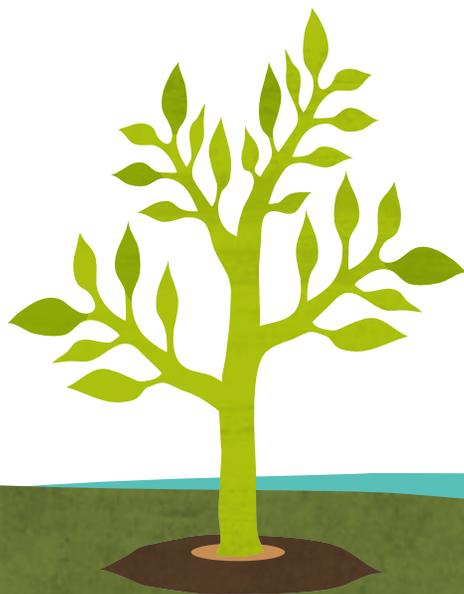


LG Hausys Sustainability Report 2014

# NATURE HUMAN AND SPACE

We create human-friendly  
and eco-conscious living space



## ABOUT THIS REPORT

### Report Overview

LG Hausys presents its third Sustainability Report in 2014. This report aims to share our vision and achievements with our stakeholders and outline stakeholder interest and requirements on economic, environmental and social aspects. Our annual publication of sustainability reports provides a way of disclosing our sustainability management outcomes and integrating the feedback of our internal/external stakeholders.

### Reporting Period

This report contains our major initiatives and achievements from January 1 to December 31 of 2013. For the analysis of yearly trends, this report also includes data from over the past three years, when deemed necessary, and a portion of our 2014 initiatives are presented with annotations.

### Reporting Scope

This report covers the status of the LG Hausys's headquarters and domestic plants. A portion of the social and environmental data pertains to overseas corporations in China, the U.S. and other regions. Due to the modified scope of data or calculation methods, there may be some data discrepancies from the previous year. In these cases, they were specified with annotations (\*).

### Reporting Principles

This report was prepared against the GRI (Global Reporting Initiative) G3.1 Guidelines as well as major issues suggested by ISO 26000 guidance. For further detail, please see the GRI Index section of this report (p.78-81).

### Assurance

This report was verified by the Korea Productivity Center, a third-party assurance provider, to ensure the reliability and accuracy of the report content. The assurance statement appears on pages 76-77.

### For More Information

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## CEO Message



Dear Stakeholders,

LG Hausys presents this 3<sup>rd</sup> sustainability report to communicate its extensive economic, environmental and social achievements. In it, we aim to outline our sustainability initiatives and reflect the voice of our stakeholders within our business conduct.

LG Hausys is Korea's largest provider of construction and decoration materials and a market-leading supplier of home appliances & IT materials as well as automotive materials and components. Armed with key platform technology, we are expanding our focus to up-and-coming markets. These include high-insulation windows, functional glass, noise-attenuation flooring, adhesive films, superior home appliance surface materials, automotive materials, high-efficiency vacuum insulation panels, and eco-friendly wood polymer composites.

Despite the recession in the national construction industry and the continued low global economic growth of 2013, we posted KRW 2.677 trillion in sales and profited by KRW 114.6 billion. These figures rose by 9.2% and 102.3% respectively from 2012. This remarkable achievement would not have been possible without the enthusiasm and hard work of our employees who proved instrumental in achieving such seemingly insurmountable goals. While we at LG Hausys, realize that achieving goals is a cause for celebration, our vow to become a company that continuously creates exceptional customer value is a finish line we strive to keep on moving further.

Forecasts of tremendous market shifts, (related to the governmental real estate policy), along with the delayed recovery of the domestic construction industry, project 2014 to be a challenging year. In anticipation of the road ahead, LG Hausys will differentiate its business model by expanding its line of energy-efficient and eco-friendly products. Meanwhile, customer contact points will be diversified through the sustained innovation of retail channels.

Due to the diversifying structure of touch screen applications in the IT market, the demand for varied adhesive materials is expected to rise. Likewise, automobile markets (predominantly in North America and China), are set for continued growth. To further tap and secure these markets, we will ensure our lead in cost advantage and product differentiation, while fortifying our sales and production bases in the emerging markets of the U.S. and China.

While anticipating the ebb and flow of domestic and world markets is an instrumental pillar of corporate success, so is the ability to deliver an excellent product. That is why we at LG Hausys continue to make pre-emptive R&D investments and secure a solid R&D workforce in anticipation of future market demands. This not only allows us to transform our existing operations into market-leading businesses, but also gives us the opportunity to identify new growth engines across the board.

