint of stakeholders, manage our progress and publish a report that contains the voice of our stakeholders.

## I Results of Materiality Test I



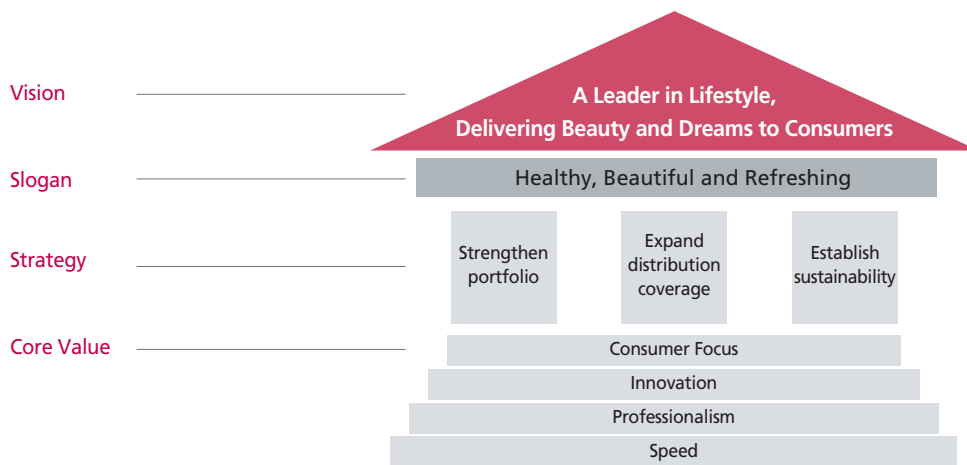
# *Management System & Economic Performance*

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# Vision and Mid-to Long-Term Strategy

Staying true to its vision of a leading lifestyle company, LG H&H is nurturing a creative corporate culture to provide products and services that contribute towards bringing greater health, beauty and happiness to consumers.

## I Vision of LG H&H I



### Vision

'Beauty and Dreams to Consumers' refers to eternal beauty, health, youth and style which are desired by people to realize a fuller life. 'A Leader' alludes to our ambitions to become the no.1 company in financial performance such as profitability, growth and stability, as well as market competitiveness and personnel management. A 'in Lifestyle' is a company that contributes to bringing greater health, beauty, convenience and fun to customers' lives and upgrades their lifestyles.

### Mid-to Long-Term Strategy

**Strengthen Portfolio** LG H&H will strengthen and expand its product portfolio by providing differentiated value and core benefits that meet customer desires in the areas of 'Healthy, Beautiful and Refreshing.'

**Expand Distribution Coverage** LG H&H will diversify its sales channels so that customers can purchase the products they want, when and where they want, and build distribution competitiveness.

### Establish Sustainability

Our long-term objective is to minimize business risks and establish a management strategy that allows us to achieve sustainable growth. To this end, we are promoting creative ideas and active communication within our organization and implementing a rational yet speedy decision making system. Furthermore, we are readying the foundation for sustainable management as a company that fulfills its environmental and social responsibilities.

### Core Value

#### • Consumer Focus

We always strive to provide superior value to customers with a customer-focused approach in the way we think and act.

#### • Innovation

We collect and implement creative ideas by nurturing a liberal and flexible way of thinking to further challenge ourselves.

#### • Professionalism

We constantly hone our expertise and skills, and approach our duties with a results-oriented mindset, doing our best and taking responsibility for the outcome.

#### • Speed

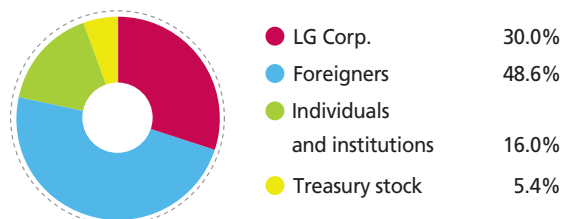
We respond nimbly to customer needs as a first mover, providing customers with differentiated products and services one step ahead of peers to lead industry trends.

## Corporate Governance

On the basis of transparent corporate governance that was established following the launch of LG Corp. holding company, LG H&H is maximizing corporate value by adopting responsible management by professional managers and operation of a board of directors in a independent and specialized way.

LG H&H established a transparent corporate governance system with the launch of LG Corp. holding company and is maximizing corporate value by adopting responsible management practices that are overseen by professional managers and a board of directors comprising independent experts. Additionally, we collect the opinions of customers, shareholders and employees and actively reflect them on the way we run our business.

### I Key Shareholders I



• As of end of December, 2009 (includes preferred stock)

### Ownership Structure

#### Improvement in Corporate Governance

The launch of a holding company structure in 2003 removed the issue of cross-holding among subsidiaries and paved the way for stability and transparency in our corporate governance. Building upon such improvements, LG H&H further enhanced the transparency and efficiency of its operations to faithfully reflect the original objective of the holding company's launch, namely that the holding company will be responsible for investments and subsidiaries will concentrate on operations.

#### Shareholders

As of the end of 2009, the total number of issued shares (including preferred shares) was 17,717,894. LG Corp. was the largest shareholder with a 30.0% stake. At every annual general shareholders' meeting, the CEO reports on the company's performance to shareholders and provides an opportunity for shareholders to submit opinions on the company's decision making or other management-related issues. Key management issues related to investors' profits are disclosed on a timely basis to Korea Stock Exchange and posted on our company website.

### I Board of Directors I

(as of end of March, 2010)

Category	Name	Key positions	Role
Inside directors	Suk Cha	CEO of LG H&H	Chairman of the Board, CEO
	Kyoo-il Lee	CFO of LG H&H	CFO
	Joo-hyung Kim	President of LG Economic Research Institute	Non-executive Director
Outside directors	Hee-jin Noh	Former director at Korea Money & Finance Association, current head of Policies & Regulations at Korea Capital Market Institute	Head of Audit Committee
	Young-hye Lee	Former Visiting professor at Dongduk Women's University's School of Design, current CEO of Design House Inc.	Director
	Sung-tae Hong	Former Assistant Professor at Dept. of Marketing, University of Missouri, current professor at Dept. of Business Administration, Hanyang University	Member of Audit Committee
	Kie-bae Yi	Former chief of Suwon District Prosecutor's Office, current head attorney at law office, Law World	Member of Audit Committee

## Management-decision Making System

### Formation and Operation of BOD

The board of directors of LG H&H comprises seven directors appointed by general shareholders' meeting, four of whom are outside directors. The outside directors bring a wealth of knowledge and experience from their respective fields of business, design and law. In addition to providing valued opinions on how the company runs its business, the outside directors monitor and check key issues related to the company's operations.

The selection of outside directors was mainly determined by the individual's expertise in the economic, environmental and social sectors. The directors state their opinions on important company decisions from the viewpoint of sustainability, provide valued advice, evaluate and review the company's performance in detail. Compensation for inside and outside directors comprises an annual base salary within the ceiling as approved by the shareholders' meeting and incentives that are linked to the company's business performance.

### | BOD Meetings |

Year	Key resolutions	No. of meetings	Attendance rate*
2007	Approving the acquisition of Coca-Cola Korea Bottling Company	11	84%
2008	Approving the establishment of a sales subsidiary in Taiwan	14	85%
2009	Approving the capital increase of Vietnam subsidiary	12	94%
	Approving the acquisition of Diamond Pure Water		
	Approving the acquisition of THEFACESHOP		

\* Attendance rate represents the attendance of outside directors

The BOD holds regular meetings according to the pre-set annual operations plan, and convenes extraordinary meetings whenever the need arises due to unforeseen business developments. To prevent conflict of interests during resolutions, the voting rights of stakeholders who have interest in certain motions are limited according to commercial law and our own BOD regulations.

To ensure that the BOD fulfills its role as the de facto highest decision-making body of the company, an employee within the legal team is designated to support outside directors. The employee is responsible for sending material to outside directors sufficiently prior to meetings to allow for their careful analysis and review. Furthermore, the employee provides additional explanations upon the request of outside directors.

### Activities of Audit Committee

The Audit Committee is comprised of three outside directors, including the committee head. It is operated from an independent position, according to the operation regulations on the Audit Committee, which are separate from those for the BOD. The Audit Committee convened four times in 2009, five times in 2008 and four times in 2007. The committee is responsible for establishing and executing an internal audit plan, as well as approving quarterly audit reports submitted by external auditors.

## Gathering Opinions of Stakeholders and Reflection on Management Decisions

LG H&H is striving to listen to the voices of internal and external stakeholders who include our customers, shareholders and employees, and reflect their opinions on the company's decision-making process and business activities.

Investor information on our business, finances and stocks are posted on the company's website to enable easy access to shareholders. Additionally, shareholders can share their opinions on the company via an online communications space.

Customers can also submit diverse opinions, some of which are posted on our intranet system to be shared with all employees. Additionally, our regular company meetings serve as opportunities for the company to share its business performance, management strategy and vision with employees.

## "Jeong-Do" Management

**"Jeong-Do" management, or management by principle, is LG's unique application of ethics. It is our core management value designed to foster the competencies necessary to succeed in any competition and produce tangible business performance.**

### "Jeong-Do" Management at LG H&H

For LG H&H, "Jeong-Do" (the right way) management is about engaging in fair and transparent competition to earn the genuine respect of customers; being an honest company that fulfills its responsibility to business partners, shareholders, employees and society; and pursuing management that is grounded on the principles of fairness, honesty and trustworthiness. In sum, "Jeong-Do" management means more than simply complying with related rules and corporate ethics. It encompasses ethical management and fair transactions, and is the core value of our business activities to realize our responsibility to customers and society. "Jeong-Do" management serves as the cornerstone for sustainable growth.

### Process of "Jeong-Do" Management

To ensure that a culture of fair transactions takes root in dealings with business partners and within our own organization, LG established the Center for Reporting Unfair Transaction in 1993 and one year later, became the first private company in Korea to establish

'LG Code of Ethics' and 'LG Guideline for Practice.' "Jeong-Do" management was declared publicly in 1995 that further detailed our principles for ethical management. 'LG Explanation of LG Guideline for Practice' was created and distributed to employees to aid their understanding and implementation of "Jeong-Do" management.

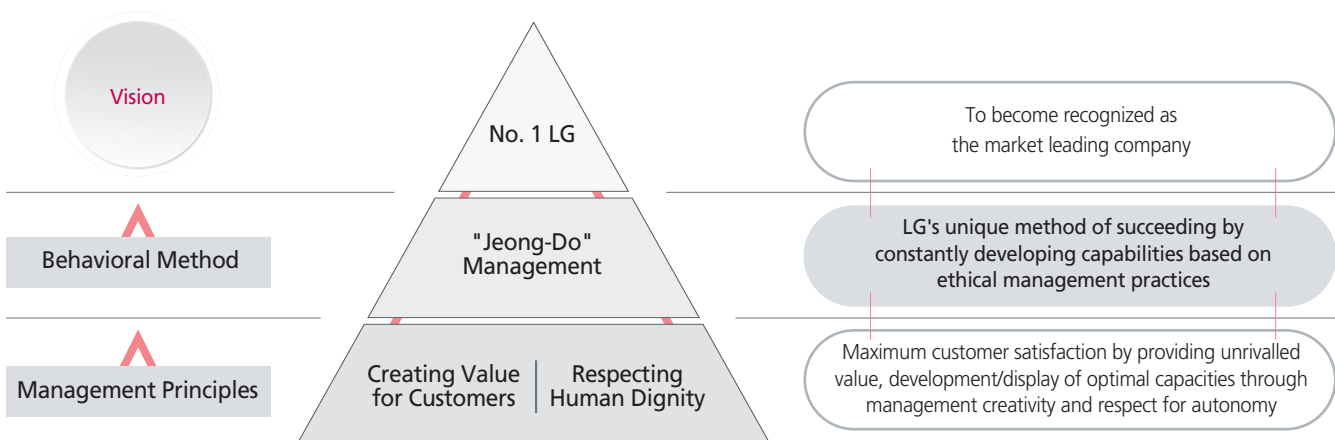
### LG Way and "Jeong-Do" Management

LG Way is our distinct corporate culture that aims to realize the vision of becoming 'No.1 LG' by translating LG's management principles of Creating Value for Customers and Respecting Human Dignity into action through "Jeong-Do" management.

"Jeong-Do" management is our unique application of ethics but at the same time, "Jeong-Do" management is more than ethical management. In its truest sense, "Jeong-Do" management highlights the importance of building the competencies necessary for LG people to compete and win under any circumstances and create substantial value.

### I LG Way I

LG Way, Symbol of a Strong Corporate Culture



## "Jeong-Do" Management Organization

The "Jeong-Do" Management Team at LG H&H is responsible for overseeing related programs and for functioning as the ethics office of our company. Their activities include the operation of the reporting system for unfair activities and providing "Jeong-Do" management training for business partners with the intent of reinforcing compliance with the Code of Ethics and preventing corruption. Additionally, the team offers advice on "Jeong-Do" management, the Code of Ethics, and conducts related promotional activities in and outside the company.

## "Jeong-Do" Management Activities

**Commitment of the CEO** With the CEO's firm commitment that "'Jeong-Do" management is the internal principle that guides employees as they perform their duties and the fundamental value

shown externally,' we have been using the slogan "My behavior serves as the mirror to my soul."

Every quarter, we also relay a message to employees from the CEO reaffirming his commitment to "Jeong-Do" management in order to promote the "Jeong-Do" management way of thinking.

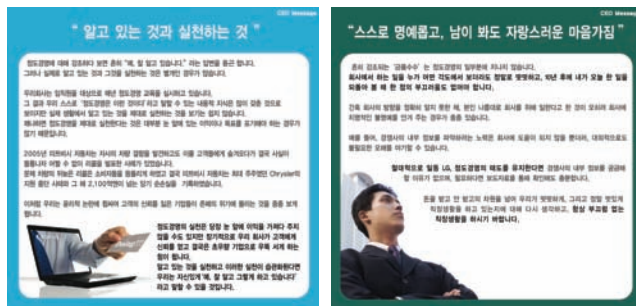
## "Jeong-Do" Management Pledge of Practice

Every employee is required to sign a copy of the "Jeong-Do" Management Pledge of Practice according to our LG Guideline for Practice. Business partners are also required to renew their pledges on an annual basis to ensure continued adherence to fair competition and fair transactions.

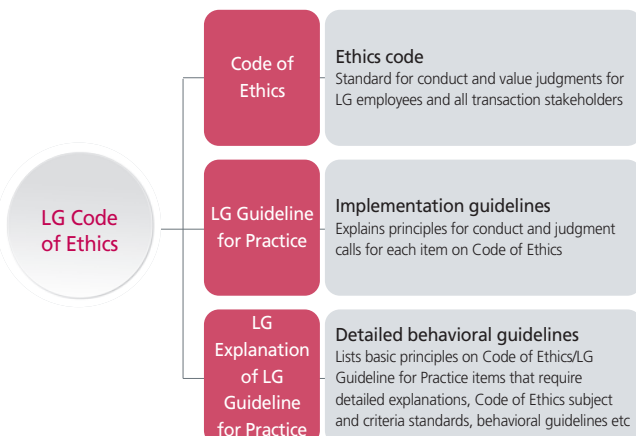
## Gifts Receipt Reporting System

The receiving of gifts and special treatment from stakeholders is strictly forbidden under any and all circumstances. If an employee is offered a gift, they must politely decline in accordance to the Code of Ethics. When gifts are sent by mail or parcel delivery, employees must return the package to the sender with a letter that outlines the company's policy.

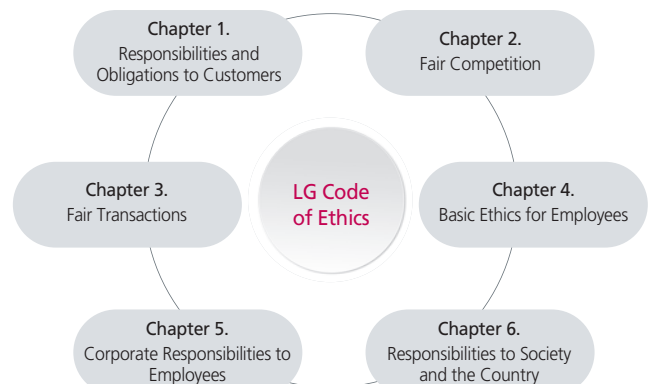
Gifts or money that cannot be returned are reported to the Ethics Office which then donates the items to charity groups. If the items are not suitable for donation, they are sold through an internal auction with proceeds going to purchase goods for charity.



## | Code of Ethics System |



## | Code of Ethics |





**Ethics Hotline** We changed the name of the 'Reporting Center for Unfair Transaction' which had been in operation since 1993 to the "Jeong-Do" Management Ethics Hotline. The center receives reports on unfair and irregular activities from employees and external customers. All activities that violate the Code of Ethics such as unfair work processing, abuse of authority and receiving gifts from stakeholders may be reported and the informant's identity is strictly protected.

Based on the submitted report, the violation of "Jeong-Do" management is disclosed, punitive measures taken against violators and improvements made to related processes. LG H&H strives to become more transparent and rational by keeping an open ear to internal voices and external customers. To reinforce our efforts in this area, the "Jeong-Do" Management Team was elevated to the "Jeong-Do" Management Division with an expanded organization and personnel in early 2010.

#### I Status of Cases Reported to Ethics Hotline I

Category	2007	2008	2009
Number of Reports	15	16	23

**Ethics Consultation Center** Reflecting the importance of "Jeong-Do" management, we opened an Ethics Consultation Center on our internal homepage in 2005. The center provides both open and private consultations, allowing employees to discuss various issues ranging from minor ethical issues while performing their duties to conflict with superiors or junior staff, and ways to deal with misconduct. The Ethics Office reviews filings and suggests the appropriate solutions based on the Code of Ethics. Additionally, reports are compiled into a Q&A example book that is distributed to all employees to serve as a preventive measure against similar occurrences or other ethical conflicts.

**"Jeong-Do" Management Education** On and offline "Jeong-Do" management education is conducted for all employees to ensure that "Jeong-Do" management is firmly embedded in our corporate culture. Overseas staff and local employees dispatched to

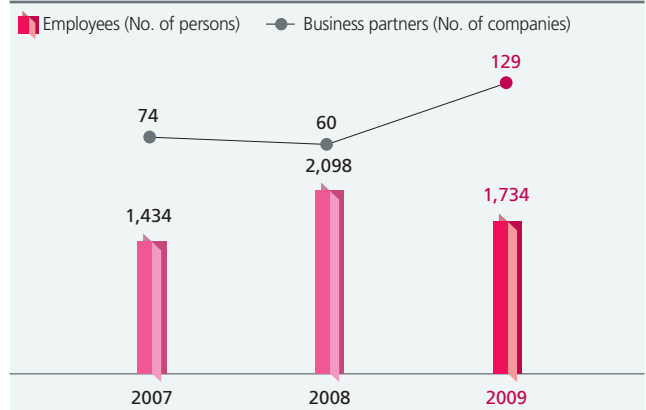
overseas offices are also required to take part in "Jeong-Do" management education courses to promote the philosophy and enhance their sense of belonging to the company.

In particular, the main theme and method of education are altered every year such as offering courses on the basic notion and understanding of "Jeong-Do" management, data security, sharing of Code of Ethics case studies and group discussions. This aids employees' understanding and helps spread the culture of "Jeong-Do" management. Additionally, as "Jeong-Do" management cannot be carried out by LG H&H alone, we organize regular education courses for business partners.



"Jeong-Do" Management Education

#### I Status of "Jeong-Do" Management Education I



• Includes Coca-Cola Beverage since 2008 (included all Coca-Cola Beverage employees in 2008, and only managerial staff in 2009)

## Risk Management

**We maintain vigilance over the wide range of risks related to corporate management to minimize the uncertainty of business activities. Furthermore, our internal accounting control system enhances operational transparency and soundness. We regard company data as an important asset and are operating a program to safeguard such company data and protect customer information.**

### Risk Management System

LG H&H is effectively responding to management risk by establishing a companywide risk management system to comprehensively and effectively oversee risk. The marketing, sales, production, R&D and administrative departments maintain constant watch over possible risks. Monitoring is overseen by companywide risk management departments while the CFO is responsible for major risk-related decisions. Key risk-related issues are reported to the BOD whenever the need arises. Risks are divided into business risks and operating risks. Business risks include risks related to customers, competitors, distribution channels, suppliers, law and regulations, and replacements. Operating risks are divided into marketing, sales, production, R&D, design and administrative (HR, general affairs, PR, purchasing, logistics, accounting, management strategy etc) risks for closer monitoring.

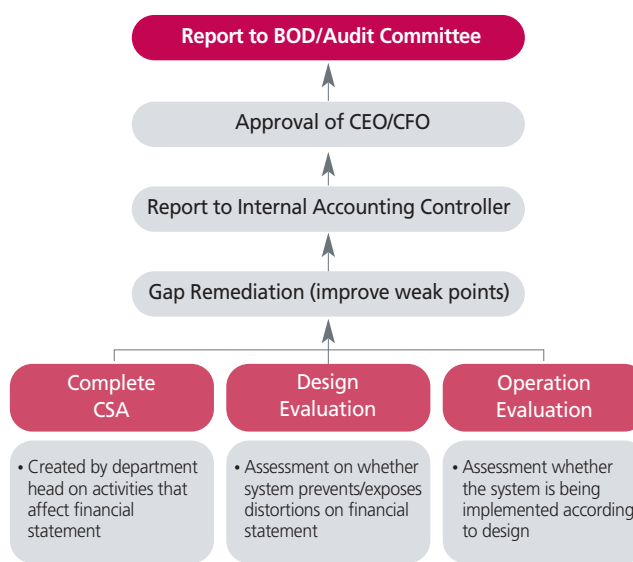
### Internal Accounting Control System (IACS)

**Operation of IACS** In line with growing demands for transparent disclosure of financial data and strengthening of related laws, LG H&H has been operating an Internal Accounting Control System (IACS) since 2006. The system is part of the company's Internal Control system which was designed and implemented to provide rational conviction to reach the company's objectives. It is continuously being executed by the BOD, management and other company members. The Internal Control system is aimed at securing efficiency in corporate operations and reliability of data, complying with related laws and regulations, and improving operational transparency and soundness. The IACS is mainly responsible for items related to financial reports and also includes asset protection and anti-corruption program. Based on IACS best practices and application guidelines, LG H&H is conducting IACS activities in the five areas of control environment, risk evaluation, control activities, information and communication, and monitoring.

### IACS Assessment System

The company has designated the CFO as the Internal Accounting Controller while departments exclusively responsible for IACS perform assessments on a regular and needed basis. IACS activities lead to the discovery of weaknesses and risks, and management of such discoveries are being used to improve operations and minimize risks. The operation and evaluation results of the IACS system are reported to the BOD and Audit Committee every year, and are subject to review by external auditors on the Audit Committee. In 2009, an evaluation was conducted on the design and operation of the IACS for LG H&H and Coca-Cola Beverage Company. Starting in 2010, the scope of the IACS will be expanded to include overseas subsidiaries and newly acquired companies.

### IACS Assessment Process

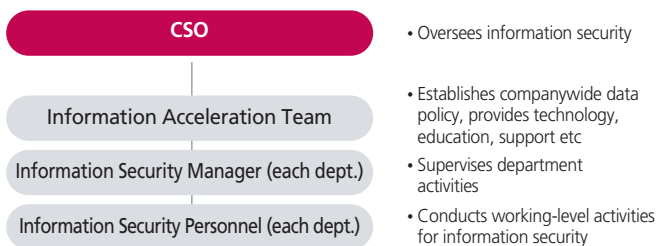


\* CSA (Control Self Assessment): A document that allows the department head to check and assess performance of each internal control item

## Security Management

**Security Management System** In 2001, we introduced the Chief Security Officer (CSO) system to ensure systematic security management. Accordingly, all security management activities are carried out under the approval and support of the CSO (position held concurrently by the CFO). Security management activities are executed based on a information security roadmap which is updated every year. We have been pursuing the establishment of an integrated information security roadmap to standardize and integrate security of Coca-Cola Beverage and LG H&H since 2008, with the aim of completing the task by 2010.

### I Security Management Organization I



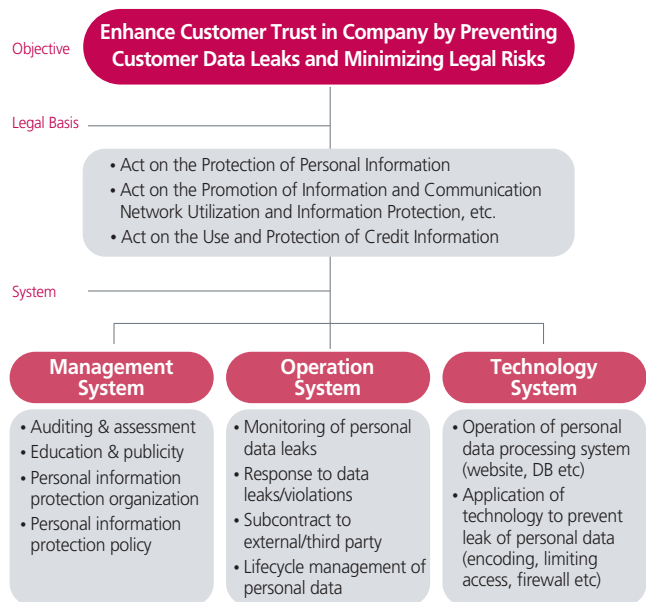
**Security Management at LG H&H** In 2003, LG H&H outlined a information security policy, guidelines and process. We regularly update such material according to changes in the security environment and related laws. Security-related education is mandatory for all newly hired employees (personnel with or without career experience). In addition, a security training program was conducted for the entire company in 2009.

To prevent the leak of company information, LG H&H has in place a variety of programs including document security system, certification USB, print out security system, as well as email and web monitoring system. To protect attacks and hackings by outside sources, a virus/worm blocking system, coded telecommunication system, web firewall and DB firewall have been installed. Furthermore, to enhance operational efficiency and comply with related laws, access to non-work related sites is blocked, spam mail is effectively filtered, and a system manages illegal software.

**Protection of Customer Information** The personal information of customers, collected for the purpose of company operations and to provide customer service, is strictly protected in compliance with related laws. As a result of our multiple efforts in this area, there were no incidents in 2009 related to the leak of personal information.

Company regulations and behavioral guidelines are outlined for customer information protection, while the operation and management process has been improved. Additionally, we established a preemptive system for any information leaks or violations. A manager in charge of personal information is designated for each channel of data collection, while a separate audit personnel is appointed to prevent the leak of such data and regularly review such activities. Our efforts to prevent personal data leaks also extend to our business partners, including the strengthening of customer data rules, heightened security control for newly registered members, management of access to customer data, and removal of any loopholes in the customer data management system.

### I Customer Information Protection Management System I



## Economic Performance

Backed up by steady growth in our household and cosmetics businesses, LG H&H has been growing in size and incomes. LG H&H is taking measures to appropriately distribute economic gains with stakeholders to enhance shareholder value.

### Companywide Business Performance

LG H&H is maximizing its performance by introducing products with differentiated value to consumers and premiumization through emotional marketing. As a result, the company posted healthy growth in sales and operating income in 2009 of 12.6% and 29.0% respectively.

The acquisition of Coca-Cola Beverage has also helped to further boost net income. Although our debt/equity ratio increased due to the acquisition of Coca-Cola Beverage in October 2007, the ratio is declining as debt is paid down every year as all the business units are showing steady and strong inflow of cash.

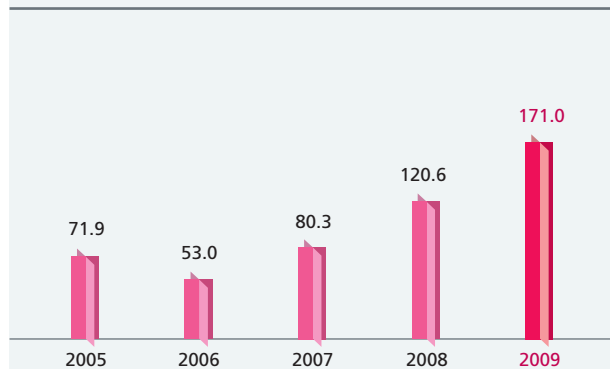
#### | Sales |

(Unit: KRW billion)



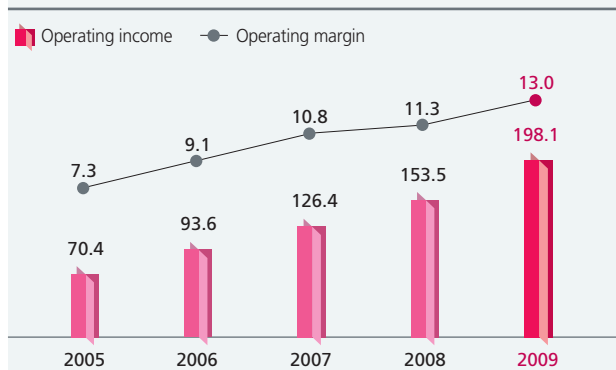
#### | Net Income |

(Unit: KRW billion)



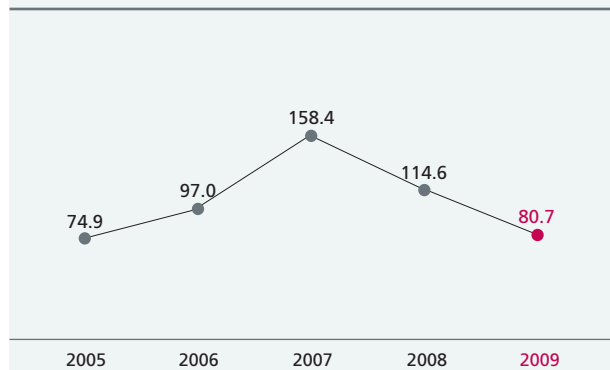
#### | Operating Income and Margin |

(Unit: KRW billion, %)



#### | Debt/Equity Ratio |

(Unit: %)



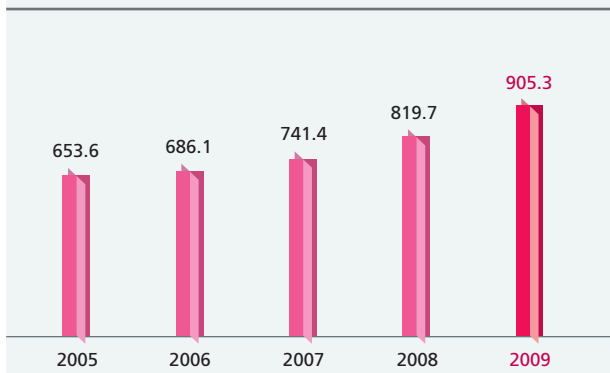
## Performance by Business

### Household Goods Business

Sales of household products increased 10.4% year-on-year to reach KRW 905.3 billion in 2009. Operating income jumped 24.5% to KRW 99.5 billion. These results were made possible by the strong performance of premium brands following the consolidation and reorganization of brands, and the success of new businesses such as the eco beauty brand 'Beyond' and feminine sanitary pads. The superior product development ability of our household goods business has led to products that offer differentiated value to customers. Major examples include the detergent sheet 'Tech Handy-Sheet,' the low carbon environmentally-friendly fabric softener 'Saffron 5X' and the launch of 'lhee care for style' shampoo that was developed in close collaboration with a famous hair expert. We are leading the household goods industry with excellent brand recognition and distribution competitiveness.

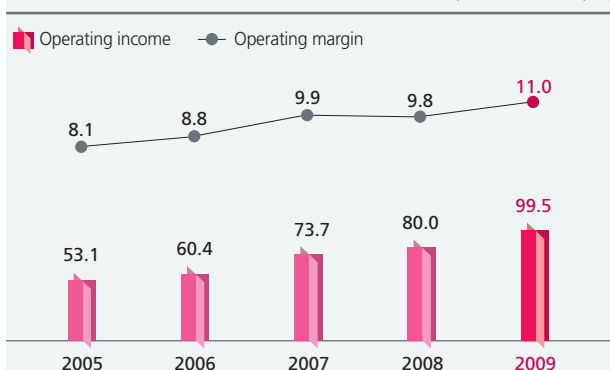
#### Sales of Household Products

(Unit: KRW billion)



#### Operating Income and Margin of Household Products

(Unit: KRW billion, %)

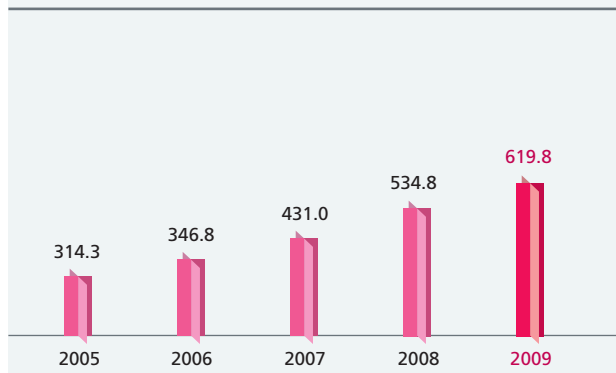


### Cosmetics Business

We strengthened the portfolio of our cosmetic business by including products with anti-aging and UV protection functions in our prestige lines of O HUI, Whoo and su:m, in addition to products that use differentiated traditional Korean medicine (hanbang) and fermented ingredients. We also increased the number of new counters in department stores in addition to expanding our door-to-door sales organization to drive growth. As for masstige cosmetics, reinforcement of premium lines such as 'SooRyeHan Soo' has allowed us to maintain the no.1 position in hanbang cosmetics in the mass market. Furthermore, we opened 21 stores of our multi-cosmetics brand shop Beautiplex along the Seoul subway line no.9 and increased our counter presence at discount stores to increase our distribution edge. As a result, our cosmetics business posted 15.9% year-on-year sales growth in 2009 to KRW 619.8 billion, while operating income soared 34.1% over the same period to KRW 98.6 billion.

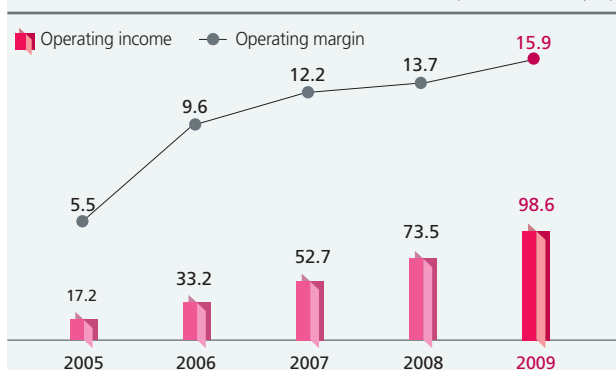
#### Sales of Cosmetics

(Unit: KRW billion)



#### Operating Income and Margin of Cosmetics

(Unit: KRW billion, %)



### Overseas Business

LG H&H currently operates three manufacturing subsidiaries in China and Vietnam, and three sales subsidiaries in China, USA and Taiwan. To further expand its business overseas, the company has plans to accelerate its entry into international markets focusing on products that have proven brand equity in Korea.

**Strategy** In household goods, the company is concentrating on new markets by focusing capacities on core brands for each category and specialized products. As for cosmetics, premium hanbang brands will be the focus of efforts to strengthen marketing in regions like China, Vietnam and Taiwan, where our subsidiaries are already located. We are also planning to enter the Middle East which can act as a link to Europe. As for masstige cosmetics, our efforts will continue to be focused on penetrating mid-level department stores, brand shops and drug stores.

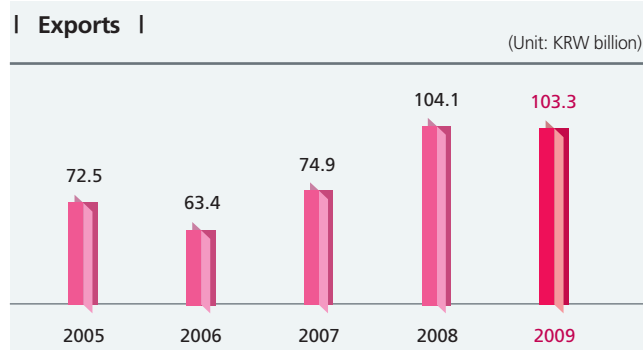
**China** The previously diverse portfolio for household goods has been streamlined to concentrate on Bamboo Salt Toothpaste. In addition to adding premium value to the brand and building the foundation to lead the market by increasing brand power, the company plans to increase marketing for products that possess a unique appeal to the market, such as hair care, wellbeing and health products. As for the cosmetics business, LG H&H plans to clearly position its brands by adopting a dual-pronged sales strategy. Locally manufactured brands will be sold in the mass market while export brands like O HUI and Whoo are to be sold in the prestige market.

**Vietnam** In the household goods business, the company plans to increase brand image and channel competitiveness with efforts concentrating on the Double Rich brand. O HUI and Whoo cosmetics brands will be positioned as premium names while Essence will be nurtured as the no.1 brand in the mass market.

**USA** We have been readying the foundation to enter the main USA market while improving our brand image among Asians since the sales subsidiary was established in 1990.

**Taiwan** A local sales subsidiary was established in December 2008 and there are plans to use the subsidiary as a base point to enter the pan-Chinese market.

**Exports** Profitability was greatly enhanced by reorganizing dealers, withdrawing unprofitable products and upscaling products. Furthermore, LG H&H permitted the use of its patented Whitening Strip to multinational company Johnson & Johnson, leading to royalty income.



### Corporate Value

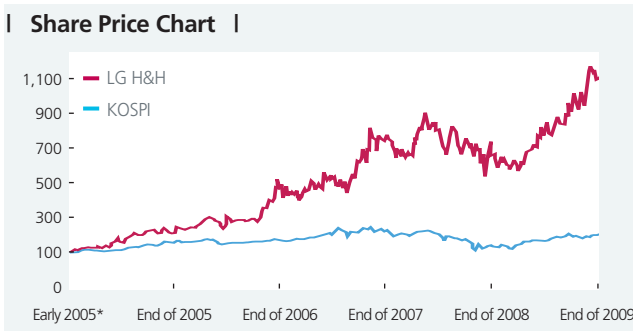
Spurred by a healthy business performance and expectations of continued growth, the share price of LG H&H was KRW 291,000 at the end of 2009, over 10 times higher than the price posted in early 2005. Over the same period, market capitalization increased by more than KRW 4 trillion from approximately KRW 479.1 billion in early 2005.

### Change in Market Capitalization/Share Price

(Unit: KRW billion, KRW)

Category	Early 2005	End of 2005	End of 2006	End of 2007	End of 2008	End of 2009
Market capitalization	479.1	927.0	2,034.7	3,172.7	3,054.7	4,715.8
Share price of ordinary share	28,000	55,000	123,500	194,000	190,000	291,000

\* Market capitalization includes preferred shares



\* Using early 2005 as base of 100

## Sharing of Economic Performance

LG H&H shares the results of its business activities with stakeholders. We are committed to maximize our economic performance to enhance the value of stakeholders that include business partners, employees, government and public agencies, shareholders, local communities and NGOs.

KRW **584.6** billion 

### Business Partners

Raw materials account for the majority of manufacturing cost. Accordingly, our relationship with business partners is crucial to our overall performance. In 2009, we paid a total of KRW 584.6 billion to business partners for facility investments, outsourced processing, service costs, and purchases of raw materials and other subsidiary materials.

KRW **52.9** billion 

### Government and Public Agencies

The added value created through our business activities are disclosed in a transparent manner with a portion submitted to the national and regional governments in the form of taxes. LG H&H paid a total of KRW 52.9 billion in corporate taxes and other bills in 2009.

KRW **169.2** billion 

### Employees

The total paid for employee wages, welfare benefits and education programs continues to grow relative to the creation of economic value. KRW 169.2 billion was paid out in 2009 for employee wages, bonuses, welfare benefits, severance packages, and education related expenses. LG H&H adopted a retirement pension plan in 2010 to ensure employees with post-work security. Employees can choose between two plans that best suits their needs. Under the Defined Benefit Retirement Pension (DB) plan, benefits are based on an individual's final average salary at the time of retirement and years of service with the company. In the Defined Contribution Retirement Pension (DC) plan, one twelfth of the annual wage is set aside each year and benefits are paid out upon retirement depending on the investment performance, with the employee bearing the investment risk.





#### Shareholders

Shareholder dividends have been consistently increasing thanks to the steady increase in net income. While the dividend payout ratio is 25%, if the payout ratio is calculated on the adjusted income basis that exclude gains or losses on valuation using equity method (which does not entail cash inflow) and extraordinary incomes, the actual figure is approximately 30%. The total amount of dividends paid out in 2009 was KRW 42.0 billion.



#### Creditors

LG H&H strives to maintain the ideal loan structure to secure smooth cash flow. Net interest expenses in 2009 came to KRW 14.3 billion.



#### Local Communities and NGOs

We operate a number of social contribution programs and initiatives to support local communities as part of our philosophy of sharing economic performance with society. LG H&H donated KRW 2.3 billion to social contribution activities in 2009 and KRW 0.6 billion to associations and academic societies.

### | Sharing of Economic Performance |

(Unit: KRW billion)

Category	2007	2008	2009
Business partners	456.2	553.2	584.6
Employees	150.6	164.3	169.2
Gov't & public agencies	43.2	48.8	52.9
Shareholders	25.2	33.6	42.0
Creditors	5.6	17.4	14.3
Local communities & NGOs	2.1	2.1	2.9

## New Business Pursuits

**LG H&H is searching for new opportunities for growth in the healthy, beautiful and refreshing business areas.**

The company seeks new businesses that can produce maximum synergies with its existing portfolio, complements the company's strategic direction, has brand positioning and can create profits.

### Strategic Alliance with Danone

LG H&H signed a strategic alliance agreement with the Korean subsidiary of the French-based multinational foods company, Danone, in September 2009. According to the agreement, Danone Korea is responsible for R&D, production and advertising aimed at consumers, while LG H&H assumes the management of distribution, sales and promotional activities. Through the partnership, LG H&H has gained an opportunity to learn about Danone's advanced refrigerated distribution know-how. The company aims to nurture its capacities in that area to launch additional products that require cold-chain distribution.

### Acquisition of Diamond Pure Water

The acquisition of Diamond Pure Water enabled the company to secure a water source in the mineral water sector as well as a premium water brand. Diamond Pure Water was the first company in Korea to acquire the drinking water business license in 1976. For 30 years since then, it has supplied the US Forces in Korea (USFK) and the Far East, consistently meeting the USFK's strict sanitary standards. Its production facility is located in Guennam-myeon, Cheolwon-gun, Gangwon-do. Diamond Pure Water uses natural mineral water drawn from artesian bedrock 2km off the DMZ, considered one of Korea's two cleanest water sources.



THEFACESHOP Skincare



Diamond Pure Water

### Acquisition of THEFACESHOP

Having established success in premium cosmetics, LG H&H acquired THEFACESHOP as a method of efficiently entering the lower priced cosmetics market. LG H&H plans to strengthen its market position in both sales and operating income with THEFACESHOP which recorded KRW 257.1 billion in sales and operating income of KRW 41.5 billion in 2009.

The brand's addition has completed LG H&H's portfolio lineup of products that appeals to all ages: starting from those in their teens to early twenties, to more mature clientele. Additionally, by effectively reformatting R&D, production and logistics of THEFACESHOP which had hitherto been outsourced and providing support in indirect ways, the company will be able to gain synergies across its operations. Furthermore, THEFACESHOP is expected to benefit from a stronger infrastructure and systematization in its increased international business thanks to LG H&H's overseas network. Meanwhile, major synergies are expected when the existing personnel of THEFACESHOP who have franchise knowhow gain access to LG H&H's cosmetics business expertise.

### Acquisition of HanKook Beverage Company by Coca-Cola Beverage Company

In March 2010, Coca-Cola Beverage acquired 100% equity of HanKook Beverage Company, a maker of non-carbonated beverages. This extended Coca-Cola Beverage's portfolio to include soybean milk, retort products like canned coffees and tea-extract drinks. The addition has strengthened the company's edge in the non-carbonated beverage market which is recording fast growth.

Furthermore, the securing of a production base in the southern region (Namwon, Jeollabuk-do) is expected to drastically reduce logistics costs for non-carbonated drinks which used to be supplied nationwide from the existing Yeosu worksite.



# *Sustainability Performance*

	Product Leadership	34
	Operational Leadership	41
	Social Responsibility Leadership	50
	Communication Leadership	55



## Product Leadership



## Operational Leadership



## Social Responsibility Leadership



Communication Leadership

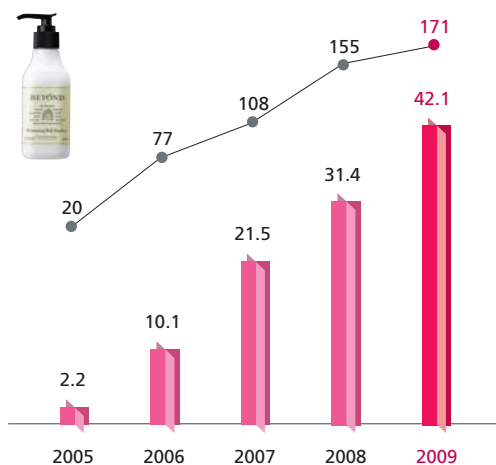


# Product Leadership

## Management Approach

## | Key Figures\_Beyond |

■ Sales (KRW billion)    ● Number of stores\* (cumulative)



\* Based on shop-in-shop found in discount stores

## Strategic Direction

We have identified leadership in **sustainable products** as a key strategy for sustainability. Accordingly, we consider the sustainable factor throughout the lifecycle of a product: from the initial planning stage to the selection of materials, the efficacy analysis of product functions, the production, packaging and transport of products, up to the last stage of use by the end consumer. We plan to expand development of products that meet **six core attributes** that we have designated to sustainable products: **namely the non-inclusion of harmful substances, greater resource efficiency, expanded use of natural and organic materials, minimal packaging, increased use of fair trade products and minimal testing on animals.** Additionally, LG H&H will strengthen the sustainable attribute of our existing eco beauty brands 'Beyond' and 'Borrowing Earth' to nurture them as the company's representative sustainable products.

## Future Action Plans

- Map out development strategy for sustainable products
  - Establish/apply sustainable R&D/design guidelines
  - Operate sustainable product development cooperative body (marketing, R&D, design)
  - Prepare system for managing sustainable product results
- Uncover key sustainable R&D projects for the mid to long-term





## Development and Performance of Sustainable Products

LG H&H places top priority on safety when developing products and impose standards that are stricter than the legal requirement to promote sustainability throughout the product lifecycle, starting from the selection of raw materials to manufacturing, packaging, distribution and ultimately their disposal.

LG H&H recognizes leadership in sustainable products as a core strategy for sustainability. Prior to creating our sustainable management strategy, we placed top priority on securing product safety and launched earth-positive products. Accordingly, we are continuing to nurture our major environmentally-friendly brands of 'Beyond' and 'Borrowing Earth' and striving to maximize customer satisfaction while helping to protect our earth by achieving the eco-label and carbon-label certification. In the course of product development, LG H&H imposes strict standards that exceed legal requirements to secure product safety. In this way, we are actively responding to changes in consumer lifestyles to better meet their diverse needs, and working to provide peerless value to our clients.