LG Hausys envisions to ‘Create Human-Friendly, Eco-Conscious Living Spaces’. We help fashion flourishing living spaces and create value for our customers. In this process, LG Hausys is there every step of the way—from manufacturing, marketing, sales and distribution to R&D. To this end, each one of our employees is committed to spearheading the market in delivering human-friendly, eco-conscious and energy-saving products.

To make real the tenets of our corporate vision, LG Hausys undertakes a number of practical sustainability management initiatives.

**First, we set green management goals and GHG reduction plans and take action accordingly.**

In 2013 alone, our endeavors to reduce energy consumption and GHG emissions - through the recovery of more waste heat and condensates, facility efficiency gains and stronger management activities - allowed us to save 9,321 tons in CO<sub>2</sub> emissions.

**Second, we pioneer the industry in producing human-friendly, eco-conscious products.**

To extend the scope of our domestically and internationally certified products, we use natural materials and recycled resources, in addition to developing energy-saving products (eco-labeling, Healthy Building mark, etc.). Moreover, LG Hausys is the first in the industry to introduce a carbon labeling scheme and fully engage in the governmental low-carbon green consumption policy as a certified company.

**Third, we take earnest responsibility to preserve the environment and contribute to community development.**

Our Dokdo Nature Preservation Zone ‘Jikimi (keepers)’ initiative, launched in 2008, has made great inroads into protecting the Dokdo area. One of our highlighted community development programs is our ‘Make a Happy Space’ initiative. This program targets public facilities for teenagers and local children’s centers, where we’re operating a myriad of social-giving programs for youth education and environmental protection.

**Fourth, we ensure that the safety and environmental management systems we have in place protect the welfare of our employees, our communities and the environment.**

Our current management system is certified with the Green Company Program from the Ministry of Environment, ISO 14001 (environmental management), KOSHA 18001 (health and safety management) and OHSAS 18001. Furthermore, we are ever seeking to further perfect our accountability by establishing company-wide safety and environmental management targets.

**Fifth, all LG Hausys employees live by the ‘Jeong-Do’ management principle, which aims to produce substantial outcomes from ethical, competency-based and fair business practices.**

To ensure that each employee is on the same page with the tenets of this principle, the ‘Jeong-Do’ management philosophy is highlighted in our Business Partner Management Guideline.

**Sixth, LG Hausys pursues mutually-beneficial partnerships with its suppliers. We work hand-in-hand with our suppliers to develop technology and create patent applications. Through professional/financial support and continued sustained communications with the top management of respective suppliers, our suppliers gain a clear capacity-building advantage.**

To position ourselves as a true market-leading company, we vow to supply our customers with safe, eco-friendly products/materials and energy-efficient systems and solutions. Moreover, we will cherish and further strive to win the trust and respect of our customers in our journey as a global company that sincerely complies with social responsibility. Your continued interest in and support for LG Hausys is, as always, greatly appreciated.

Thank you.