### Product Development Process

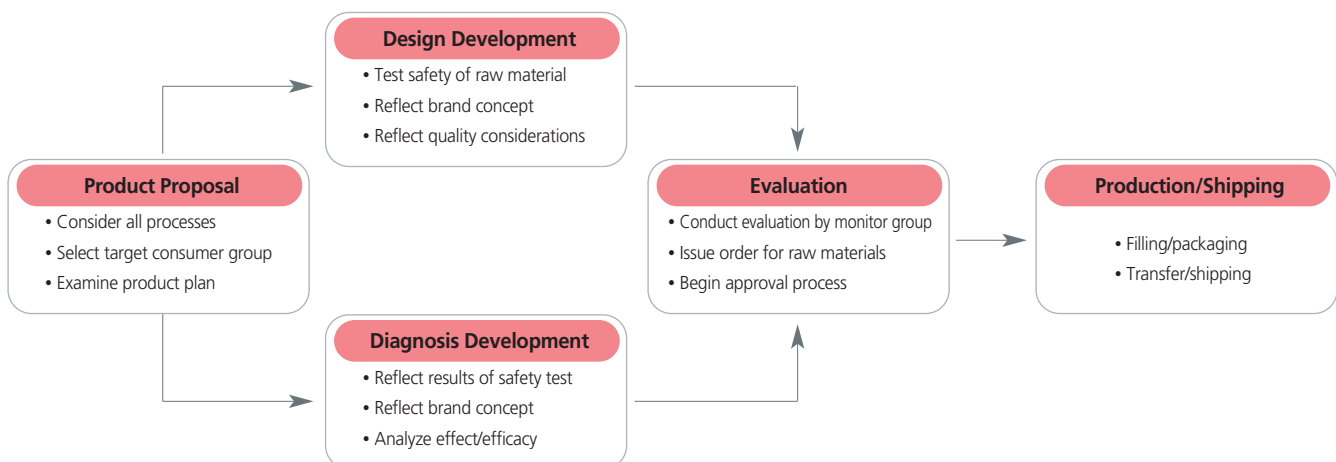
The Household Goods Business Division engages in activities like small-scale development meetings with marketing and R&D teams to unearth ideas for new products. Marketing, R&D and sales personnel provide input in new product development meetings to offer a multifaceted assessment of the viability of a new product launch. Additionally, their participation allows for improvements in function

and concept to better meet customer demands. The Cosmetics Business Division secures product safety by fully identifying the functions and chemical characteristics of raw materials, conducting safety tests and then using only those materials that pass our own strict standards, followed by tests for skin irritation and harmful substances. Additionally, consumer evaluation groups provide honest reviews on product quality and methods of use, which are then used to provide the general public with the proper method of use so that consumers can safely enjoy our products.

### Open Innovation Activities

Open Innovation Activities refer to the adoption of external innovation capabilities to develop new products. LG H&H opened the i-CONNECT website (<http://iconnect.lgcare.com>) in July 2009 to collect the technologies and innovative ideas from external sources. Through Open Innovation Activities, LG H&H facilitates technical exchange and networking with both local and overseas research institutes, universities, venture companies, technology transfer centers and raw material providers. In addition, external innovation capabilities are evaluated for the development of new products.

### | Product Development Process |





BEYOND

#### Background

"Beyond" is an eco beauty brand whose products are created with the utmost care using methods that are beneficial to both human and nature. The brand was initially launched as the natural body care products using food based ingredients and has since evolved into an eco beauty brand.

#### Considerations for Product Development

The products contain no ingredients that can irritate the skin such as colorants and preservatives. Animal testing is also forbidden in the research process. Dermatologist tests are conducted before the launch of new products enhance safety levels. Ten promises are outlined to safeguard this process.

#### Product Characteristics

- Low skin irritation: Cosmetics substances that may cause skin irritation are removed (colorants and preservatives), and products undergo dermatologist tests before launch
- Fair Trade materials: Ecocert-certified Argan oil (Miracle Cure, Eco Angel)
- Reduced environmental hormones and greenhouse gas emissions: Use of biomass plastic containers (Eco Angel)



### 10 Promises of Beyond Eco Beauty

BEYOND

#### Strengthen +

Environmentally-friendly, eco mind

Eco Beauty  
Protect environmentally-friendly image.

Fair Trade  
Pursuing fair trade and transactions.

Dermatologist Tested  
Making trustworthy products that are safe for skin.

Recyclable Package  
Using packaging material that can be recycled.

#### Minimize

Creating and emitting pollutants

Minimum Waste  
Minimizing the creation of waste.

Sustainable Energy  
Reducing the use of fossil fuels in stages.

Naturalism by Eco Beauty Lab  
Minimizing chemical substances and using organic/natural ingredients.



Eco Beauty for Mother Nature and Human Being

The earth is constantly communicating with humans to bring us happiness and beauty. Beyond is a brand that appreciates such exchanges and is doing its part for sustainable beauty by considering the earth that we will leave behind for next generations.

#### Remove

Substances that irritate the skin

Not using chemical preservatives  
No chemical preservatives.

No Chemical Colorants  
No chemical colorants.

#### Refuse

Animal-based ingredients and testing on animals

Against Animal Testing  
Refusing testing on animal based on respect for animal lives

Beyond adheres to the 10 values as an eco beauty brand. The values will serve to guide us in our quest to grow Beyond as a leader in eco beauty in Korea and the world. The values will also be reflected upon product development, advertising, product design and store interiors in addition to share them with sales personnel.



## Greater Consideration for Next Generations

### "Borrowing Earth"



#### Background

"Borrowing Earth" was launched in 2007 after a year of preparations as a naturalistic brand that is friendly to the environment and the human body.

#### Brand Campaign

In adherence to our belief that it is the responsibility of the current generation to leave our earth beautiful and clean for future generations, LG H&H operates environmental classes for customers. The classes are used to spread the brand philosophy and help preserve our earth.

#### Considerations for Product Development

To minimize the environmental footprint across the entire lifecycle of products, from development to production, use and disposal, we minimize the use of harmful substances, employ natural ingredients and use recyclable packaging.

#### Product Characteristics

- Safe raw materials: No colorants, preservatives and fluorescent whitening agents. Plant-based natural ingredients are used.
- Packaging: Aluminum tubes and recycled packaging



Product	Characteristics	Eco-label	Certification standard
Dishwashing liquid	<ul style="list-style-type: none"> <li>• A concentrated dishwashing liquid that uses plant-derived surfactant and is therefore people and environmentally-friendly</li> </ul>	Certified	Reduces water pollution, environmental design
Liquid detergent	<ul style="list-style-type: none"> <li>• Uses plant-derived surfactant</li> <li>• No phosphoric acid, fluorescent whitening agent, preservative</li> <li>• Uses natural fragrances and natural anti-bacterial extracts</li> </ul>	Certified	Reduces impact on human body and water pollution, environmental packaging
Fabric softener	<ul style="list-style-type: none"> <li>• Includes organic floral water that is certified as organic environmentally-friendly material in France (Ecocert Certification)</li> <li>• Contains green tea saponin, effective in preventing skin itchiness (patent pending)</li> <li>• Contains natural fragrances from natural oranges and leaves, 100% plant-based softening agent</li> </ul>	Certified	Reduces harmful effect on human body and water pollution, environmental packaging
Cleaning agent (kitchen/bathroom)	<ul style="list-style-type: none"> <li>• Uses plant-derived non-ion surfactant that has superior biodegradability</li> <li>• Uses grain-fermented alcohol to provide 99.9% sterilization of harmful germs</li> <li>• Contains baking soda ingredients for cleaning and odor-fighting properties (kitchen)</li> <li>• Uses naturally fermented organic acids (lactic acid) to remove water stains without corrosion (bathroom)</li> <li>• Employs composite natural extracts (persimmon leaves, green tea, Unshu peel etc) instead of chemical deodorants (bathroom)</li> </ul>	Certified	Reduces poisons to human body and ecosystem
Powder detergent	<ul style="list-style-type: none"> <li>• Uses naturally-derived ingredients, no fluorescent dyes</li> <li>• Uses fruit acid (citric acid) and naturally-derived soda ash ingredients to improve solubility and maintain ideal pH 10</li> </ul>	Certified	Reduces water pollution, environmental packaging
Toothpaste	<ul style="list-style-type: none"> <li>• No fluorine, artificial colors, and alkyl sulfate</li> <li>• Uses recyclable aluminum tubes, locally made packaging made from recycled materials, printed with soy ink</li> </ul>	-	-
Soap	<ul style="list-style-type: none"> <li>• Contains organic oil, chamomile, palm oil, rosemary</li> <li>• Contains vast amounts of natural glycerin, uses locally made packaging from recycled materials, printed with soy ink</li> </ul>	-	-





## Environmental Product Packaging

In developing product packaging and containers, we focus on their environmental friendliness, safety, function and light weight. Going forward, we plan to further strengthen our own standards on legally prohibited harmful substances and increase use of environmentally-friendly raw materials.

Packaging can be largely divided into product packaging and product containers. LG H&H devotes its capabilities toward developing product containers. In developing product packaging and containers, we focus on their environmental friendliness, safety, function and light weight. Going forward, we plan to further strengthen our own standards on legally prohibited harmful substances, and increase use of environmentally-friendly raw materials.

In addition, to reduce the amount of waste that is generated due to promotional packaging for cosmetics, LG H&H will continue to take steps to reduce its environmental footprint such as participating in a voluntary agreement led by the Environment Ministry.

### Product Packaging Design

Environmental friendliness is a main consideration when developing and designing product packaging and containers. Packaging development considers the product concept, quality and characteristics in addition to safety, and is managed in accordance with our own internal standards. Once the development process is completed, various tests are conducted for safety and function based on the environment in which consumers will be using the product and product characteristics.

### Development of Packaging

#### Using Environmentally-friendly Raw Materials



#### Biomass Plastic

Biomass plastic is an eco-friendly plastic that adds corn starch polylactic acid (PLA) to plastic ingredients. Adding plant-based components reduces the carbon footprint of the production process compared to conventional petroleum-based

plastic. The process also cuts the amount of plastic used. LG H&H set a precedent in Korea by using biomass plastic in product containers. When conventional polypropylene (PP) containers are replaced with PLA (30% biomass), the benefits translate into reduction of 943kg CO<sub>2</sub>/plastic tons.

### I Biomass Carbon Footprint I

(Unit: kg CO<sub>2</sub>/plastic tons)

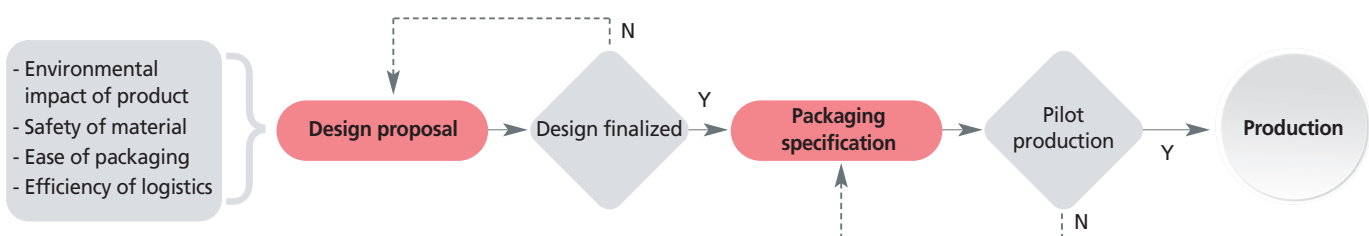
Stages	PLA*	PP**
Resource production	520	180~240
Initial raw material production	1,830	3,142
Product manufacturing	-2,280	0

\* PLA: Polylactic Acid

\*\* PP: Polypropylene

• Source: NatureWorks, LG Chem R&D Tech Center

### I Product Packaging Design Process I





**Sugar Cane Polyethylene** Sugar Cane Polyethylene (PE) is a plastic made with extracts of sugar cane ingredients. Compared to conventional plastic, it contains more than 91% of plant-based ingredients while retaining the physical properties of plastic. LG H&H uses sugar cane from Brazil, a recyclable resource that replaces petroleum, and is conducting mass production tests via a business partners.

### Lighter and Slimmer Product Packaging

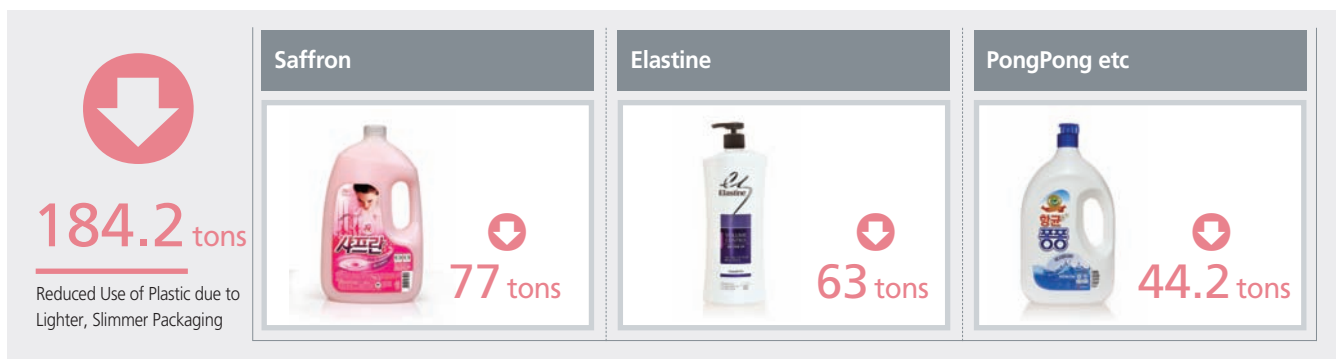
In addition to developing containers that use plant-derived ingredients, LG H&H is also conducting research into technology that can reduce the weight of packaging material in order to minimize waste. Our efforts also extend to reducing the waste generated from promotional packaging.

**Lighter Product Packaging** For Elastine hair care products, we introduced a multi-layer molding system for the previous single-layer container exterior to increase strength while optimizing the resin weight. The containers for large quantity products like PongPong and Saffron employ a resin which boasts superior shock endurance levels to ensure that it protects the product from external impacts and also reduces the container weight. These efforts led to a total reduction of 183 tons of plastic used.

**Slimmer Promotional Packaging** In order to reduce waste from packaging for promotional items, LG H&H joined the voluntary agreement led by the Environment Ministry. Monitoring is conducted regularly to reduce inappropriate waste of resources. Thanks to such measures, we managed to reduce the use of PP boxes and poly bags by 20% and 10%, respectively, compared to 2007. Additionally, by replacing the material for the cap of complimentary cosmetics with a lighter alternative, we managed reductions of 1.2 tons of plastic.

### I Lighter and Slimmer Product Packaging I

Category	Improvement	Applied Product
Household goods	Reduced sheet thickness of plastic packaging (PP)	Elastine shampoo/rinse set, Say foam cleansing set
	Reduced product container (basket) thickness	Laundry detergent Tech, Hanspoon, Super Ti
Cosmetics	Reduced use of plastic by simplifying multiple (2~3) cap structure	All complimentary items that are newly produced
	Embossed plastic surface to increase strength, reduce resource use	O HUI, Isa Knox, Vonin, Character
	Replaced plastic cover for cream container with high-frequency sealing	Whoo, SooRyeHan, Lacvert, Isa Knox
	Removed foaming cloth from set that was provided to add a touch of luxury	O HUI





## Environmental Labeling Products

LG H&H supplies products that meet various environmental standards, having acquired numerous certifications including ecocert certification, carbon-label and eco-label. Our plan is to gradually increase the number of certified products to promote the earth-positive image of our portfolio.

Environmental performance across a product's lifecycle, from the extracting of raw materials, product manufacturing, use of the product and its disposal, is an important aspect of our operations. Accordingly, we are striving to reduce pollutants, minimize energy usage, decrease waste, improve resource efficiency and increase recyclability. In line with such efforts, we have acquired numerous certifications, including ecocert, carbon-label and eco-label to supply products that meet various environmental standards. We are also committed to related policies led by the government and have plans to bolster the eco-friendly image of our products by steadily increasing the number of certified goods.

### Ecocert Certification



Ecocert Certified Products

Our Beyond Phyto Provence line trio of Eco Repair (essence 40mL, cream 50mL and eye serum 15mL) has been certified by France's organic certification organization, ecocert. Ecocert Certification is given to products that contain a minimum of 95% natural ingredients, with more than 10% being organic ingredients and including none of the designated chemical ingredients.

### Carbon-label

Carbon-label converts greenhouse gases emitted during the production, transportation, use and waste of a product, into CO<sub>2</sub> emissions for labeling. LG H&H is actively responding to the issue of climate change by working to reduce the impact of its product manufacturing, product use and disposal on global warming. To allow customers to easily identify green products, the company adopted the Environment Ministry's carbon-label system and received carbon-label certification for its Elastine Damage Shampoo in 2009. The certification reorganized the entire manufacturing process of shampoo products and led to the internal standards on greenhouse gas calculations. This has laid the groundwork for application to other products. We plan to pursue additional certification for shampoo and other products to include dishwashing liquid and laundry detergent products.

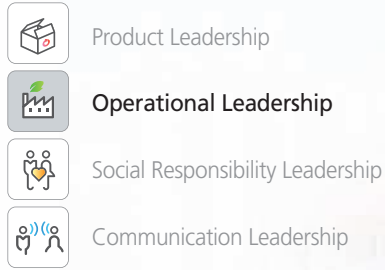
### Eco-label

As part of our endeavor to supply goods that help preserve our earth and are less harmful to the human body, we are striving to maximize the use of easily recyclable materials and recycled packaging while minimizing factors that can cause environmental pollution. In particular, with dishwashing liquid, laundry detergent and multi-purpose cleaners which can impact water quality, we abide by government-set environmental standards for each product group and have received eco-label certification.

### I Eco-label Certified Products I

Product	Use	Certification Standard
Borrowing Earth - Dishwashing liquid, liquid detergent, fabric softener, cleaning agent, powder laundry detergent	Multipurpose cleaning agent	Reduced water pollution and environmental design, packaging *
Jayon Pong Rice Water	Fruit, vegetable and dishwashing liquid	Reduced water pollution and environmental design
Safe Brown Rice	Fruit, vegetable and dishwashing liquid	Reduced water pollution and environmental design
PongPong/Sense	Utensil cleanser	Reduced water pollution and environmental design
Hanspoon	Powder laundry detergent	Reduced water pollution
Tech Handy-Sheet	The laundry sheet	Reduced water pollution and environmental packaging

\* For more details on certification for Borrowing Earth, please see page 37

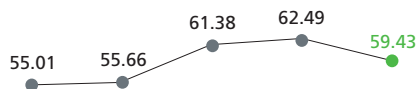


## Operational Leadership

### Management Approach

#### | Key Figures\_Energy Basic Unit |

(Unit: kgOE/product-ton)



2005 2006 2007 2008 2009

#### Strategic Direction

LG H&H assesses the sustainability performance of its entire operation, from production and purchasing to logistics, in order to achieve sustainable operational leadership. To this end, it takes preemptive measures to consider the environmental effect of a product across its production lifecycle. As for purchasing, the company is building fair partnerships based on a sustainable management assessment table. Furthermore, LG H&H is improving its management system for logistics to improve logistical efficiency and reduce air pollutants.

#### Future Action Plans

- Production
  - Evaluate environmental impact of product lifecycle
  - Expand scope of products with environmental/Carbon footprint
  - Build greenhouse gas inventory
- Purchasing
  - Strengthen evaluation standards for business partners
  - Boost sustainable capacities of business partners
  - Increase green procurement
- Logistics
  - Improve logistical efficiency
  - Reduce greenhouse gases and air pollutant from delivery trucks



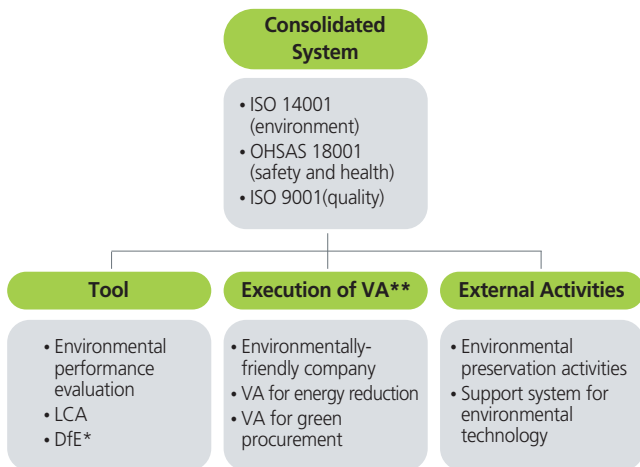
## Environmental Management System

LG H&H operates an environmental management system to oversee the systematic execution of green management, effectively respond to diverse environmental issues, and pursue continued improvements.

An environmental management system is paramount to maintain a systematic approach to environmental management. Our consolidated system comprises tool management like environmental performance evaluation and Life Cycle Assessment (LCA), the execution of Voluntary Agreement (VA) and external activities.

LG H&H is enforcing the systematic operation of such activities and is raising the standards of its environmental management by operating an environmental organization at each worksite, nurturing internal assessment personnel for each sector, running an environment and safety committee, and conducting environment, safety and health (ESH) inspection and ESH performance evaluations.

### I Scope of Environmental Management I



\* DfE: Design for Environment

\*\* VA: Voluntary Agreement

### ESH Audit

An external specialist agency is entrusted with the task of performing ISO and OHSAS/KOSHA evaluation to secure external credibility of our ESH management system. To promote a safe working environment and prevent accidents, an evaluation committee of environment and safety experts conducts an annual audit of each worksite, research center and logistics center. Using an ESH checklist, the audit allows us to reduce potential risks to the environment and workers' health, while regular post-audit management further improves our ability to prevent similar occurrences. In 2009, we completed action on 93% of 97 items pointed out during the audit.

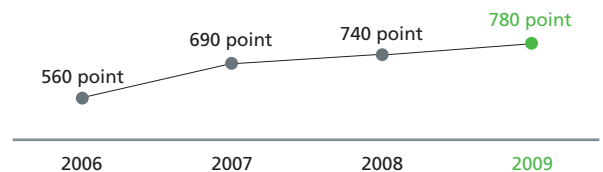
### I Environment and Safety Committee Organization I



### ESH Performance Evaluation System

The ESH performance evaluation system provides a quantitative measurement using 20 indicators that consider the company's management conditions. The results are then analyzed and assessed before being reported to management. LG H&H conducts the ESH evaluation every six months to make improvements in related fields.

#### I Assessment Results (on the basis of 1,000 point) I





## Response to Climate Change

LG H&H established a master plan to manage greenhouse gases and actively address the issue of climate change. The company plans to create a greenhouse gas inventory and expand development of low carbon products.

The master plan is intended to reduce the impact of our business activities on climate change, and realize actual reductions of CO<sub>2</sub> emissions from each division. We are taking a two-fold approach : 'building a foundation' and 'managing demand.' To build a foundation, we plan to prepare a roadmap for reducing greenhouse gases at all worksites, research centers and logistics fields from 2010, build an inventory and conduct inspections.

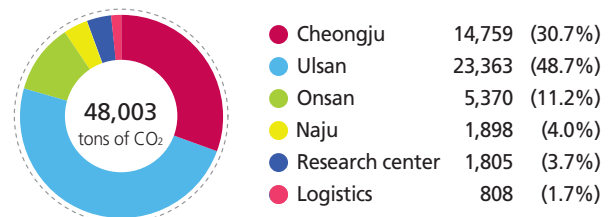
As for managing demand, we will optimize energy usage volumes and greenhouse gas emissions via internal and external evaluations of each worksite, and strive to reduce greenhouse gas emissions by 5~10% every year on a unit basis. Meanwhile, we will offer greater technical assistance to business partners to help reduce energy use during the raw material production and product use stages, in addition to expanding development of low carbon products.

### Greenhouse Gas Emissions

Energy usage in 2009 inched higher to 21,488 TOE from 20,961 TOE in 2008. However, the basic unit of 59.43kgOE/product-ton was lower than the previous year's 62.49kgOE/ product-ton. Greenhouse gas emissions increased 3.8% year-on-year to 48,003 tons of CO<sub>2</sub>. Energy usage by sector shows worksites accounting for 94.6%, research center 3.7% and logistics 1.7%. Our Ulsan worksite, which houses raw material manufacturing facilities, had relatively higher levels of greenhouse gases.

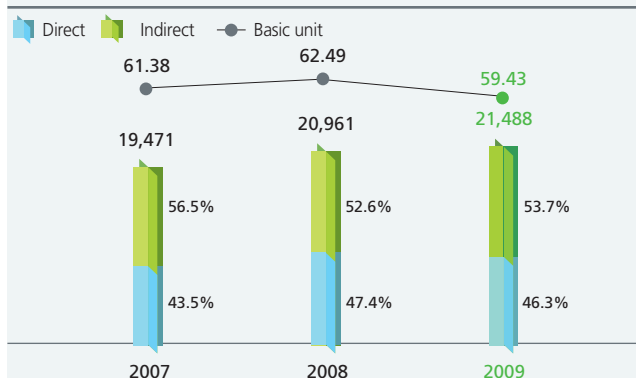
### Greenhouse Gas Emissions and Ratio by Sector

(Unit: tons of CO<sub>2</sub>)



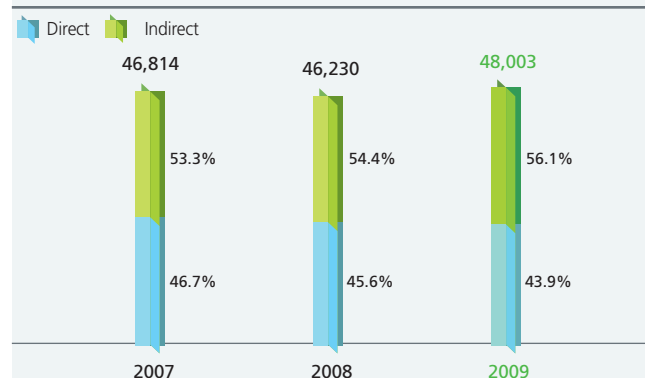
### Energy Usage and Basic Unit

(Unit: TOE, kgOE/product-ton)



### Greenhouse Gas Emissions

(Unit: tons of CO<sub>2</sub>)



- Target: Domestic worksites (Cheongju, Ulsan, Onsan, Naju), research center, logistics (including leasing/hiring), fuel/electricity
- Calculation standard: Excluding overseas subsidiaries, figure for production, research center and logistics is calculated via annual greenhouse gas emission coefficient by the Intergovernmental Panel on Climate Change (IPCC) protocol and Korea Power Exchange.
- 'Direct' refers to energy related to fuel use, while 'Indirect' refers to volume related to electricity use.



## Reducing Greenhouse Gases

### Products that Save Energy

LG H&H introduced sheet products that offer lowered energy usage during the manufacturing process and when they are used by consumers. A pre-measured amount of detergent is contained in a sheet of felt that eliminates flyaway powder while offering greater convenience. Additionally, it dissolves within three minutes even in cold water, leaving no residue behind. In particular, we managed to simplify the manufacturing process with a patented fine precision technology that reduces energy usage by 82% compared to the conventional process.

82%

Energy Saving Rate



Tech Handy-Sheet



Saffron Aroma

### Conversion to Clean Fuel

In line with our mid to long-term plan to convert C9 fuel, which has a high global warming index, to the clean fuel liquefied natural gas (LNG), we began the process of fuel replacement work starting with our Cheongju worksite in 2000, and completed the work at Ulsan worksite in 2008. Thanks to such fuel conversion efforts, we managed to decrease greenhouse gases by 3,541 tons of CO<sub>2</sub>.

3,541 tons of CO<sub>2</sub>

Reduction in Greenhouse Gases

## Energy Management through Facility Improvements

We have been actively responding to climate change by improving energy-related facilities since 2007. The improvements that are made through replacing aged facilities, introducing high-efficiency devices and rationalizing unnecessary processes are reported to Korea Energy Management Corporation (KEMCO) on an annual basis in accordance to our voluntary agreement on reducing energy use.

## Greenhouse Gas Reduction Campaign

As part of our endeavors to reduce greenhouse gases, we manage office temperatures at a certain level, and have installed energy efficiency lighting and equipment to reduce our electricity usage. At the head office, only certain designated areas are lit on each floor after business hours. Lights are turned off in other areas to reduce energy waste. Additionally, we actively make use of video conferences and conference calls between the head office and worksites and offices to save time and energy usage required for face-to-face meetings.

### Examples of Energy Facility Improvements in 2009

- Reduced energy use by improving tube cooling water supply
- Reduced energy use by replacing outdated AC equipment
- Replaced outdated hot water tank and water heater at welfare center
- Improved production speed of Saffron #1,2 and 5
- Managed defect rate of steam trap to within 5%
- Installed automatic temperature adjustment valve for high-temperature storage in measuring room
- Improved oleic acid refrigerator compressor
- Rationalized drying process steam line



Automatic Hot Water Supplying Facility for Welfare Center

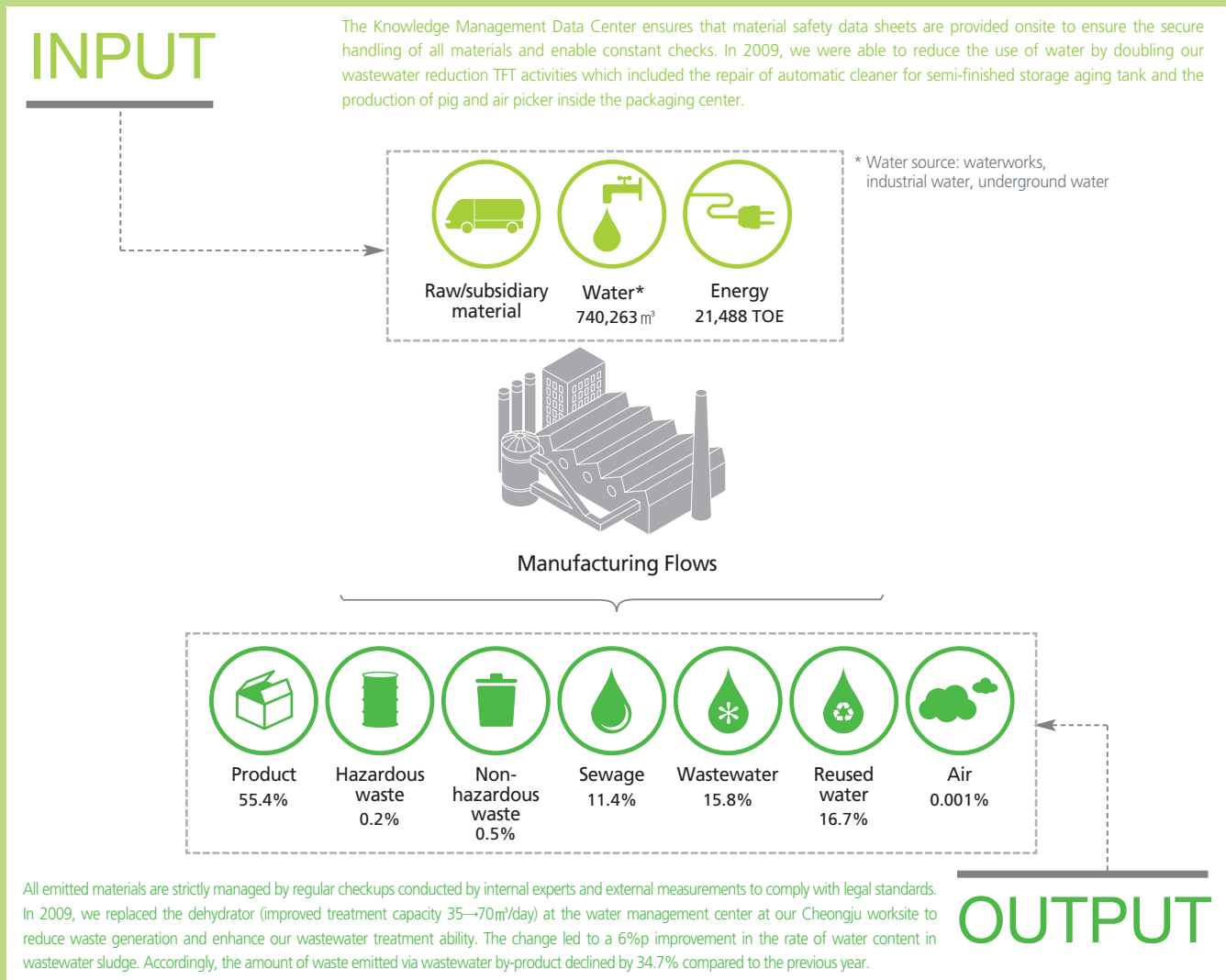




## Environmental Process Management

LG H&H is striving to minimize the environmental burden of our business activities by rationalizing processes and optimizing facilities. Additionally, to encourage efficient resource utilization and ground a culture of recycling and reusing, we have implemented wastewater reduction TFT activities while each department operates a real name waste-generation system. With the expected inclusion of Korea on the list of countries which will be required to reduce carbon emissions in 2013 according to the Kyoto Protocol and anticipated

impact on regulatory changes in and outside Korea, we will prepare a system in advance and evaluate the environment impact of all our production processes. In particular, we will shift from a passive management approach for product development processes and post-disposal management to a proactive system that considers all environmental effects prior to actual production. Additionally, we will conduct activities to reduce energy, water, wastewater and waste in accordance to a companywide mid to long-term goal.



All of our worksites are situated in industrial complexes and therefore do not directly affect the natural environment or biodiversity. Nevertheless, we conduct cleanup activities and monitoring of nearby areas and support the international convention on biological diversity.



## Cooperation with Business Partners

**We ensure transparency in the selection and evaluation of business partners. We also extend various forms of support including support in ESH evaluation, new product and technology development, and quality management services as part our effort to seek mutual growth with business partners.**

Business partners are important stakeholders that can have major influence on the quality of our products and services. Therefore it is vital to maintain cooperative ties based on mutual trust. In November 2008, LG H&H conducted a ceremony declaring our commitment to fair trade with subcontractors. We are committed to offering equal opportunities to all business partners and to building mutual trust and cooperative ties via fair and transparent transactions according to the principle of free competition. This, we believe, is the way to mutual growth and advancement.

### I Win-win Relationship with Business Partners I



Our partnership activities mainly consist of selecting and performing fair evaluations of business partners, extending various forms of support, facilitating communicating and making green procurement. Going forward, we will encourage business partners to adopt environmental management by revising our green procurement guidelines and increase our sustainable capacities to expand green procurement.



Declaration Our Commitment to Fair Trade with Subcontractors

### Selection and Fair Evaluation of Business Partners

To enhance the fairness and transparency in the way we select business partners, we have created a business partners selection evaluation team (purchase, production, quality, marketing, R&D etc) to assess the QCD (quality, cost and delivery), management status, technological prowess and sustainability of business partners. Companies that receive a mark of over 70 points are registered as regular business partners. Those that fail to meet the standard are included in a vendor pool for potential partners. Additionally, to prevent risks that can happen during transactions, LG H&H conducts an annual evaluation based on objective data from each related department on 47 items in six major areas that include overall management, process capacity and environmental indices.

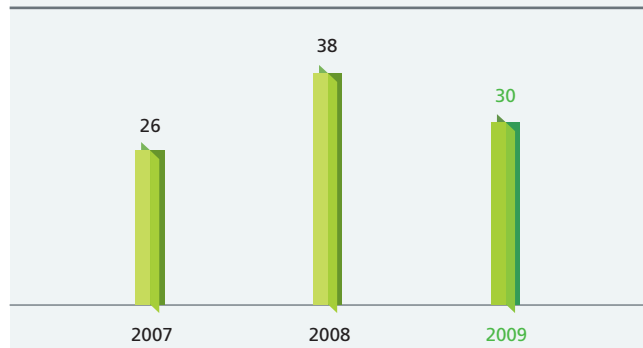
### Support for Business Partners

#### Diagnosis of Business Partners

LG H&H encourages raw/subsidiary material providers, waste treatment firms, construction companies and OEM firms to independently realize environmental management by offering legal compliance evaluations, supporting pollutant treatment and providing technical assistance. Additionally, we regularly provide information on legal revisions, government policies and employee health management via business partners' management sites.

### I Business Partners Diagnosis Results I

(Unit: Number of business partners)





### New Product and Technology Development Support for Business Partners

LG H&H has been providing new technology development support for business partners. In 2009, the development of eight alternative materials, including 'increased strength corrugated cardboard material' contributed to KRW 1.59 billion of cost reductions and increased productivity during the year. Additionally, we jointly developed three new technologies including 'post-processing technology for PP material coating.' We also implemented a benefit sharing system. For costcutting ideas submitted by a business partner, we share the benefits of the saved costs. In 2009, the cost of sharing benefits with business partners amounted to KRW 60 million due to the development of a local replacement for imported stencil paper, and alternative material for post-processing.

### Quality Management Support

LG H&H also shares its innovation activity knowhow with business partners. Innovation experts are employed to provide quality innovation support and guidance on managing timely deliveries. Quality management programs were focused on four companies during 2009, while basic training was shared with 26 persons from 11 firms.



Training to Enhance Competitiveness of Business Partners



Basic Training Program

### Communication with Business Partners

A diverse array of communication programs bolster mutual trust and ensure transparent transactions. At the same time, they provide encouragement to business partners and a channel for them to voice any difficulties. We participate in the LG H&H Cooperative Meeting, comprised of representatives from 36 business partners that account for over 50% of the transaction amount for subsidiary materials and OEM products. We attend the annual general assembly and the quarterly sub-committee meetings to communicate the company's vision and purchase policies as well as listen to business partners' opinions.

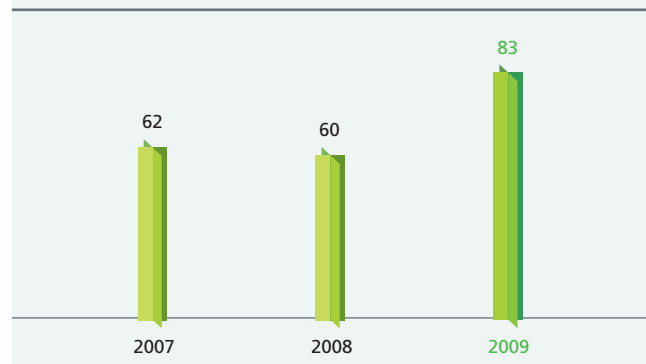
### Green Procurement

In September 2005, LG H&H signed a voluntary agreement on green procurement with the Ministry of Environment for the purpose of manufacturing environmentally-friendly products, promoting an eco-positive consumption culture and the efficient use of resources. Accordingly, we established an environmental product purchase guideline in March 2007, and prepared the systematic foundation by revising our internal purchasing regulations.

To develop eco products and promote their supply, we have reinforced related training and publicity campaigns for employees. This is in line with our efforts to promote green consumption and establish a green culture. Our efforts were also recognized by the Environment Ministry which presented us with the 'Low Carbon, Green Growth Contribution Award' in October 2009.

### | Green Procurement |

(Unit: KRW million)





## Logistics Efficiency

**We are improving our base operational efficiency and strengthening our environmental logistic activities to build a sustainable foundation for growth and maintain our competitive edge.**

LG H&H is improving our base operational efficiency and strengthening our environmental logistic activities to build a sustainable foundation for growth and maintain our competitive edge. Additionally, we have implemented earth-friendly logistics activities as part of our bid to reduce air pollutants that are generated during the transportation of goods. Going forward, we plan to expand management of greenhouse gases from the current measurement of fuel and electricity usage at the logistics center to include transportation vehicles.

### Base Operational Efficiency

**Logistics Center Expansion** As part of our plan to secure and expand logistics bases, LG H&H moved the Daejeon Logistics Center to a new address within the Coca-Cola Beverage Daejeon Center worksite in May 2009. Furthermore, to effectively respond to the steady increase in cosmetics shipments and improve logistics service satisfaction levels by eliminating delivery delays, we expanded the Osan Cosmetics Logistics Center in November 2009. The expanded center now manages logistics for the Seoul metropolitan area, which accounts for 30% of our total logistics volume.

**Direct Shipments from Production/Assembly Bases** Products that are manufactured or assembled externally are directly shipped to regional logistics centers and trading companies. This allows us to adjust the volume at the central logistics center and reduce our environmental footprint by shortening the transportation distance. In 2009, the direct shipping rate increased to 58% from 45% in the previous year.

Meanwhile, to address issues related to quality inspection which arise from direct shipment, we strengthened the self-regulated inspection of OEM and semi-processing companies and dispatched our own quality inspectors to these firms.

**Operation of Unmanned Terminals** In the second half of 2008, we introduced an unmanned terminal in the Jinju area which is under the jurisdiction of Busan Logistics Center. The Jinju area is also one of the farthest regions from our logistics base. This allowed us to effectively manage deliveries to remote areas. Other benefits included improved profitability at business partners and reduced exhaust emissions by decreasing the delivery distance and operation of empty trucks. We plan to expand the operation of unmanned terminals as part of our environmental logistics activities.

**Shortened Delivery Route** Previously, paper products (LG Unicharm diapers) manufactured at Gumi, Gyeongsangbuk-do were transported over a long distance to the processing facility in Osan for homeshopping sales. Since we transferred the processing work to Daegu Logistics Center, we able to shorten the transportation distance and improve the efficiency of distribution processing work.

**Increased Size of Transport Vehicles** We worked with transportation business partners to increase the size of the main truck fleet from 11 tons to 14~24 tons. In this way, we are striving to raise the load efficiency of each vehicle and reduce the number of vehicles in operation.



Expansion of Osan Cosmetics Logistics Center



Expansion of Daejeon Logistics Center



Increased Size of Vehicles



## Environmental Logistics

### Management of Delivery Truck Fuel Efficiency

Managing the fuel efficiency of delivery trucks by each logistics center allows us to enhance the vehicle productivity rate and reduce fuel usage levels. The introduction of a recognized fuel efficiency rate for each vehicle class, standardization of fuel surcharge, management of driving distance and monitoring of economic driving habits (sudden acceleration, sudden braking, economic driving speed, idling) are being pursued to reduce fuel costs and exhaust emissions.

**Backhauling** Backhauling refers to a delivery system in which vehicles that completed the delivery for a distribution company make a return trip carrying products of a nearby business partner. Recognizing the eco efficiency of backhauling, LG H&H is engaged in the joint use of backhauling vehicles with distribution firms like E-mart and Home plus.

**Improved Packaging Module** The increase in high frequency, small quantity orders of cosmetics has caused an increase in the number of boxes for individual packaging. To resolve this issue, we introduced a minimum order quantity (MOQ) system for trading firms in March 2007 and raised the MOQ standard in 2009.

This has led to a reduction in the absolute volume of individual packaging boxes and also enhanced delivery productivity via unit shipment. We added a step to review the palette load efficiency before finalizing the packaging specs between internal/external production-design-packaging development-logistics parts in order to minimize delivery, loading and storage costs.



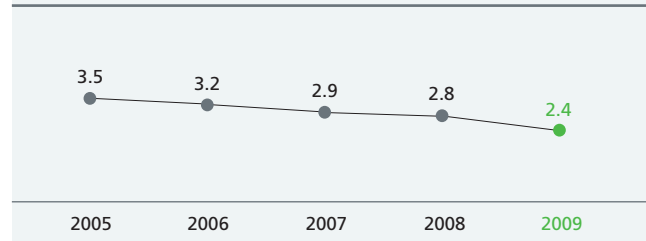
Backhauling

## Logistics Efficiency Performance

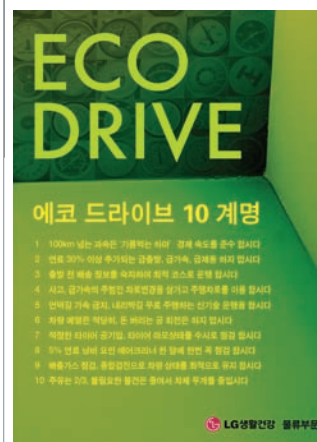
Through the restructuring of our logistics system, rationalization of logistics, and optimization of our supply network, the ratio of logistics costs to sales was lowered from 3.5% in 2005 to 2.4% in 2009, improving our logistics competitiveness.

### Ratio of Logistics Costs

(Unit: %)



### Eco-drive Activities



LG H&H initiated the Eco-drive Campaign in May 2008 to promote safe and fuel-efficient driving habits. Eco-drive is a compound word of Eco, as in ecology and economy, and drive. It is a campaign to promote an environmentally-friendly and economic way of driving to help preserve our environment and reduce energy use. To promote eco-driving among all members of the company, we distributed campaign posters and car stickers, and publicized the 10 commandments of Eco-drive during training programs for delivery managers.





Product Leadership



Operational Leadership



Social Responsibility Leadership



Communication Leadership

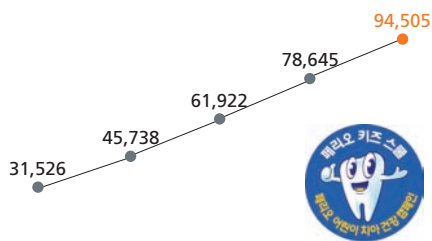


## Social Responsibility Leadership

### Management Approach

#### I Key Figures\_PERIOE Kids' School Participants (cumulative) I

(Unit: persons)



2005\* 2006 2007 2008 2009

\* 2005 figure includes that for 2004

#### Strategic Direction

LG H&H social contribution activities are aligned with our business philosophy of making customers' lives more healthy, beautiful and refreshing. Women, our main customers, and youths are the focus of our contribution activities.

LG H&H plans to continue to increase the scope and scale of social responsibility programs, and offer more opportunities for employees to take part in volunteering.

#### Future Action Plans

- Establish mid to long-term social contribution roadmap
- Establish performance evaluation system for social contribution activities
- Select and nurture representative social contribution projects
- Develop and implement voluntary participation programs for volunteers



## Social Contribution Activities

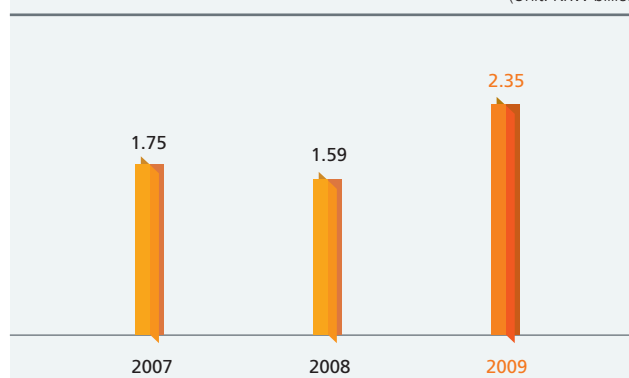
LG H&H categorizes its social contribution activities into the four areas of health, education, welfare and local communities to improve the efficacy of programs. Considering the nature of our business, the majority of our programs are aimed at women and youths.