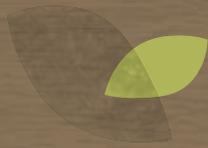
Oh Jang-soo, President, LG Hausys



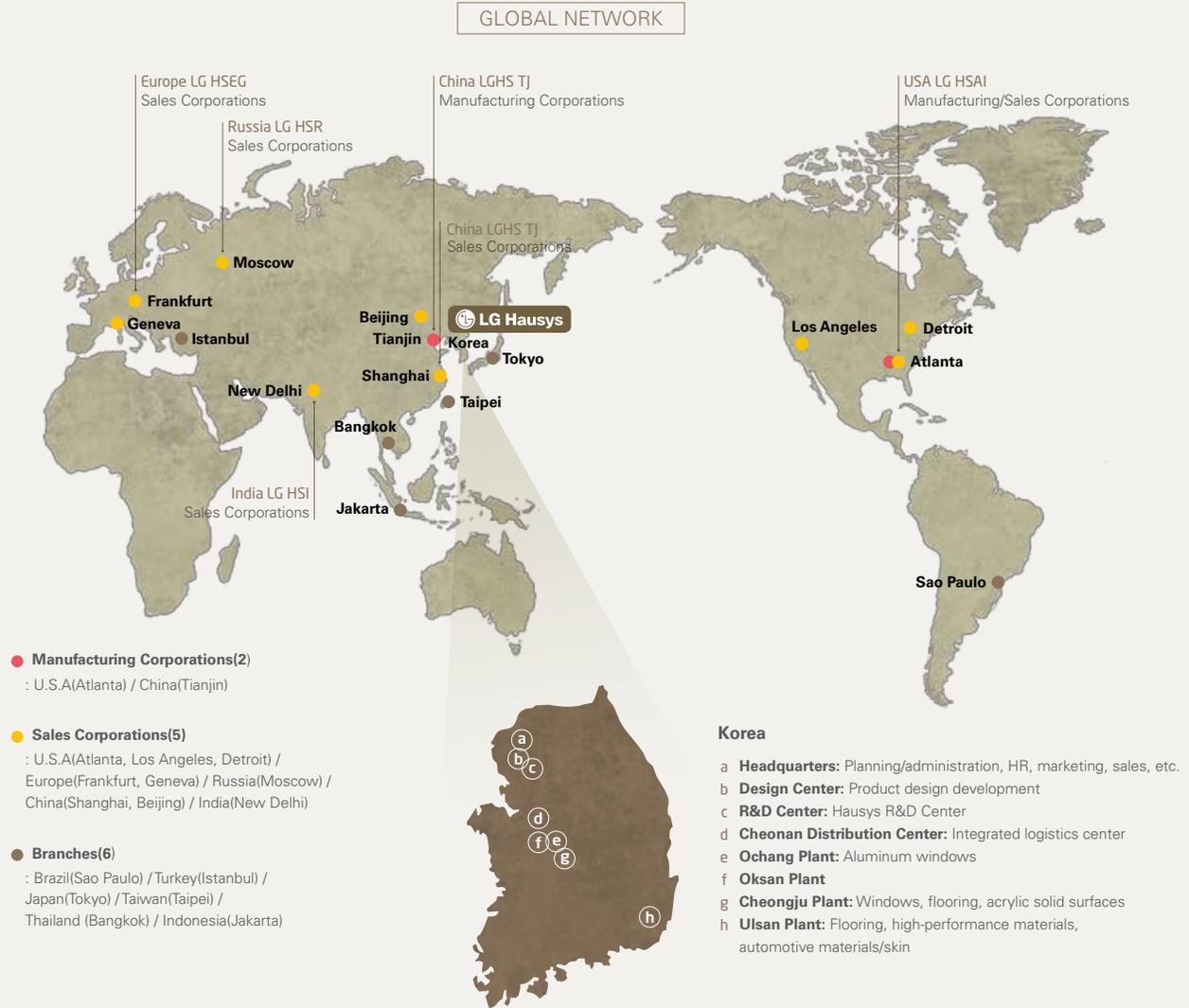
## Business & Strategy

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LG Hausys is the largest provider of construction and decoration materials and a supplier of high-performance and automotive materials in Korea. Despite the sluggish real estate market and the continued worldwide low economic growth rates of 2013, our sales rose by 9.2% to KRW 2.677 trillion and our operating profit surged by 102.3% from the previous year. It is with great pride that we are able to share these economic achievements with our shareholders & investors, suppliers, employees, governments and the local communities where we are based. Our goal is to develop new growth engines and expand our global presence in order to emerge as a market leader.



LG Hausys is the largest provider of construction and decoration materials and a supplier of high-performance materials and automotive materials in Korea



Our market-leading, eco-friendly products and advanced technology allow the design of aesthetically-pleasing and comfortable interiors. Furthermore, our localization strategy helps advance LG Hausys into an exceptional global company that is recognized throughout the world; notably in the U.S., China. In the spirit of innovative enthusiasm, we make it our top priority to 'lead the market' and create flourishing, greener, user-friendly living spaces.

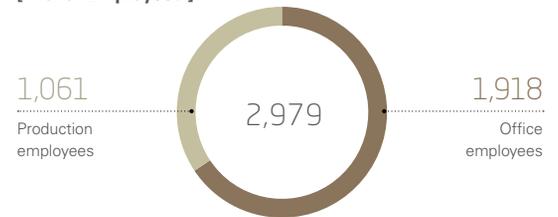
Among the various materials, such as high-performance and automotive materials, that LG Hausys supplies, the company is the largest provider of construction and decoration materials in Korea.

Since our inception in 1947, we have been dedicated to creating sound and aesthetically-pleasing living spaces. Our portfolio of differentiated products and services evolved from the production of vinyl flooring in 1958 to 'Hi-Sash' Korea's first plastic windows, film finishing for home appliances (which garnered top world market share), acrylic solid surface 'HI-MACS', and zea flooring and wall covering. In so doing, we have contributed to delivering flourishing and enjoyable living spaces.