Our social contribution activities are not a one-time donation, but are designed to enhance the overall impact of our programs through selection and concentration of target groups, efficacy study-based support and partnerships with expert institutions. To this end, we divide our activities into the four areas of health, education, welfare and local communities. Considering the nature of our business, the majority of our programs are aimed at women and youths. Furthermore, we include programs in which employees can voluntarily participate, such as the matching grant program and goods donations. Going forward, we plan to develop and implement more programs to encourage greater employee participation.

The Sustainable Management Team is in charge of overseeing the company's social contribution activities. The Nanumi Volunteer Corps, born in July 2005, organizes volunteering activities at least twice a year to help our neighbors in need in Seoul, Daejeon, Cheongju and Ulsan.

### | Social Contribution Amount |

(Unit: KRW billion)



### | Number of Beneficiaries |

(Unit: persons)

Category	2007	2008	2009
PERIOE Kids' School	16,184	16,723	15,860
Happy Smile Fund	331	357	154
Smile Together	254	256	144
O HUI Beautiful Face	20	18	9

### | Social Contribution Activities by Category |

Health	Education	Welfare	Regional Community
<ul style="list-style-type: none"> <li>• Happy Smile Fund</li> <li>• Smile Together</li> <li>• O HUI Beautiful Face Campaign</li> </ul>	<ul style="list-style-type: none"> <li>• LG H&amp;H Music Academy</li> <li>• PERIOE Kids' School</li> </ul>	<ul style="list-style-type: none"> <li>• Beautiful Saturday</li> <li>• Beautiful Sharing Package</li> <li>• Foodbank</li> <li>• Beautiful World campaign</li> <li>• The 'Happy N' Campaign</li> <li>• HIMANGO campaign</li> </ul>	<ul style="list-style-type: none"> <li>• Nature cleaning activities</li> <li>• Nanumi Volunteer Corps activities</li> </ul>



## Health

**Happy Smile Fund** Launched in 2005, Happy Smile Fund is a matching fund in which the company matches the employees' contributions. The fund is used to support the Beautiful Foundation as well as health-related check-ups and treatments for low-income, single mother families. As of 2009, the fund extended aid to 1,399 persons, which included 1,064 initial physical check-ups, 260 follow-up check-ups, surgeries and treatments for diseases.

**Smile Together** The program has been supporting dental treatment for children from low-income families since 2007 by working with the Korea Association of Social Welfare Centers. Named after the wish to bring smiles back to children's faces, Smile Together offers free dental treatment for kids ranging in age from 4 to 13 years old, who are basic livelihood security recipients or the next lowest income level. A total of 654 children have benefited from the program over the past three years.

**O HUI Beautiful Face Campaign** Since 2007, LG H&H has worked with Seoul National University Hospital for the O HUI Beautiful Face Campaign which offers free plastic surgery to children born with congenital facial deformities. Funded by the sales of O HUI cosmetics, the project not only provides hospital costs for the children but also funds research into facial deformities. The project provided surgeries for 20 children in 2007, 18 in 2008 and 9 children in 2009.

## Education

**LG H&H Music Academy** In November 2009, we launched LG H&H Music Academy to offer musically talented children the opportunity to receive systematic education in classical music. The program is open to elementary, middle and high school students who do not have the financial means for such training. 66 students made up the first group of students comprising six areas of piano, violin, viola, cello, flute and clarinet. The top-notch educators involved in the program provided regular one-on-one lessons, special lessons and orchestral classes. The company plans to expand the scope of the program in the future to include the hosting of orchestral concerts and music competitions to establish the Music Academy as Korea's leading music education program for youths.

**PERIOE Kids' School** Since 2004, PERIOE Kids' School has been instructing thousands of children on the proper way to care for their teeth. A related campaign is building PERIOE 'toothbrushing' classrooms at elementary schools. Our dental hygienists have visited about 1,000 schools, kindergartens and children welfare facilities to provide lessons on dental care to 94,505 kids as of 2009. Furthermore, the program funded the building of PERIOE 'toothbrushing' classrooms at Namsan, Jangpyeong and Majang elementary schools in Seoul, Gwansan elementary in Ansan, Gyeonggi-do and Yangdong elementary school in Gwangju.



LG H&H Music Academy



Smile Together



PERIOE Kids' School



Beautiful Saturday



Foodbank



Beautiful World Campaign

Beautiful Sharing Package

## Welfare

**Beautiful Saturday** Since 2005, employees and the company have been donating goods once a year to be sold at the Beautiful Store on a Saturday. Proceeds go to help the needy. In 2009, employees donated some 8,000 items and the company provided 10,000 items to be sold at Beautiful Stores in Seoul, Daejeon, Cheongju and Ulsan. 80 employees also donated their time to help sell the items for charity.

**Beautiful Sharing Package** A charity event held with Beautiful Store before every Lunar New Year, proceeds from the event are used to purchase rice, while corporate sponsors donate basic goods. Volunteers then personally deliver packages containing donated items to senior citizens who live alone, as well as low-income households headed by teens or single parents. In 2009, LG H&H donated 23,600 items including toothpaste, soap, shampoo and detergent while 39 employees helped deliver the care packages.

**Foodbank** Foodbank is a system that receives donations of food and other basic necessities from companies or individuals and then distributes them to isolated groups like hungry children or senior citizens living alone. Since 2007, LG H&H has regularly donated goods to the Yeongdeungpo Foodmarket and Foodbank. Thanks to such contributions, LG H&H received the Minister of Health and Welfare Award at the National Food Bank Support Project in 2009 held by the Korea National Council on Social Welfare Foodbank.

**Beautiful World Campaign** Once or twice a year since 2006, LG H&H holds a promotional campaign called 'Beautiful World' with E-mart. Proceeds are donated to scholarships and a youth culture experience fund. In 2009, we held the 'LG H&H and Lotte Mart Happiness Dream Shopping' event where 1% of revenues recorded during the event were donated to the social welfare group, Save the Children.

## Boram Dongsan

Boram Dongsan was established in 1996 with a KRW 5 billion initial investment by LH H&H and subsidiaries. Its purpose is to create jobs and encourage financial independence among the isolated social groups. Main projects include product tall processing, as well as sales of envelopes and copy paper. Annual sales amount to KRW 4.6 billion. Comprised of 82 disabled persons, or 77% of the total workforce, Boram Dongsan is designated by the Health and Welfare Ministry as a manufacturing facility employing severely handicapped persons. LG H&H plans to maintain a cooperative relationship with the facility going forward.

### | Boram Dongsan Overview |

- Sales: KRW 4.6 billion as of 2009
- Employment business (KRW 430 million)
- Rehabilitation business (KRW 4.17 billion)
- Sales ratio of LG H&H: 81% (KRW 350 million) of employment business
- Tall processing items: toothpaste, diapers, sanitary pads, travel sets







## Local Communities

**Nature Cleaning Activities** To create a society in which man and nature can co-exist in harmony, LG H&H engages in activities to help preserve the cleanliness of mountains and rivers in Cheongju and Ulsan, where our worksites are located. Additionally, during group activities by departments, we ensure that employees collect garbage nearby the event site in addition to their own trash to help create a pleasant natural environment. The company also actively takes part in related programs led by regional groups.

## New Social Contribution Activities for 2010

**The 'Happy N' Campaign** The 'Happy N' Campaign is a pan-societal donation campaign where companies attach a 'N' (for 'nanum' which means sharing in Korean) mark to products. A portion of proceeds from the sales of such products are donated to charity, thereby engaging the participation of consumers. LG H&H selected its environmentally-friendly products to bear the N mark. Accordingly, part of the 2010 sales proceeds from the naturalistic brand 'Borrowing Earth' and 'Beyond Phytoganic,' a cosmetics brand that uses organic raw materials, will go toward public goods activities.



The 'Happy N' Campaign



HIMANGO Campaign

LG H&H plans to return to society some of the profits created from product sales via the campaign. Because consumers can take part in helping others by merely purchasing the labeled product, the program will help instill the spirit of giving in our everyday lives.

**HIMANGO Campaign** 'HIMANGO (Mango Tree of Hope)' is a campaign in which mango saplings are provided to poverty-stricken families in Sudan, Africa. The recipients also learn how to grow the trees as part of an effort to provide an independent and sustainable solution to food shortages. Mango trees grow well on barren ground and start bearing fruit 7 years after being planted. Another advantage is that they survive more than 100 years, making them a positive solution to the famine issue. THEFACESHOP has been working with HIMANGO since April 2010 to promote the campaign and organize fund raising events involving consumer participation.

## Social Contribution Activities at Vietnam Subsidiary

Our subsidiary in Vietnam is taking part in diverse sharing activities such as volunteering at local communities and donating goods .

- Provided goods to orphanage
- Sponsored and donated funds for event commemorating Korea-Vietnam diplomatic ties
- Participated in Vietnam Red Cross blood drive (156 persons), supported pediatric cancer treatment
- Cleaned nearby office streets every other Saturday (conducted regularly since April 2009)
- Participated in 'Habitat for Humanity' for typhoon victims (total 5 homes)







Product Leadership



Operational Leadership



Social Responsibility Leadership



Communication Leadership

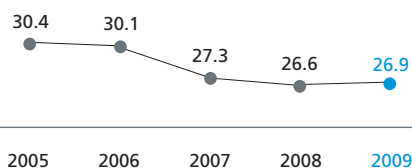


## Communication Leadership

### Management Approach

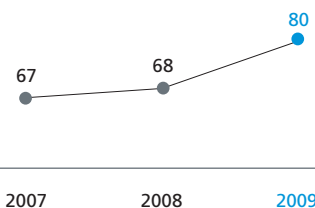
#### | Key Figures\_Customer Dissatisfaction Rate |

(Unit: ppm)



#### | Key Figures\_Employee Satisfaction Survey |

(Unit: %)



#### Strategic Direction

We aim to enhance communication with our stakeholders to inform them of our sustainability efforts and performance in an effective and transparent manner. The goal is to raise our corporate profile on the back of increased stakeholder trust by mapping and executing systematic priorities for sustainable management that lead to tangible results.

#### Future Action Plans

- Enhance stakeholder communication system
- Train internal employees on sustainability to form companywide consensus
- Strengthen partnership with retailers and NGOs



## Customer Value

**Our customer-focused approach creates greater value and satisfaction for our customers. We also have in place a process to better listen to our customers and handle their complaints on a real-time basis.**

Customers have a direct impact on our product development, manufacturing and sales activities. As a household goods company, LG H&H places top priority on gathering customer opinions and incorporating them into our business model.

Our customer-centric approach, which includes prosumer activities, offers differentiated value to our customers and is designed to enhance their satisfaction levels. We also implemented a process that enables us to better listen to our customers and respond swiftly to complaints.

Leveraging various communication tools such as media, ad campaign and product labeling, we will continue to promote our sustainable products to further enhance our corporate and brand image, and ultimately, to fuel sales and customer happiness.

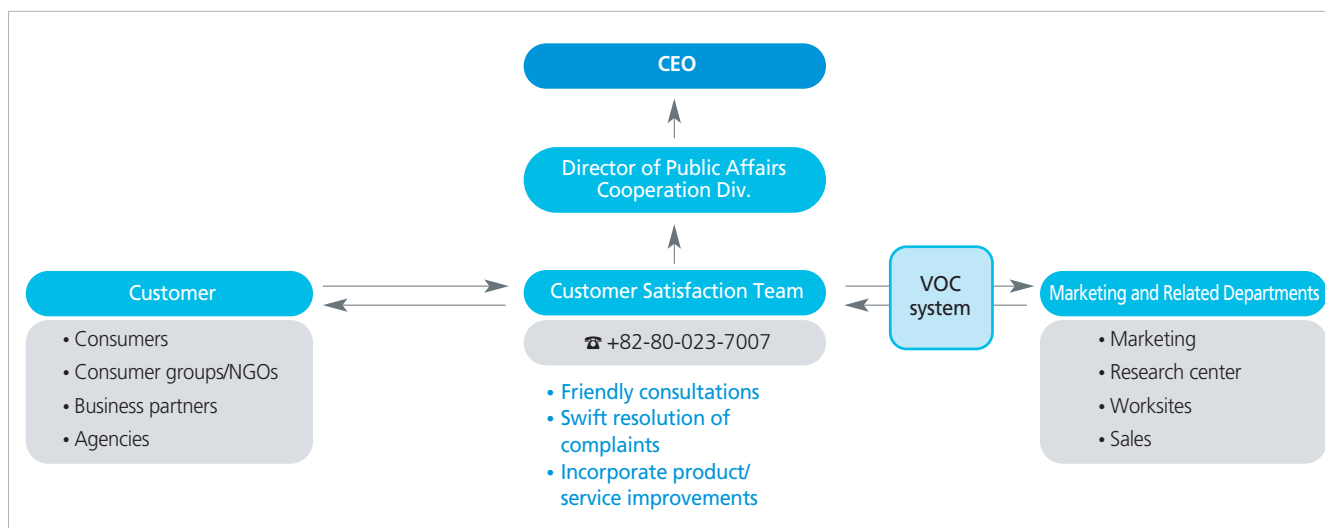
### Listening to Customers

For maximized customer value, we focus on listening to the needs of our customers. The VOC (Voice of Customer) management system is in place to identify and resolve customer complaints without delay. From product concept to development and after launch improvements, we capture the voice of our customers and reflect their needs in product manufacturing and overall management.

### Voice of Customer (VOC)

Using the system, related departments can search complaints filed over the phone, website or fax on a real-time basis. Every VOC, including customer complaints/praises, prosumer suggestions, defects in product labeling and information regarding distribution order are sent to the in-charge employees through an automatic mailing system. We also conduct three months' of quality monitoring for new products to use the gathered data as basic material for establishing marketing policy.

### VOC Management System





**Prosumer Activities** Every year, we recruit focus group comprised of homemakers to gain their insights in developing new product concepts, improving product quality and selecting product packaging and design. The selected 16 focus group members are divided into two prosumer groups and meet twice a month for discussion forums.

The focus group review a product's marketability, quality, user convenience and design during the development phase and suggest improvements. In order to reflect more diverse views of homemakers, the mainstay of marketing for consumer goods, we increased the recruitment of focus group to twice a year since 2009. Starting in 2010, we plan to engage monitors whose term has ended to work in online panels and participate in regular online polls.

#### Prosumer-inspired Product Development

Initially, the launch of Saffron Aroma Sheet was unclear due to the inconvenience of having to open the laundry machine during the wash to add the sheet. However, we decided to go ahead with the product after it received high marks from prosumers. We also incorporated prosumer's idea of adding a perforated line for easy quantity control. SAFE dishwashing detergent with brown rice extract is another prosumer inspired product. As the first dishwashing liquid to use grain as a key ingredient, SAFE was developed after the prosumer concept test that focuses on environment protection and safety. We are making a wide range of improvements in our product performances and quality through prosumer tests and reviews.

**Improving Consumer Rights** We pay close attention to the voices of consumer groups, government agencies and opinion leaders to meet community-wide efforts to improve consumer rights. From securing consumer safety, protecting consumer's right to know and preventing customer dissatisfaction, LG H&H is striving to enhance customer value by taking a proactive stance on consumer protection and system improvements.

#### Handling Customer Complaints

**Customer Complaint Handling Process** LG H&H is pursuing a wide variety of customer-centered activities to satisfy our consumers. Customer complaints filed via our VOC system are actively incorporated into improving our products and services. Rigorous pre-inspection for product defects helps us secure quality and safety of a product from the consumer's perspective. We are also committed to offering a more satisfactory customer experience when handling customer complaints.

**Improving Customer Service** As part of efforts to better serve our customers, we move swiftly to identify the cause of complaints and bring solutions. To this end, we operate a companywide customer complaint improvement counsel, VOC automatic mailing system and bi-weekly meeting to share results of the VOC system. To secure objectivity in the level of quality management, we started to measure consumer complaints in ppm (parts per million) in 2006 and implemented a warning system that can carry out statistical analysis for repeated complaints. Before launching new or renewal products, we take actions to prevent any customer dissatisfaction and provide prompt relief measures for complaints that do arise after the launch.

#### Customer Complaint Warning System

When a specific type of complaint is filed several times, a warning mail is sent to the person in charge to identify the cause and devise a solution.

#### | Warning Standard |

Yellow	Orange	Red
Increased more than two-fold compared to the previous year's monthly average	Increased more than two-fold compared to the previous quarter's monthly average	Increased more than two-fold compared to the previous quarter or previous year's monthly average



## Employee Value

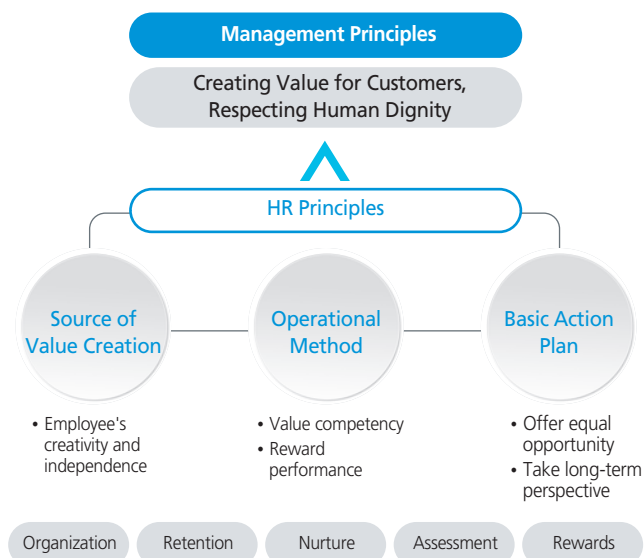
**We aspire to be a great place to work, based on the culture that emphasizes integrity and fairness. We are also raising employee value through work and life balance, human rights protection, workplace equality and talent training.**

Based on the human resources philosophy that guides our hiring, development, assessment and reward practices, we are working to create a satisfying workplace for employees. Our goal is to realize employee value by building a workplace where work and life form a healthy balance. We also strive to operate with integrity by establishing a firm policy for protecting workplace equality and human rights. In particular, we are committed to providing our employees with the opportunities to grow themselves, their careers and our business. Moreover, we will continue to attract the best in class talent by offering competitive employee benefit packages through performance-based evaluation system.

### HR Principles

Guided by the LG Way, LG's core management principles of 'Creating Value for Customers' and 'Respecting Human Dignity,' we respect the creativity and independence of each employee.

#### I HR Principles I



Our performance-based HR management system encourages individuals to develop core competencies and reach their full potential.

### Employee Value Proposition

Under the Employee Value Proposition of 'Innovative Consumer Marketing & Work Life Balance,' we are striving to create an invigorating and creative workplace through work and life balance, leadership and learning opportunities, open communication and fair reward system.

### Human Rights Protection

LG H&H supports the international proclamation on protection of human rights for workers and is doing its utmost to ensure workplace freedom, equality, safety and human dignity.

### Workplace Equality

Under the management principle of 'Respecting Human Dignity' and International Labor Organization's Convention on 'Discrimination in Employment and Occupation,' we respect the human rights of each employee and prohibit unfair treatment.

No employee is discriminated against based on their gender, age, race or religion in the process of hiring, promotion, rewards, training and retirement. They also receive equal opportunities based on personal competency. There is no wage difference among newly hired employees. Their wage in 2009 was 314% of the minimum wage. An employee who feels that he/she is a victim of discrimination may express his/her view through the labor union or a variety of other mechanisms available within the company.

### Ban on Child and Forced Labor

LG H&H bans labor by minors 15 or younger, and limits the employment of those 18 or under across its worksites. Restriction of physical freedom, forced labor, and intermediary exploitation are also strictly prohibited.



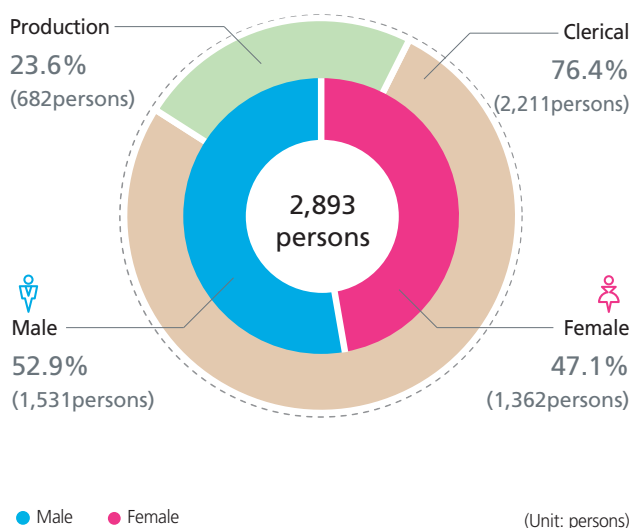
LG H&H abides by ILO's conventions on child and forced labor and supports the labor principles of the UN Global Compact. We also adhere to international and domestic laws and regulations designed to protect the human rights of workers and monitor their implementation.

### Human Rights Training

As part of efforts to create a safe and discrimination-free workplace, we have in place systematic support to prevent sexual harassment, including awareness training held more than once every year. Related video training is also conducted at the team level with plans for expanded education to better protect our employees' human rights.

## Employee Status (as of end of 2009)

### Composition of Workforce



#### Gender ratio in clerical positions



#### Gender ratio in production positions



#### Gender ratio in managerial positions



#### Gender ratio in research positions



#### Gender ratio in contract workers



• Contract workers are included in total workforce and all hold clerical positions

### Status of the Disabled, Foreign Nationals, Patriots & Veterans

(Unit: persons)

Category	Subtotal
Workers with disability	19
Foreign nationals	11
Patriots & veterans	47

### Status of Labor Union Membership

(Unit: persons)

Subjects	Members	Membership Ratio (%)
1,429	479	33.5

### Status of Retirees and Retirement Rate\*

(Unit: persons)

Category	2007	2008	2009
Voluntary retirement	76	88	85
Non-voluntary retirement**	23	34	24
Regular retirement	7	9	13
Subtotal	106	131	122
Retirement ratio(%)***	4.0	4.8	4.2

\* Includes contract workers

\*\* Non-voluntary retirement: Contract termination, death, dismissal, early retirement, etc.

\*\*\* Retirement ratio: Retirees ÷ Total employees, includes regular & contract workers





## Recruitment by Job Functions

We operate a recruitment program tailored to each job function (eg. marketing, R&D and sales) by defining the required capabilities.

	Required Capabilities	Recruitment Method
Marketing	<ul style="list-style-type: none"> <li>• Creativity, marketing mindset</li> <li>Ability to lead trend</li> <li>Work leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Entry-level: Marketing seminar</li> <li>• Experienced: Year round</li> </ul>
R&D	<ul style="list-style-type: none"> <li>• Product development/ R&amp;D ability</li> <li>• Creative skills (design)</li> </ul>	<ul style="list-style-type: none"> <li>• Entry-level: Industry-academia R&amp;D seminars Design competition</li> <li>• Experienced: Year round</li> </ul>
Sales	<ul style="list-style-type: none"> <li>• Ability to lead field sales activities, strong communication skills</li> </ul>	<ul style="list-style-type: none"> <li>• Entry-level: Sales academy</li> <li>• Experienced: Year round</li> </ul>
Staff	<ul style="list-style-type: none"> <li>• Knowledge, skills, attitudes according to function (finance, strategy, purchase, HR, etc)</li> </ul>	<ul style="list-style-type: none"> <li>• Entry-level &amp; experienced: Year round</li> </ul>



R&D Seminars

## Talent Training

In response to the drastically changing business environment, we believe the best way to nurture leadership capability in our employees is through 'On-the-job training, early responsibility and specialist training.' At LG H&H, we offer diverse learning opportunities to help our employees gain in-depth experience and build their skills to grow into experts in their field.

### I Training Results I

Category	2007	2008	2009
Number of participants	10,555	13,219	18,395
Training hours	194,076	231,553	221,824

## Entry-level Employee Training

Besides our unique hiring program (Marketing seminar/Sales academy/R&D seminar) tailored to each job function, we offer extensive on-the-job training to promote strategic growth of our new recruits. They include an internship program to help employees adapt to a new job and organization, placement in department of their choice, entry-level training on organizational culture and basic training.

## Leadership Training

### On-the-job Training

Our customized on-the-job training combines real-world experience with formal classroom study. Programs are developed in cooperation with experts from each field who identify key task-related issues in connection with their own firsthand knowledge to offer intensive on the job development. The customized trainings include case studies and on-the-job programs for new marketing and sales recruits, and for team leaders.

## Succession Planning

We operate the Succession Planning system to enable early development of business leaders in core positions. Taking into account leadership, management and global capabilities as well as business acumen required for key assignments, we select next-in-line, long term and next generation leader candidates on an annual basis and offer tailored training and support for each individual.

## Strengthening Global Competency

To build a human resources pool for overseas operations, we have in place global MBA and regional specialist programs.

## Online Training

To support employees' personal and professional development and improve their functional skills, we offer an average of seven online learning opportunities through LG Academy's cyber education. The courses focus mainly on 3 areas of study: general finance/economy, specialized job functions and globalization (foreign languages). In particular, our online language programs offer employees an easily accessible way to improve their language skills. Moreover, major departments hire a native speaker to conduct language proficiency tests, one-on-one coaching and training on global standards.

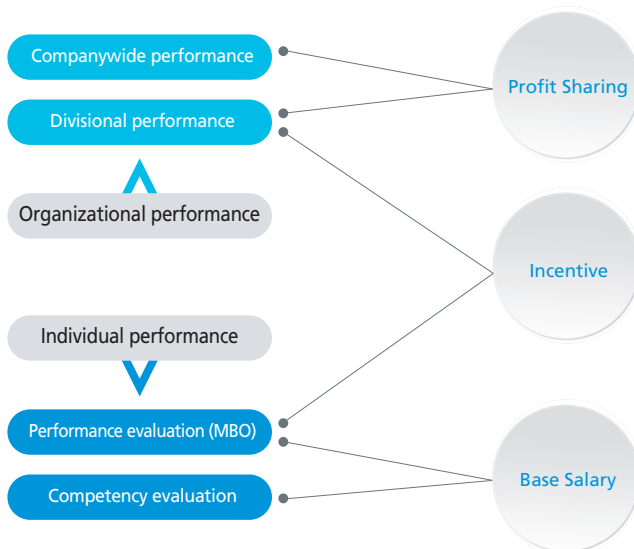


### Assessment and Rewards

Employee evaluation includes the entire process of measuring performances and nurturing efforts such as coaching and feedback that are carried out in the course of aligning individual goals with organizational objectives. An important criterion for rewarding performance, employee evaluation is guided by three basic principles; 'fair and objective assessment', 'integrity of organizational and employee assessment' and 'evaluation from the perspective of talent development.'

Meanwhile, compensation packages are rewarded in the form of profit sharing, individual incentives and base salary, while taking into account both organizational and individual performances.

### | Reward System |



### Welfare Benefits

LG H&H provides systematic support to employees in the four main areas of financial and livelihood security; health promotion and retirement planning; rewarding working environment; and leisure activities. Going forward, our innovative welfare programs will take employee satisfaction to the next level by reflecting their needs to deliver competitive benefits. We are also offering career change program to retirees.

### | Welfare Benefits |

Category	Details
Financial & livelihood security	Housing loans
	Congratulatory/condolence money
	Scholarship
	Discounts on the purchase of LG products
Health promotion & retirement planning	Medical expenses
	Regular check-ups
	Medical check-ups
	Regular group insurance
Rewarding working environment	Employee cafeteria
	Long-term employment rewards
	Provide souvenirs
	Supply work uniform
Leisure activities	Vacation leave policy
	Operate resort facilities
	- Baekyang Retreat, Konjam Resort, Elysian Gangchon
	Support informal groups
	Provide tickets to sporting events
	Support activities to promote health
	- Support refresh club activities



Konjam Resort



## Internal Communication

**LG H&H has implemented various communication channels to create a corporate culture of empathy through inter-organizational dialogue. We are also building collaborative labor-management relations based on participation and cooperation.**

Open internal communication is crucial to smooth operations of an organization. In an effort to create an organizational culture of empathy through dialogue, Under the vision of 'pursuing the common good based on participation and cooperation,' we are working to build collaborative labor-management relations. Operation of the Grievance Committee is also helping to create an environment where employees can focus on their work.

To facilitate employee understanding, the CEO holds open dialogue with employees to discuss company strategies and policies. Moving forward, the company will expand ways to increase employee engagement and incorporate their opinions in important issues.

### Labor-management Relations

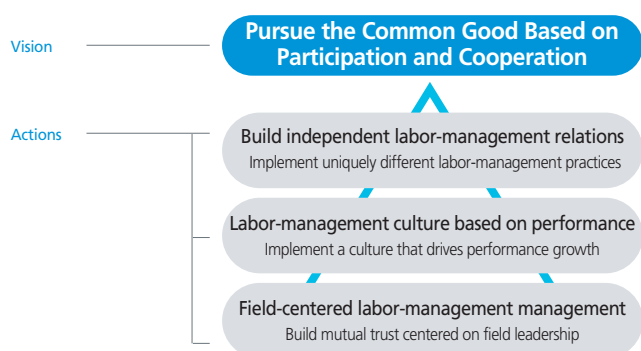
To build strong labor-management partnership based on labor union's cooperation and participation, we operate the Labor-management Council, Grievance Committee and other communication activities.

**Collaborative Labor-management Relations** Labor and management are pursuing the common good based on partnership that focuses on creating joint value through mutual respect and trust.

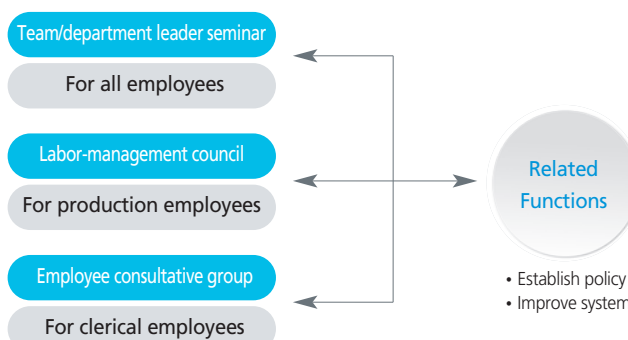
**Labor-management Council** The council, comprising labor and management representatives, plays a major role in promoting win-win partnership and creating mutual benefits. The council meets every quarter to discuss such issues as employee grievances, welfare and activities to support work and life balance. It also contributes to improving mutual trust by sharing information regarding company earnings and hiring plans.

**Handling Grievances** Bidirectional communication on employees' work-related concerns allows the company to incorporate such concerns in policies and system improvements. Employee opinions and suggestions about various grievances and problems are collected through seminars, individual interviews, labor-management council and employee consultative group and are used to create a constructive environment where employees can focus on their work.

### | Vision for Collaborative Labor-management Relations |



### | Communication Channel for Handling Grievances |





### Internal Communication Channel

Many different internal communication channels are open to foster dialogue between the company and employees, and between organizations.

#### I Internal Communication Channel I

Category	Details	Communication Method
Management policy & corporate values	Management policies, corporate value, employee stories	Bi-monthly company magazine
Disclosures	Company vision, business direction, company earnings	Quarterly company meeting
CEO message	CEO's management philosophy, messages to employees	Bulletin boards, restrooms, conference rooms, website
Executive story	Executives' stories about personal growth, private life, organization's direction	Company intranet
Change story	Stories about employees' personal growth and change	Company intranet
Employee consultative group	Employee ideas about ways to invigorate organizational culture, personal development, welfare programs	Collected by organization culture team and delivered to the top management

### Work and Life Balance

LG H&H is committed to supporting healthy work and life balance by offering many programs and resources to support employees including leisure activities, maternity program and more.

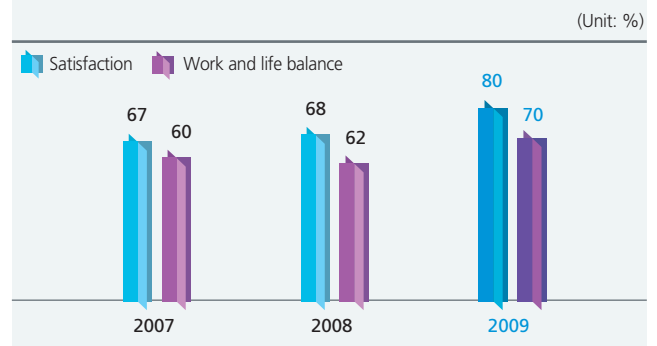
#### I Work and Life Balance Programs I

Category	Details
Flexible time	All employees have an option of choosing 8 to 5 or 9 to 6 work hour. Done every month after consulting with the person in charge
Focused work & leave office on the dot	Guarantee employees personal time to rest, develop skills, etc. after work
Companywide day off	Designated third Monday of every month as a companywide off-day to use it as an opportunity to reenergize
Maternity program	Breastfeeding room/lounge for female employees, maternity leave, pregnancy-related medical expenses

### Employee Satisfaction

Every year, LG Group conducts the LG Way survey to gauge employees' views and satisfaction level. The survey consists of three categories, "'Jeong-Do' Management," 'Creating Value for Customers' and 'Respecting Human Dignity.' In addition, it surveys employees' satisfaction level regarding the company, work, leader and department and work and life balance. Eighty-three percent of 1,893 LG employees, or 1,563 employees, took part in the 2009 survey that was conducted from June to July. The result showed that employees' satisfaction level for the company increased 12%p from the previous year to 80%. The work and life balance index also rose to 70%, up 8%p from 2008. The analyzed survey results were delivered to each organization to be reflected in diverse measures. Moreover, we are working to offer greater satisfaction to our employees through interviews and workshops.

#### I Employee Satisfaction Survey I



#### Oasis Program

The Oasis Program is designed to instill ideal leadership qualities and reignite passion for success among entry-level managers. It is comprised of three programs: personal development, financial planning and mediation and is designed to help team leaders gain clear understanding about their personal identity while balancing life responsibilities such as work, family and money.

• Subjects: Team leaders

• Contents:

- Personal development: Establish work and life balance
- Financial planning: Understand importance of sound financial planning
- Meditation: Deepen understanding about personal goals established through personal development and financial planning





## Safety & Health

Under the vision of 'Respecting Human Dignity,' we incorporated safety and health-related policies into management principles and set up detailed action plans to create a safe, accident-free workplace and improve employee health.

The wellbeing of our employees is a key ingredient to our success and has a great impact at the individual and company level. Under the vision of 'Respecting Human Dignity,' LG H&H incorporates safety and health-related policies in our management principles and devised a set of detailed action plans and standards. Our efforts to create a pleasant, accident-free workplace involve such actions as implementing Occupational Health and Safety Assessment Series (OHSAS) 18001, operating the Industry Safety and Health Committee every quarter, promoting employee health and improving worksite surroundings. Our plans for the future include strengthening safety inspection at worksites and offering a wide selection of medical check-up programs.

### Safety & Health Activities

**Safety Activities** We create a clean and pleasant working environment by measuring/assessing exposure to potentially hazardous substances at worksites and improving facilities on a regular basis. Regular worksite inspections also help to promote a safe workplace and prevent accidents.

### I Industrial Accident Rate I

(Unit: %)

Category	2007	2008	2009
Number of injured (persons)	2	6	3
LG H&H	0.08	0.22	0.10
Domestic industry average*	0.72	0.71	0.70
Domestic manufacturing industry average*	1.10	1.15	1.04

\* Domestic industry and manufacturing industry average data from Labor Ministry's December 2009 statistics.

**Health Activities** We pursue diverse activities to promote the overall health of our employees such as illness management and physical fitness check-ups. Each worksite also operates Industrial Safety and Health Committee every quarter to promote employee awareness on health issues and ensure a safe working environment.

### Health Promotion Programs

- Smoking cessation and weight loss campaign (in partnership with local clinics)
- Physical fitness check-up and prescription of exercise regime
- Regular inspection of individual illnesses
- Health education (first aid, prevention of musculoskeletal disorders, stretching, etc)
- Operation of Health Center



### Emergency Preparedness

To prevent accidents such as fire or gas leaks, fire and gas detectors are installed throughout LG H&H worksites. To swiftly respond to environment-related accidents, emergency response training is conducted on a regular basis. In particular, we created detailed how-to manuals in case of emergencies according to accident types and conduct daily inspections on potentially dangerous jobs, pollution prevention facilities, storage units or facilities using hazardous materials. As a result, there were no violations of related laws or penalties due to spills, leaks or any other environment related accidents in 2009.

### I Types of Emergency Response I

Types	Facilities	Effects	Responses
Blackout	High voltage facility, cabinet panel	Defective process, safety accident	Overcurrent relay, emergency generator, crisis response training
Fire	Worksites, gas supply facility	Hazardous gas, water pollution	Fire prevention system, crisis response training
Explosion	Compressor facility, gas supply facility	Building damage, Soil pollution	Pressure adjustment equipment, crisis response training
Leak	Chemical storage unit, transfer pipeline	Water pollution, soil pollution	Install leak prevention equipment, crisis response training
Natural disaster	Buildings, storage unit, pipelines, etc	Fire, water pollution, soil pollution, etc.	Earthquake-proof construction, crisis response training





## Innovation Culture

**For sustainable growth, we encourage employees to use their imagination and creativity to come up with innovative ideas. We also pursue 'i-3.0 program' to implement the culture of innovation that turns good ideas into great products.**

LG H&H is committed to purpose-driven innovation to create a growth momentum that can withstand the ever-changing business environment such as the contraction in the real economy that was triggered by the global financial meltdown in 2008. We are putting our collective creativity to work to accelerate product, operation and system innovations. In addition, we are implementing diverse initiatives to spread the spirit of innovation throughout the company.

To improve efficiency of such initiatives, innovation has been defined as the organization's core competency and this value is continuously being instilled in our employees. Going forward, the spirit of innovation will inspire our employees to produce great ideas which will be put into our everyday practice and strengthen the company's overall competitive edge.

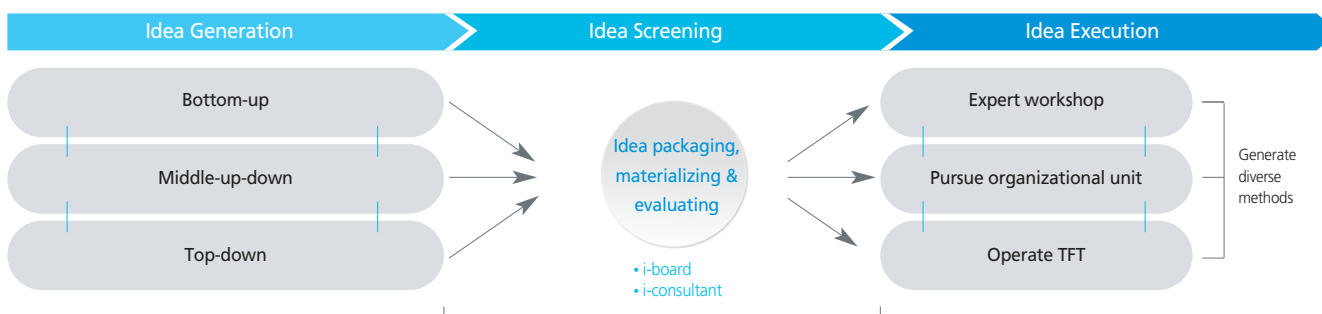
### Idea Innovation 'i-3.0'

In 2009, we launched 'i-3.0' campaign to encourage our employees to voluntarily take part in innovation activities. 'i' stands for innovation, imagination and insight and '3.0' signifies that employees are working voluntarily to create and combine good ideas under the belief that their ideas can change the company's future. Therefore, i-3.0 underlines employees' voluntary participation, systematic innovation as well as fusion and creation.

#### 'i-3.0' Action Plan

Open communication is key to inspiring creativity that leads to innovation. As such, we encourage voluntary bottom-up communication to drive innovation.

### Process



### Activities According to Different Approaches

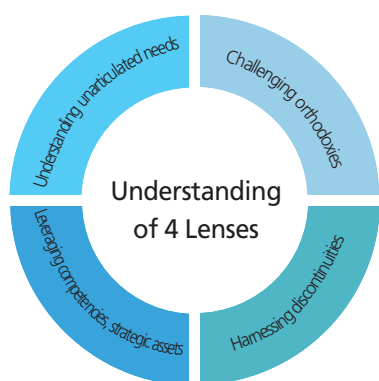
Category	Objectives	Details
Bottom-up	Generate creative ideas through voluntary participation	Propose ideas based on individual innovation capability strengthened through i-Time or personal innovation activities
Middle-up-down	Innovate work-related key issues at department level	Generate issues from middle managers' goals or pending issues and employees propose detailed ideas to resolve the matter
Top-down	Top management team generates companywide, departmental issues and solutions	Generate companywide, department-level issues and encourage decision on action plans at executive/team leader workshop



## Innovation Culture Program

### Innovation Training

All employees are required to take courses on innovation which has been defined as the organization's core competency. We offer such interesting class as 'Understanding of 4 Lenses' designed to help employees come up with ideas and share them with each other. Programs include understanding innovation, generating ideas, honing problem-solving skills and sharing action plans.



Innovation Training

### Operation of i-Board and Creation of i-Fund

The i-Board is a committee that determines whether to commercialize ideas proposed via bottom-up method or website while the i-Fund was created to finance such projects.

### Innovation Intranet

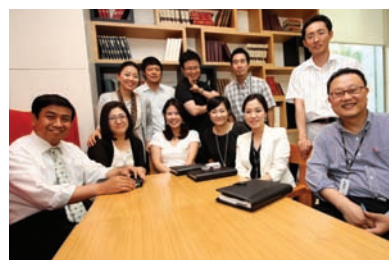
To streamline the process of proposing an idea and increase participation, an online forum opened on the intranet in 2009 where employees can propose an idea and hold discussions. We awarded some KRW 100 billion to support i-3.0 and other innovative ideas.

### Innovation Meeting, 'i-Time'

In a move to encourage employees' innovation activities, we launched the 'i-Time' program which sets a designated time dedicated to innovation. During the designated time, employees engage in free discussions about products, customer service, organization, systems and work processes based on the innovation matrix organization (i-Group). Proposed ideas are reported to top management after related departments conduct a feasibility review.

#### Example of i-Time

- Team : Cosmetics Business, Door-to-door Sales Support Team
- i-Time: Every Wednesday
- Agenda: Measure to maximize recruitment of door-to-door salesperson
- Method: Generate an idea based on 4 lenses
- Selected idea: Recruit salespeople using home shopping channel
- Result: Hired a total of 500 outstanding salespeople via home shopping channel (230 through two broadcasts in August 2009, 270 through additional broadcast in November). Plan to continue recruitment using online channels.





*Coca-Cola Beverage Company*

Live  Positively™



Beverage  
Benefits



Active, Healthy  
Living



Energy  
Management &  
Climate  
Protection



Sustainable  
Packaging



Water  
Stewardship



Community



Workplace



## Overview

As the authorized distributor of Coca-Cola (The Coca-Cola Company) products, Coca-Cola Beverage Company was incorporated as a subsidiary of LG H&H in October 2007.



Coca-Cola Beverage Yeosu Worksite



Coca-Cola Beverage Yangsan Worksite



Coca-Cola Beverage Gwangju Worksite

### Report of Coca-Cola Beverage Company

Coca-Cola Beverage Company is the exclusive manufacturer and distributor of Coca-Cola (The Coca-Cola Company) products in Korea. As of now, the company operates three worksites in Yeosu, Yangsan and Gwangju, and 56 sales branches nationwide. It offers a range of products including soft drinks, fruit juices, sports drinks, lifestyle beverages, tea, coffee and bottled water.

### Takeover of Coca-Cola Beverage Company

In a move to secure a future growth driver, LG H&H took over Coca-Cola Korea Bottling Company in October 2007 and switched the name to Coca-Cola Beverage Company the following January. The takeover allowed LG H&H to add beverages to our two existing business units of household goods and cosmetics. It also helped us to greatly improve our logistics performance by using Coca-Cola's nationwide distribution network and gave us an excellent opportunity to focus on the high growth potential business of beverage.

### I Company Profile I

(as of end of Dec. 2009)

Head office	116-1 Yusan-dong, Yangsan-si, Gyeongsangnam-do
Worksites	Yeosu, Yangsan, Gwangju
Logistics centers	28 including Yeosu and Doksan Logistics Centers
No. of employees	2,329 persons
Total assets	KRW 407.4 billion
Total shareholders' equity	KRW 301.1 billion
Sales	KRW 604.5 billion
Major shareholders	LG H&H 90%
	European Refreshments Ltd. 10%

*Coca-Cola Beverage Company*



## Economic Performance

Coca-Cola Beverage Company is realizing strong sales and profits through diverse new product launches that satisfy consumer expectations, extended market coverage by discovering new customers and improved efficiency.

For stable growth and increased stakeholder value, the company is focusing on launching diverse new products that satisfy consumer expectations, discovering new customers and improving logistics efficiency. The generated value is reinvested to enhance the company's growth momentum and stakeholder value.

### Creation and Distribution of Economic Value

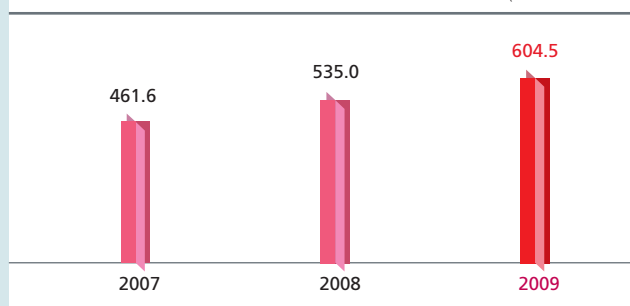
Despite the economic recession, the company increased its product portfolio, extended market coverage by developing new customers, and carried out activities to raise efficiency. As a result, our 2009 revenues grew 13.0% from the previous year to KRW 604.5 billion. Operating income was KRW 56.1 billion, up 48.4% from 2008 (KRW 37.8 billion) when it made the turnaround from a deficit of KRW 7.4 billion in 2007.

In terms of distribution, we will continue to sharpen our execution at the point of sale by leveraging DDMP (Distribution, Display, Merchandising, Price), our key sales activities. For a stronger presence in the on-premise market, we have established new customer relationships with 296 restaurants which specialized agencies. We also invest in building the scale and capabilities of our sales, logistics and production sectors by changing old manufacturing facilities, improving the production environment and switching to larger delivery trucks.

In terms of production, we have built a system to produce PET (polyethylene terephthalate) bottle materials. Worksite innovation and quality improvement actions resulted in saving KRW 7.0 billion in costs and increasing man-hour per productivity by 10%. Going forward, we will continue our efforts to lead in refreshments by expanding our brand portfolio to provide products that consumers want, increasing distribution capabilities and strengthening sustainability.

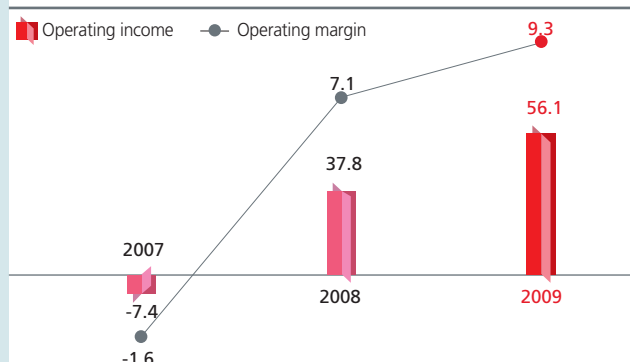
### | Sales |

(Unit: KRW billion)



### | Operating Income and Margin |

(Unit: KRW billion, %)



### | Sharing of Economic Performance |

(Unit: KRW billion)







## Environmental Performance

**Governed by the Coca-Cola Management System (TCCMS), our ESH actions are designed to minimize our environmental footprint and improve working conditions for our employees.**

The company set detailed environmental goals in accordance with the 2009 LG H&H Sustainability Report's environmental policy and implemented specific action plans to achieve the objectives. Our environmental actions are governed by the Coca-Cola Management System (TCCMS) and we operate a crisis management team to proactively deal with environmental accidents. Moving forward, we plan to improve our environmental performance by implementing internal management and control requirements that are more rigorous than domestic and international regulations.

### Environmental Management System

We operate an environmental management system that is aligned with TCCMS, Coca-Cola's management system for quality, environment, occupational safety and health as well as ISO 14001 environmental management standard. The system provides operating standards and requirements for all our TCCMS-certified worksites to minimize environmental impact and improve working conditions.

We are committed to the environmental causes as demonstrated by the signing of a voluntary agreement with the government to conserve energy and reduce waste. In addition, we manage our environmental performance using the EPM (Environmental Performance Measurement) index, which is applied to all Coca-Cola operations worldwide. We are setting and managing environmental objectives by comparing our performances with that of overseas Coca-Cola worksites.



**167.9** g CO<sub>2</sub>

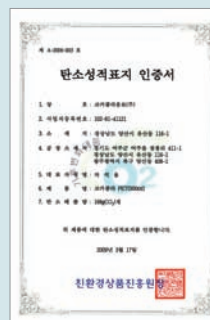
Coca-Cola 500ml's Carbon Footprint

**Audit** To practice sound environmental stewardship, we engage recognized external and internal experts to assess the compliance status of our manufacturing operation in line with global ESH requirements and applicable domestic laws and regulations. We take necessary corrective actions in accordance with the audit findings to maintain compliance and improve performance.

**Environmental Accident Response System** A companywide crisis management team is in operation under the Incident Management System. The team is in charge of preventing human and physical losses in case of environmental accident, fire and explosion, or natural disaster. Emergency training is also provided as following - Level 1(maximum), Level 2(severe) and Level 3(danger).

**Greenhouse Gas Management** We are taking a wide range of actions on climate change to make a meaningful difference in the world.

### Product Carbon Footprint



• Carbon-label Certification

In addition to setting up a process to calculate greenhouse emissions for our operations, we became the first beverage company to sign up for carbon footprinting with the Carbon Trust in the latter half of 2008. As a result, our 500ml plastic (PET) Coca-Cola bottle was certified by the Carbon Trust. We will continue to expand carbon footprinting for our products to reduce greenhouse gas emissions

### Replacement of CFC Refrigerant

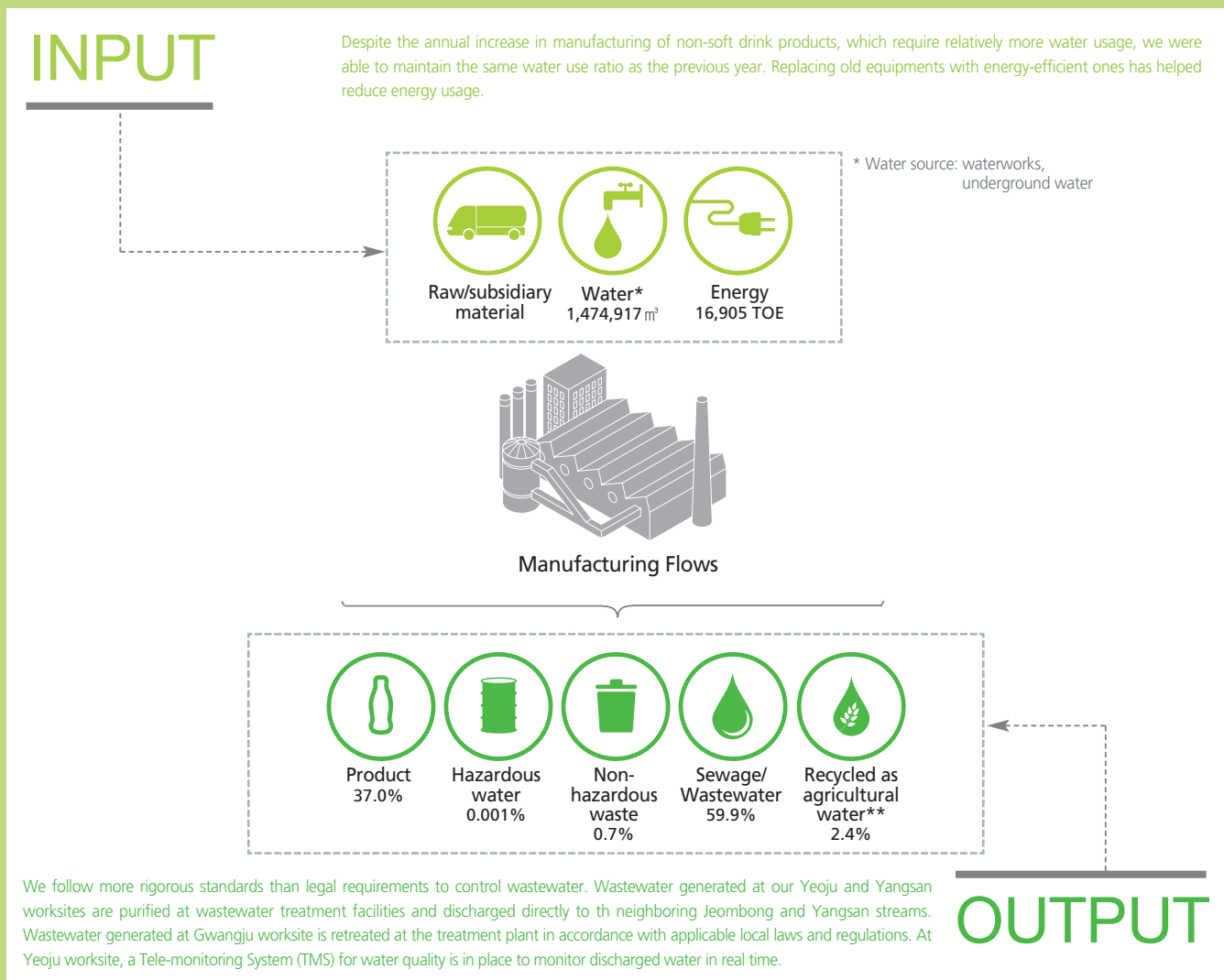
As a part of our efforts to prevent global warming and protect the climate, we are replacing CFCs in coolers and vending machines with HFC refrigerant gas, which has a low ozone depletion index. In addition, we are generating energy savings by installing EMS-55, Coca-Cola Global's intelligent energy management system for cold drink equipment, and raised the ratio of machines using HFC refrigerants to 93%.



### Environmental Process Management

Water is our single biggest product ingredient. As such, we have in place policies to alleviate water shortage and improve water quality by using water in a responsible and sustainable way. Our actions include identifying the use of process water per facility and mapping out water conservation and re-usage programs.

We have also signed a voluntary agreement to reduce waste and are striving to improve recycling practices in our worksites for eco-friendly manufacturing process.



\*\*In the draught season, discharged water is supplied to neighboring farms through a dedicated agricultural water line (volume: 1,533 tons/day)

- Yeosu worksite is monitoring the environmental impact of discharged sewage/wastewater on neighboring streams. Based on discharge water, COD<sub>Mn</sub> was 8.2mg/ℓ or 44% lower than 18.6mg/ℓ in the upstream of Seongsan Stream while downstream Jeombong Stream was 11.4mg/ℓ, which has minimal impact on water quality.



## Social Contribution

**We are committed to serving our communities with wide ranging programs with a focus on water stewardship and youth health promotion.**

As a way to make a sustainable difference in our community by supporting projects that are most relevant to our business and can maximize the efforts of our volunteers, we are focusing on water stewardship and youth health promotion.

As such, we have been carrying out a variety of initiatives to support healthy living through the Coca-Cola Korea Youth Foundation established in 2004 to promote happy partnerships with the local community. Our water stewardship program also helps to prevent water shortage. We plan to expand the scope of these programs to achieve greater impact.

### Major Initiatives

**Water Stewardship Programs** Our community water initiative includes conducting educational and awareness programs for youths. We toured elementary schools to educate children on the importance of water and in 2009 opened a youth class that teaches simple ways to save water.

#### | Water Stewardship Programs |

Category	Details
Classroom lecture	Importance of water, Need to protect water, tips on water conservation
Video education	Watch film about water protection and hold follow-up discussion
Experiment	Make water regulator with PET bottle, Make eco-friendly gargling cup
'Special Water Saving Zone' project	Student chooses a place that needs water conservation in school and have him/her practice their own water saving principles
'Water Guardian at School' homepage	Students record their own water saving activities

**Health Program** A wide range of health programs are being implemented to encourage an active lifestyle that is vital to the health and wellbeing of youth. Since 2008, we have been operating 'Health Class' that supports physical activities, provides health information as well as health check-ups and consultation, and offers variety of solutions to foster an active and healthy lifestyle.

#### | Health Program |

Category	Details
Health bus (Gunzzang bus)	Bus runs at least 3 times a year for health check-ups using body composition analyzer, spirometer, blood pressure meter and so on
Health education	Offer 'health class' operation manual, BMI checklist, health diary and poster, etc.
Exercise mentoring	Dispatch coaches of football, healthrobic and other physical activities to schools on a regular basis
Coca-Cola Gunzzang Camp	In connection with Department of Sports Health Welfare at Korea National Sport University, offer sports and nutritional classes to participants

\* BMI (Body Mass Index)



Coca-Cola Gunzzang Camp



Water Stewardship Program



## Employees

We foster a safe and healthy environment for all our people to provide them with a fulfilling work life. Strengthened communication enables us to collect diverse employee opinions and incorporate them into our business activities.

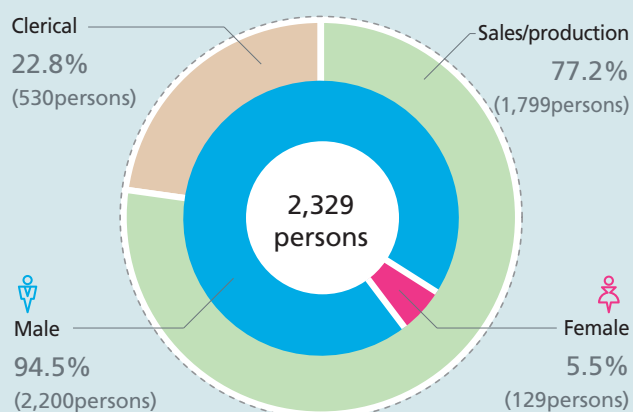
To make sure that working for our company is fun and rewarding, we have implemented various human resource programs. Also on top of our priority is creating a safe and healthy working environment and promoting communication to share company's management policies and incorporate employee opinions into our business activities. We will continue our efforts to make Coca-Cola Beverage a great place to work by cultivating a positive organizational culture.

### Labor-management Council

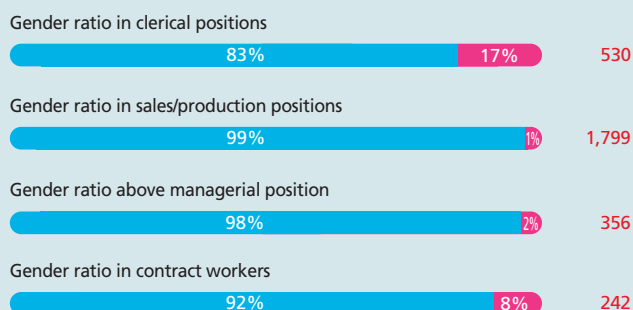
At Coca-Cola Beverage Company, we view labor-management relations as a partnership where labor and management respect and understand each other's roles. The partnership goes beyond mere cooperation. Rather, it is a collaborative partnership aimed at pursuing the common good. During the quarterly meeting of the Labor-management Council, representatives from labor and management gather for meaningful and constructive dialogue on such issues as business earnings, working conditions and welfare benefits. Based on mutual respect and trust, we are building a culture of productive negotiation through annual collective bargaining.

### Employee Status (as of end of 2009)

#### I Composition of Workforce I



● Male ● Female (Unit: persons)



• Contract workers are included in total workforce and all hold clerical positions

#### I Status of the Disabled, Foreign Nationals, Patriots & Veterans I (Unit: persons)

Category	Subtotal
Workers with disability	59
Foreign nationals	2
Patriots & veterans	41

#### I Status of Labor Union Membership I (Unit: persons)

Subjects	Members	Membership ratio(%)
2,130	1,819	85.4



## Internal Communication

At Coca-Cola Beverage Company, various channels are established to facilitate the smooth exchange of views and ideas between the ranks and between peers. Open communication plays a pivotal role in keeping employees informed about company's directions and values and promoting greater employee engagement.

### I Internal Communication Channels I

Category	Details
CEO message	Upload CEO's management philosophy, messages to employees on bulletin boards, restrooms, conference rooms, website
Regional council	Establish local communication channel and build trust by resolving regional issues
Employee consultative group	Create pleasant working environment to maximize work efficiency, Collect various views and grievances from employees and reflect them in improvement measures

## Organizational Culture

A survey on organizational culture was conducted in 2009 in an effort to redefine the organization's direction and core values to transform into a more competitive system that can respond flexibly and swiftly to changes in the business environment. The offline survey was conducted for two weeks with 90% of those surveyed (2,065 persons out of 2,288 persons) responding to the questionnaire.

For areas that needed detailed analysis, we selected representative groups from each job function, position and region and conducted in-depth interviews. As a result, we discovered that our employees are most interested in job security, better communication and expanded educational opportunities. We will continue to conduct the annual survey to track changes in our employees' views and focus on bringing about real change in issues most relevant to them.

## Safety and Health

At Coca-Cola Beverage Company, we are committed to providing a safe and healthy working environment by identifying risks and making appropriate improvements.

Accidents are usually preventable, so we are committed to promoting and rewarding safe behavior, as well as educating all of our employees in safety procedures. As such, we have standardized the work process at all worksites and conduct safety inspections on a regular basis. Meanwhile, the accident-free reward system encourages employees' voluntary participation in promoting safety while various trainings and designated day for health and safety education help raise safety awareness and capabilities. Our efforts have resulted in reducing industrial accidents by 31% from 2008 in delivery and sales operations prone to injuries.

### I Industrial Accident Rate I

(Unit: %)

Category	2007	2008	2009
Number of injured (persons)	30	26	18
Coca-Cola Beverage	1.37	1.14	0.77
Domestic industry average*	0.72	0.71	0.70
Domestic manufacturing industry average*	1.10	1.15	1.04

\* Domestic industry and manufacturing industry average data from Labor Ministry's December 2009 statistics



Fire-fighting Practice



Safety and Health Training



# Appendix

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# Financial Statements

## I Balance Sheet Summary I

(Unit: KRW million)

Category	LG Household & Health Care			Coca-Cola Beverage Company		
	2007	2008	2009	2007	2008	2009
I . Current Assets	288,470	330,562	326,710	68,547	79,180	99,580
• Quick Assets	196,067	207,278	203,163	45,793	56,691	76,279
• Inventories	92,403	123,284	123,547	22,754	22,489	23,301
II . Non-Current Assets	698,132	709,499	793,854	207,053	255,824	307,785
• Investments	355,715	384,242	486,544	4,557	3,066	3,252
• Property, Plant and Equipment	286,022	282,960	242,487	198,956	249,749	279,843
• Intangibles	15,400	13,290	11,568	380	218	220
• Other	40,995	29,007	53,255	3,160	2,791	24,470
Total Assets	986,602	1,040,061	1,120,564	275,600	335,004	407,365
I . Current Liabilities	378,600	413,474	421,702	137,844	91,652	71,402
II . Non-Current Liabilities	226,209	141,926	78,825	30,615	44,150	34,841
Total Liabilities	604,809	555,400	500,527	168,459	135,802	106,243
I . Paid-in-Capital	88,589	88,589	88,589	367,249	375,983	100,000
II . Capital Surplus	97,350	97,326	97,326	16,903	25,589	301,572
III . Capital Adjustment	(70,877)	(71,375)	(71,375)	0	0	0
IV . Accumulated Other Comprehensive Income	(1,101)	6,953	5,781	0	38,086	38,050
V . Retained Earnings	267,832	363,168	499,716	(277,011)	(240,456)	(138,500)
Total Shareholders' Equity	381,793	484,661	620,037	107,141	199,202	301,122
Total Liabilities and Shareholders' Equity	986,602	1,040,061	1,120,564	275,600	335,004	407,365

• ( ) denotes negative (-) numbers

## I Income Statement Summary I

(Unit: KRW million)

Category	LG Household & Health Care			Coca-Cola Beverage Company		
	2007	2008	2009	2007	2008	2009
I . Sales	1,172,451	1,354,585	1,525,071	461,585	534,959	604,520
II . Cost of Sales	517,505	601,875	664,593	285,842	283,426	323,303
III . Gross Profit	654,946	752,710	860,478	175,743	251,533	281,217
IV . Selling and Administrative Expenses	528,543	599,187	662,368	183,159	213,730	225,122
V . Operating Income	126,403	153,523	198,110	(7,416)	37,803	56,095
VI . Other Income	8,700	46,613	56,390	28,264	3,210	2,100
VII . Other Expenses	18,202	37,847	38,146	27,327	4,458	2,410
VIII . Earnings Before Taxes	116,901	162,289	216,354	(6,479)	36,555	55,785
IX . Income Tax Expense	36,624	41,714	45,306	0	0	(46,171)
X . Net Income	80,277	120,575	171,048	(6,479)	36,555	101,956

• ( ) denotes negative (-) numbers

## Environment, Safety & Health Index

### I LG Household & Health Care |

Indicator	Unit	2007	2008	2009
Production volume	tons	317,202	335,431	361,551
Greenhouse gas emission	tons of CO <sub>2</sub>	46,814	46,230	48,003
Energy usage	TOE	19,471	20,961	21,488
	Unit(kgOE/product-ton)	61.384	62.490	59.433
Water usage	tons	511,965	630,466	740,263
	Unit(tons/product-ton)	1.614	1.880	2.047
Wastewater discharge	tons	93,047	99,161	103,267
	Unit(tons/product-ton)	0.293	0.296	0.286
COD <sub>Mn</sub>	tons	6.01	6.36	8.81
	Unit (kg/product-ton)	0.019	0.019	0.024
Harmful chemical usage	tons	6,033	6,077	6,840
	Unit(tons/product-ton)	0.019	0.018	0.019
Waste generated (excluding construction waste)	tons	4,603	4,234	4,178
	Unit (kg/product-ton)	14.511	12.623	11.556
Recycling ratio	%	49.20	48.80	38.62
Air emissions	Dust emission(tons)	8.51	6.77	6.49
	Unit (kg/product-ton)	0.027	0.020	0.018
Green procurement	KRW million	62	60	83
Industrial accident rate	Injured persons ÷ total employees(%)	0.08	0.22	0.10

### I Coca-Cola Beverage Company |

Indicator	Unit	2007	2008	2009
Production volume	tons	481,913	534,504	557,004
Greenhouse gas emission	tons of CO <sub>2</sub>	33,646	37,142	38,898
Energy usage	TOE	14,551	16,108	16,905
	Unit (kgOE/product-ton)	30.194	30.136	30.359
Water usage	tons	1,222,341	1,369,802	1,474,917
	Unit (tons/product-ton)	2.536	2.563	2.648
Wastewater discharge	tons	801,638	851,453	936,337
	Unit (tons/product-ton)	1.663	1.593	1.681
COD <sub>Mn</sub>	tons	8.97	9.37	11.10
	Unit (kg/product-ton)	0.019	0.018	0.020
Harmful chemical usage	tons	560	683	677
	Unit (kg/product-ton)	1.162	1.278	1.215
Waste generated (excluding construction waste)	tons	8,849	12,468	11,047
	Unit (kg/product-ton)	18.362	23.326	19.833
Recycling ratio	%	43	68	76
Green procurement	KRW million	-	16	25
Industrial accident rate	Injured persons ÷ total employees(%)	1.37	1.14	0.77

### I Certification Status |

Category	Item	2007	2008	2009
LG H&H	ISO 14001 certified worksites	Cheongju/Ulsan/Onsan	Cheongju/Ulsan/Onsan	Cheongju/Ulsan/Onsan
	OHSAS18001 certified worksites	Cheongju/Ulsan/Onsan	Cheongju/Ulsan/Onsan	Cheongju/Ulsan
Coca-Cola Beverage Company	ISO 14001 certified worksites	Yeoju/Yangsan/Gwangju	Yeoju/Yangsan/Gwangju	Yeoju/Yangsan/Gwangju
	OHSAS18001 certified worksites	-	-	Yeoju/Yangsan/Gwangju
	HACCP	-	-	Yeoju

## Recognitions & Memberships

### | 2009 Recognitions & Awards |

Name	Details	Sponsor
Korean Sustainability Index	Ranked no.1 in chemical energy industry category	Korean Standards Association
Korea's Most Admired Company	Grand prize in overall category	Korea Management Association Consultants
DSJI Korea	Ranked no.1 in personal & household category	Dow Jones/SAM/Korea Productivity Center
Global CEO	Global CEO grand prize	Korean Academy of International Business
Award for Green Industry Development & Low Carbon Green Growth	Environment Minister commendation	Korea Environmental Industry & Technology Institute
Nationwide Donated Food Distribution Program	Health and Welfare Minister commendation	Korea National Council on Social Welfare Foodbank
Corporate Champions, Outstanding Executives	Medium-Cap Corporate of the Year, Best Executive	Asiamoney
Hankyung Consumer Award	Grand prize in cosmetics & fashion category (Isa Knox)	Korea Economic Daily
Good Design Award	Good Design Award (Whoo, SooRyeHan, Say)	KIDP Ministry of Knowledge Economy
2009 Best Product Competition	Korean Intellectual Property Commissioner Award (su:m 37°)	Korea Invention Promotion Association
IF Communication Design Award 2009 Package Design	Package Design (O HUI LED Compact)	Germany IF International Forum Design



DJSI Korea



Green Industry Development & Low Carbon Green Growth Award Ceremony



Good Design Award

### | Membership in Associations and Groups |

Kisanhyup	Korea International Trade Association	Organization of Consumer Affairs Professionals in Business
Korea Industrial Safety Association	Korean Association of Occupational Health Nurses	Korea Environmental Engineers Federation
Korea Cosmetic Association	Korea Industrial Technology Association	Korea Environmental Industry & Technology Institute
Federation of Korean Industries	Korea Occupational Safety & Health Agency	Korea Environmental Preservation Association
Korea Economic Research Institute	Korea Listed Companies Association	Korean Association of Environmentally Friendly Enterprises
The Korea Fair Competition Federation	Korea Fire Safety Association	KOSHA Voluntary Safety Club
Korean Business Council for the Arts	Korea Chemicals Management Association	LG Technology Council

## Milestone

### 1947~2000

Jan. 1947	Established as Lucky Chemical Industrial Co.; Began production of Lucky brand cosmetics
Oct. 1954	Developed Korea's first toothpaste 'Lucky Toothpaste'
Apr. 1966	Launched Korea's first synthetic detergent 'Hi-Ti'
Jul. 1966	Launched Korea's first shampoo 'Cream Shampoo'
Oct. 1972	Launched dishwashing detergent 'PongPong'
Feb. 1974	Company name changed to Lucky Corporation
Mar. 1984	Launched DeBON cosmetics brand, Entered cosmetics business
Feb. 1995	Corporate name changed to LG Chemical, Ltd.
Oct. 1995	Hangzhou LG Cosmetics Ltd. established a joint venture company in China
Oct. 1997	Established cosmetics joint venture in Vietnam
Nov. 1997	Built joint venture factory in Beijing, China
Mar. 2000	Built cosmetics plant in Vietnam

### 2001~2009

Apr. 2001	LG Household & Health Care spun off from LG Chemical, Ltd.
Nov. 2001	Became industry first to surpass KRW 1 trillion sales mark
Apr. 2004	Launched 'PERIOE Kids' School' to celebrate 50th anniversary of toothpaste business
Sept. 2004	Opened cosmetics brand shop 'Beautiplex'
Jan. 2005	President & CEO Suk Cha appointed
Apr. 2005	Signed contract to form 'Happy Smile Fund' (Launched support for project to ensure health of single parent families headed by women); Launched eco beauty brand 'Beyond'
Jul. 2005	Organized 'LG H&H Volunteer Corps'
Sept. 2005	Held the 1st 'Beautiful Saturday with LG H&H'
Dec. 2005	Launched joint venture in Korea with Unicharm Corporation of Japan
Jan. 2007	Started 'O HUI Beautiful Face Campaign' to support children with face deformities
Jun. 2007	Started 'Smile Together' initiative to offer dental treatment to children of low-income households
Oct. 2007	Awarded 2007 Consumer Grand Prize of the Korean Society of Consumer Studies; Acquired Coca-Cola Korea Bottling Company
Nov. 2007	Launched naturalistic household goods line 'Borrowing Earth'
Jan. 2008	Changed name of 'Coca-Cola Korea Bottling Company' to 'Coca-Cola Beverage Company'
Feb. 2008	Suk Cha, CEO received BPW Gold Award
Jul. 2008	Zeolite-free's technique wins IR52 Jang Young-sil Award
Dec. 2008	Established Taiwan subsidiary
Jun. 2009	Signed strategic partnership with CHA BIO& to develop cosmetics
Jul. 2009	Completed expansion of surfactant AG plant in Onsan
Oct. 2009	Incorporated into DJSI sustainability Korea index and named the best company; Awarded top honor as the Most Admired Company in Korea (KMAC); Acquired Diamond Pure Water
Nov. 2009	Opened 'LG H&H Music Academy' for youths; Signed an agreement to take over THEFACESHOP
Dec. 2009	Suk Cha, CEO named Korea's best executive by Asiamoney



## Assurance Statement

### TO LG H&H STAKEHOLDERS

The Korea Productivity Center's Sustainability Management Center was commissioned by LG H&H to review the reporting process used in producing its 2009 Sustainability Report. The objectives of the review were to validate the integrity of the reporting processes and to evaluate consistency with AA1000APS AccountAbility Principles and AA1000AS (2008) Assurance Standard as well as the GRI (Global Reporting Initiative) G3 guidelines.

#### About KPC Sustainability Management Center

We are an independent agency with no direct/indirect relationship with LG H&H other than providing assurance services. We did not have any previous separate contract with LG H&H and did not participate in the reporting process.

#### Accountability

The level of our assurance was moderate in accordance with the Type 1 assurance engagement as defined by AA1000AS (2008). The scope of our responsibility did not include assuring the reliability of provided materials. LG &H is responsible for collecting, consolidating and managing information contained in the Report.

#### Approach

Our assurance procedures included the following work:

- Interviewing employees responsible for writing the Report and confirming the basis for the reported information.
- Reviewing stakeholder participation methodology and confirming whether key issues were reported.
- Sampling data to confirm accuracy.
- Reviewing accuracy of data collecting process.
- Conducting onsite visits (LG H&H Seoul head office, LG H&H Cheongju worksite, Coca-Cola Beverage Company Yeosu worksite) and reviewing sustainability data and strategy system.
- Consulting with LG H&H to decide on which worksites to visit.
- Conducting media research to review LG H&H's materiality test and confirming whether recent sustainability issues were reported in an appropriate manner.

#### Conclusions

We confirmed that the Report did not contain serious errors and the company's sustainability performance was well reflected in the Report. We also confirmed that GRI indicators were reported in accordance with the GRI Index table and the Report satisfies GRI G3 requirements at a B+ application level.

#### Inclusivity

- We confirmed the process of the Report was based on LG H&H's communication with stakeholders and assured that it did not violate the principle of inclusivity.
- We recommend incorporating opinions of diverse stakeholders by expanding the scope of stakeholders in future reports.

### Materiality

- LG H&H selected material issues based on its internal process and did not omit issues that are of greatest significance to stakeholders.
- We recommend building a more systemized process to identify material issues from stakeholder participation channels.

### Responsiveness

- LG H&H responded well to the issues with high stakeholder interest by dividing them into four categories in the Report - 'Product Leadership,' 'Operational Leadership,' 'Social Responsibility Leadership' and 'Communication Responsibility.'

### Observations

LG H&H is pursuing sustainability by newly establishing the sustainability management Team in 2009 and proclaiming new visions. To improve the company's sustainability performance and the quality of future reports, we recommend the following:

- We recommend setting indicators to measure sustainability performance and related goals. This will allow LG H&H to enhance its sustainability performance and provide more relevant information to stakeholders.
- We recommend establishing a sustainability performance management process to regularly manage sustainability indicators collected for the reporting purposes.
- We recommend drawing up a roadmap and management system to control greenhouse gas emissions. As LG H&H selected the establishment of a GHG inventory system as a future task, we expect an improved report on the issue next year.
- We recommend developing a system to manage and operate sustainability issues of companies acquired by LG H&H, namely Coca-Cola Beverage Company, THEFACESHOP and Diamond Pure Water.

30 March, 2010

Dong-kyu Choi

President, Korea Productivity Center

*Dong-kyu Choi*



Center Head Dong-soo Kim

Senior Commissioner Yong-woo Park

Researcher Young-jae Jeon

Researcher Sook-yeon Seo

*김동수*

*박영우*

*전영재*

*서숙연*

Korea Productivity Center's Sustainability Management Center was established to support domestic companies and agencies in their efforts to build a system for sustainability management. Based on KPC's vast knowledge and experience accumulated over 50 years, the center leads the domestic sustainability management sector through partnerships with major overseas agencies and business partners. The Sustainability Management Center also launched DJSI Korea to measure corporate sustainability performance.

## GRI Guidelines

GRI Index		Indicators	Page	Reporting level	Reason for omission	
1. Strategy and Analysis	1.1	Statement from the most senior decision-maker of the organization.	2~3	●		
	1.2	Description of key impacts, risks, and opportunities.	3, 14~15	●		
2. Organizational Profile	2.1	Name of the organization.	4	●		
	2.2	Primary brands, products, and/or services.	5~11	●		
	2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	4, 15	●		
	2.4	Location of organization's headquarters.	4	●		
	2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	4, 29	●		
	2.6	Nature of ownership and legal form.	20~21	●		
	2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	28~30, 69	●		
	2.8	Scale of the reporting organization.	4, 20, 27~28, 59, 69, 73	●		
	2.9	Significant changes during the reporting period regarding size, structure, or ownership.	3~4, 32	●		
	2.10	Awards received in the reporting period.	78	●		
3. Report Parameters	3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	1	●		
	3.2	Date of most recent previous report (if any).		○	N/A	This is the first report
	3.3	Reporting cycle (annual, biennial, etc.)	1	●		
	3.4	Contact point for questions regarding the report or its contents.	88	●		
	3.5	Process for defining report content.	16~17	●		
	3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	1	●		
	3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	1	●		
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	1	●		
	3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Details per indicator	●		
	3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).		○	N/A	This is the first report
	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.		○	N/A	This is the first report
	3.12	Table identifying the location of the Standard Disclosures in the report.	82~85	●		
	3.13	Policy and current practice with regard to seeking external assurance for the report.	1, 80~81	●		
4. Governance, Commitments, and Engagement	4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	20~21	●		
	4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	20	●		
	4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	20~21	●		
	4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	21	●		
	4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	21	●		
	4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	21	●		
	4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	21	●		
	4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	14~15	●		
	4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	21	●		
	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	21	●		
	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	25~26, 35	●		

● Full, ◐ Partial, ○ None, N/A(Not Applicable)

GRI Index	Indicators	Page	Reporting level	Reason for omission	
4. Governance, Commitments, and Engagement	4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	42, 45, 47, 58~59, 70	●		
	4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	78	●		
	4.14 List of stakeholder groups engaged by the organization.	16	●		
	4.15 Basis for identification and selection of stakeholders with whom to engage.	16	●		
	4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	16~17	●		
	4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	17	●		
Economy	EC Disclosure on Management Approach	19	●		
	EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	27~31, 69	●		
	EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change.	40~45, 70	●		
	EC3 Coverage of the organization's defined benefit plan obligations.	30	●		
	EC4 Significant financial assistance received from government.		○	N/A	No case
	EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	58	●		
	EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	30, 41, 47, 69	●		
	EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.		○	N/A	The reporting scope is domestic business
	EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	51~54, 72	●		
Environment	EN9 Understanding and describing significant indirect economic impacts, including the extent of impacts.	30~31, 69	◐		
	EN Disclosure on Management Approach	41	●		
	EN1 Materials used by weight or volume.	45, 71, 77	●		
	EN2 Percentage of materials used that are recycled input materials.		○	N/A	To be incorporated later
	EN3 Direct energy consumption by primary energy source.	43	●		
	EN4 Indirect energy consumption by primary source.	43	●		
	EN5 Energy saved due to conservation and efficiency improvements.	43~44	●		
	EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	35~40, 44	●		
	EN7 Initiatives to reduce indirect energy consumption and reductions achieved.	44	●		
	EN8 Total water withdrawal by source.	45, 71	◐		
	EN9 Water sources significantly affected by withdrawal of water.		○	N/A	No case
	EN10 Percentage and total volume of water recycled and reused	45, 71	●		
	EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	45, 71	◐		
	EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	45	◐		
	EN13 Habitats protected or restored.	71	●		
	EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.		○	-	
	EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.		○	-	
	EN16 Total direct and indirect greenhouse gas emissions by weight.	43	●		
	EN17 Other relevant indirect greenhouse gas emissions by weight.		○	N/A	To be incorporated later
	EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	43~44	●		
	EN19 Emissions of ozone-depleting substances by weight.	70	◐		
	EN20 NOx, SOx, and other significant air emissions by type and weight.		○	N/A	No emission of NOx, SOx
	EN21 Total water discharge by quality and destination.	45, 71, 77	●		
	EN22 Total weight of waste by type and disposal method.	45, 71, 77	●		
	EN23 Total number and volume of significant spills.	64	●		
	EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.		○	N/A	No case

## GRI Guidelines

GRI Index		Indicators	Page	Reporting level	Reason for omission	
Environment	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	71	●		
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	35~37, 40	●		
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	38~39	●		
	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	64	●		
	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	48~49	●		
	EN30	Total environmental protection expenditures and investments by type.		○	N/A	To be incorporated later
Labor Practices and Decent Work	LA	Disclosure on Management Approach	55	●		
	LA1	Total workforce by employment type, employment contract, and region.	59, 73	●		
	LA2	Total number and rate of employee turnover by age group, gender, and region.	59	●		
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	61	●		
	LA4	Percentage of employees covered by collective bargaining agreements.	59, 73	●		
	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	62, 74	●		
	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	59, 64, 73~74	●		
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	64, 74	●		
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	64, 74	●		
	LA9	Health and safety topics covered in formal agreements with trade unions.	64, 74	●		
	LA10	Average hours of training per year per employee by employee category.	60	●		
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	61	●		
	LA12	Percentage of employees receiving regular performance and career development reviews.	60~61	●		
	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	20, 59, 73	●		
	LA14	Ratio of basic salary of men to women by employee category.	58	●		
Human Rights	HR	Disclosure on Management Approach	58~59	●		
	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.		○	-	
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.		○	-	
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	59	●		
	HR4	Total number of incidents of discrimination and actions taken.		○	N/A	No case
	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	62, 74	●		
	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	58~59	●		
	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	58~59	●		
	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	24, 26, 59	●		
	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.		○	N/A	No case
Society	SO	Disclosure on Management Approach	50	●		
	SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	51~54, 72	●		
	SO2	Percentage and total number of business units analyzed for risks related to corruption.	23~24	●		
	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	24	●		
	SO4	Actions taken in response to incidents of corruption.		○	-	
	SO5	Public policy positions and participation in public policy development and lobbying.		○	-	
	SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.		○	-	
	SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.		○	-	
	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.		○	N/A	No case



● Full, ◐ Partial, ○ None, N/A(Not Applicable)

GRI Index		Indicators	Page	Reporting level	Reason for omission	
Product Responsibility	PR	Disclosure on Management Approach	34	●		
	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	35~37	●		
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		○	N/A	No case
	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	36~37	●		
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.		○	N/A	No case
	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	55~57	●		
	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.		○	-	
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.		○	-	
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	26	●		
	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.		○	N/A	No case

## I GRI G3 Application Levels Table I

Report Application Levels			C	C+	B	B+	A	A+
Standard Disclosures	G3 profile disclosure	Output	Disclosure items : 1.1, 2.1-2.10, 3.1-3.8, 3.10-3.12, 4.1-4.4, 4.14-4.15	Outside Report Verification	Disclosure items : All standard 'C' Items & 1.2, 3.9, 3.13, 4.5-4.13, 4.16-4.17	Outside Report Verification	Disclosure items : Similar to Standard 'B' request items	Outside Report Verification
	G3 management approach disclosure		Not required		Disclosure in management approach for each indicator		Disclosure in management approach for each indicator	
	G3 performance indicator & additional industry indicators		At least 10 performance indicators have to be reported (At least one or more economic, environmental and social indicators should be included)		Must only report 20 or more performance indicators (More than one indicator must be included related to the economy, environment, human rights, labor, society and product responsibility)		Based on importance principles, the reason for all G3 core performance indicators & industrial guideline indicators should be explained for either reporting or not reporting.	

LG H&H self-declares that this report has been prepared in accordance to the GRI G3 Guideline and it meets 'B+' level of GRI Application Level. A third party institute, Korea Productivity Center, has also verified that this report conforms to the 'B+' level of GRI G3 Guideline Application Level.



## Glossary

Term	Definition
Backhauling	Transportation system in which a vehicle that has completed its delivery collects other cargo for the return trip.
Biomass plastic	Plastic that contains over 25% of biomass sources like corn starch and other vegetables.
Brand shop	A distribution channel that sells various product lines and miscellaneous goods from a specific brand (THEFACESHOP, Missha, Skin Food, etc)
C9 fuel	A product with 9-18 carbons that is produced by separating and refining naphtha during the pre-treatment process. Naphtha is raw material used in petrochemical plants.
CFC(Chloro Fluoro Carbon) refrigerant	Freon gas used as refrigerants in air conditioner. It destroys the ozone layer to precipitate damages by harmful UV light.
Customer complaint in ppm	To manage customer dissatisfaction rate, the number of complaints per product sales volume is converted into parts per million.
DB(Defined Benefit Retirement Pension)	Retirement pension system in which the benefit is predetermined by a formula based on the employee's earnings history, etc.
DC(Defined Contribution Retirement Pension)	A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. The amount of benefit depends on the investment performance of the pension plan.
DfE(Design for Environment)	Product design technique to develop a product that considers the environment while satisfying price, performance and quality demands.
Drug store	Drug stores typically sell pharmaceutical goods and cosmetics but in Korea, drug stores have turned into a health and beauty store selling cosmetics, beauty products and some health supplements due to legal problems (Olive Young, GS Watson, W Store etc.).
Eco beauty	Going beyond 'natural products' that use organic ingredients, eco beauty brands strive to reduce environmental impact during the packaging and manufacturing processes. Provides consumers with a feeling of satisfaction that they are caring for both personal and environmental beauty.
Eco efficiency	An indicator that considers both environmental and economical performances, eg. car fuel efficiency, energy efficiency of electronic goods.
Ecocert Certification	An organic certification organization, founded in France, awards the mark to products that contain over 95% of natural ingredients or over 10% of organic ingredients.
Employee Value Proposition (EVP)	Differentiated benefits that can be provided to company employees or future employees.
Fair trade	An organized social movement and market-based approach that aims to help producers in developing countries obtain better trading conditions and promote sustainability.
FMCG (Fast Moving Consumer Goods)	Products that are consumed at a fast rate due to their relatively affordable price in daily life.
GHG inventory	Data that analyzes the emission source and emission volume of greenhouse gas generated at the organization level. Basic data used to identify the company's opportunities and risk factors in relation to Climate Change Agreement.
Green procurement	Acquisition of products and services that most effectively minimize negative environmental impacts over their lifecycle of manufacturing, transportation, use and recycling or disposal.
GRI(Global Reporting Initiative)	An organization set up by US NGOs, CERES (Investors and environmentalists for Sustainable Prosperity) and the United Nations Environment Programme. GRI developed globally applicable sustainability reporting framework in 2000. Representatives from various sectors including business, research, civic groups and investors took part.

Term	Definition
HACCP(Hazard Analysis Critical Control Point)	A systematic preventive approach to food safety and pharmaceutical safety that addresses physical, chemical, and biological hazards as a means of prevention rather than finished product inspection. It is used in the food industry to identify potential food safety hazards, so that key actions can be taken to reduce or eliminate the risk of the hazards being in the final product.
IPCC(Intergovernmental Panel on Climate Change)	A scientific intergovernmental body, comprised of 3000 meteorologists and marine scientists, tasked with evaluating the risk of climate change caused by human activity. It was established in November 1988 by the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP).
ISO 14001	A standard from the International Organization for Standardization which sets out the requirements for an environmental management system.
Life Cycle Assessment (LCA)	LCA is the investigation and valuation of the environmental impact of a given product or service caused or necessitated by its existence, from raw material purchase and production, to usage and disposal.
Masstige cosmetics	A cross between mass market and prestige cosmetics. It came about due to the need for high end cosmetics that were as affordable and as available as mass market brands.
Material safety data sheets	Globally used form that details chemical properties.
MOQ(Minimum Order Quantity)	Products are packaged and delivered only when a minimum number of orders have been made to improve logistics efficiency.
NGO (Non Governmental Organization)	Legally constituted, non-governmental organizations created by natural or legal persons with no participation or representation of any government.
OHSAS 18001	Occupational health and safety management system.
Open Innovation Activities	Implementation of innovation that will enrich lives of consumers by combining external innovative resources with internal capabilities. Open Innovation breaks away from the existing method of using a company's internal capabilities only and employs external resources to quickly achieve a wide range of innovation.
Pig, Air picker	A device that recovers products and by-products that remaining in the piping by discharging them through pressure. It replaces the cleansing process or manual work.
Prestige cosmetics	High-end products that are recognized for their high quality and sold to consumers who pursue a luxury lifestyle.
Prosumer	A person who takes the role of both producer and consumer. Prosumer takes a direct/indirect part in product development and distribution by comparing the pros and cons of a product and price.
Steam trap	A device used to raise energy efficiency. It is installed between the steam heating system and condensate piping to prevent steam leak.
TMS (Tele-monitoring System)	An automatic measuring device set up to measure exhaust gases at the point of emission. The data can be collected to prevent accidents and as a basis for various fines imposed.
TOE(Ton of Oil Equivalent)	TOE is defined as 107 kcal calorific value generated from 1 ton of crude oil.
Voluntary Agreement	An agreement aimed at reducing greenhouse gases and increasing green procurement signed between the government and company based on mutual trust.
Wastewater sludge	Material generated while treating wastewater. It is a by-product comprised of organic matters and chemical precipitation.
Water content in wastewater sludge	Ratio of water contained in by-product generated during wastewater treatment. It is an indicator that determines the reduction of water content.

LG H&H

2009  
Sustainability Report

## Participants Information

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#### ● Strategy/System TF

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- Planning Management Team: Jae-bin Lee, Song-won Park, Doo-hyun Nam
- Legal Team: In-kyung Kim
- "Jeong-Do" Management Team: Kang-ryeon Park, Myung-bo Shim
- IR Team: Ji-min Kim
- Design: Sung-jun Go
- Finance Team: Myung-sang Lee

#### ● Product/Operation TF

- Sustainability Management Team: Mun-hyoung Ahn
- Product Planning Team: Jae-hong Chung
- C&D Team: Su-jin Park
- R&D: Hyun-seok Park, Jeong-rae Lee, Il-gon Kim
- Packaging Research Team: Ook Jang
- Beyond: Kyung-hwa Kim
- Borrowing Earth: Yoon-kyung Jung
- Environment and Safety: Jung-kyu Hwang, Jong-seok Kim, Jin-mo Yoon, Dong-ha Kim
- Purchasing: Young-chang Lee

#### ● Society/Communication TF

- Sustainability Management Team: Tae-yeon Kim
- HR Planning Team: Gil-ho Lee
- Labor Planning Team: Tae-gyun Kim
- Organization Culture Team: Chae-sung Byun
- Labor Support Team: Jae-won Cho
- Customer Satisfaction Team: Eun-ho Choi
- i-Consultant: Rinchai Kim
- BA Team: Dae-hyung Choi, Hae-eun Jin
- Overseas Business: Seung-woo Han
- PR Team: Kang-gook Oh
- Logistics: Jung-yeon Hwang

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# Reader Feedback Survey

We welcome your feedback on LG H&H's Sustainability Report. Your views and suggestions will help us to improve future editions of the report. Please take part in the online survey (<http://www.lgcare.com>) or fill out the of the following feedback questionnaire and send it to us by mail or fax.

1. Which of the following applies to you?

- |  |   |
|--|---|
| <input type="checkbox"/> Investor/Shareholder          | <input type="checkbox"/> Consumer         |
| <input type="checkbox"/> Creditor                      | <input type="checkbox"/> Financial agency |
| <input type="checkbox"/> Business Partner              | <input type="checkbox"/> NGO              |
| <input type="checkbox"/> Local community               | <input type="checkbox"/> Academia         |
| <input type="checkbox"/> Government                    | <input type="checkbox"/> Local government |
| <input type="checkbox"/> Press                         | <input type="checkbox"/> Employee         |
| <input type="checkbox"/> Other(                      ) |   |

2. How do you plan to use this Report?

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3. What are your areas of interest? (Multiple answers possible)

- ☐ CEO Message
- ☐ Management system & economic performance
- ☐ Product leadership
- ☐ Operational leadership
- ☐ Social responsibility leadership
- ☐ Communication leadership
- ☐ Coca-Cola Beverage Company

4. What areas or issues need to be addressed or further explained in the Report?

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5. How would you rate the overall quality of this report in the following aspects?

(Very low ① ② ③ ④ ⑤ Very high)

A. The Report design and layout are helpful in understanding the contents (Readability).

①                      ②                      ③                      ④                      ⑤

B. The contents are credible (Reliability).

①                      ②                      ③                      ④                      ⑤

C. The Report fully explains the important issues (Materiality).

①                      ②                      ③                      ④                      ⑤

D. The sentence structure and terminology are appropriate (Clarity).

①                      ②                      ③                      ④                      ⑤

6. Please feel free to state any comments or suggestions regarding this Report.

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