**[ LG Hausys Means ]**



**[ No. of Employees ]**



## History



“ We Create Eco-Conscious and Human-Friendly Living Spaces ”

LG HAUSYS VISION



Turning Nature into Living Space  
**Nature**

With our eco-friendly materials and energy efficiency gains, we pursue spaces congruent with nature and enhance the quality of life for our customers.

**Eco-Friendly**

Shift to eco-friendly materials through the use of diverse materials (Increase the share of eco-friendly products/materials)

**Energy Saving**

Deliver systems and solutions that maximize energy efficiency (High-quality window/green car materials)

Embracing People  
**Human**

While simultaneously setting tomorrow's trends, our aesthetically-pleasing, "feel good" designs greatly enhance our customer's quality of life.

**Human-Friendly**

Set more reliable relationship-oriented customer contact points (Strengthened brand power, distribution innovation)

Inspired Living Space  
**Space**

LG Hausys always puts customer satisfaction first when delivering flourishing living spaces for its customers.



In our goal set to “Create Eco-Conscious and Human-Friendly Living Spaces.” we vow to deliver greener, energy-saving products and materials, while creating spaces that fashion human-friendly design. As a company that places customer satisfaction as its first priority, LG Hausys will undoubtedly help create a trend that shapes tomorrow’s most flourishing living spaces.

Based on our ‘customer as first priority’ principle, we adhere to uphold three main values: eco-friendly, energy-saving and human-friendly. Not only have we diversified our material portfolio to supply eco-friendly materials, we have also developed high-insulation windows and decoration materials for greater energy savings. Our user-friendly design greatly upgrades living spaces and innovates our distribution channels to interact with customers at broader contact points.

## Core Values

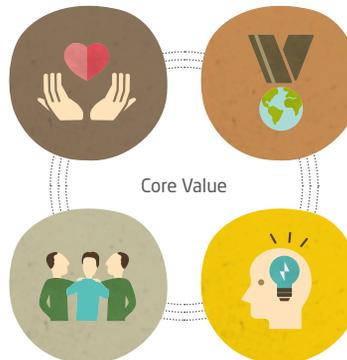
LG Hausys has four core values it abides to in an aim to create a practical application of its business vision and philosophy: sensitivity towards customers, teamwork built on individual potential, world-class expertise and an enterprising spirit inspired by creativity and autonomy.

### Sensitivity to customers

- Understand customer needs and shifting market conditions
- Move beyond immediate customer service to anticipate even the potential needs and desires of the customer

### Teamwork built on individual potential

- Confidence/positive thinking/individuality
- Pleasant work culture for younger employees
- Convergence of diverse individual strengths



### World-class expertise

- Customer acknowledgement as the world's best
- Competition with top-notch industry peers

### Enterprising spirit inspired by creativity and autonomy

- Work environment that fosters creativity based on expert knowledge
- Work environment that encourages responsible self-development and decision-making

“ We always put customer satisfaction first to deliver flourishing living spaces for customers ”



It is in the construction and decoration, home appliances, IT and automotive materials operations that we build an even stronger competitive edge as a company. We believe that our commitment to creating ‘culturally-engaging’ products that reflect customer preference, interest and lifestyle will allow us to create human-friendly, eco-friendly and value-added living spaces.

# Main Products



## Windows

We offer high-insulation PVC windows that meet diverse needs, highly durable aluminum windows that allow for a wide spectrum of design possibilities, and functional glass with improved insulation performance through surface Ag coating to help create healthy and enjoyable living spaces.

### Main Products

- **PVC windows:** High-insulation plastic windows with aesthetically-pleasing design and exceptional energy performance
- **Aluminum windows:** Aluminum and aluminum-wood windows made of co-friendly materials to allow for wide-ranging colors and design possibilities
- **Curtain walls:** Highly-durable and functional glass-based exterior building wall
- **Functional glass:** High-insulation Low-E glass, triple-glazed Low-E glass and other functional glass products with improved energy efficiency



## Offering differentiated customer value to lead the window industry

Despite the deteriorating construction and real-estate market conditions in 2013, there was sustainable growth in the sales of our Z:IN Windows. Our PVC window operations provided highly-functional products based on the finished window business model. Meanwhile, 'Z:IN Window Plus' stores were used as customer contact points to offer differentiated services. Our coated glass operations successfully developed best-in-class high-insulation products to raise the performance standards of the domestic glass industry even higher. Furthermore, our curtain wall operations were recognized for their exceptional technology through the contracts awarded in Vietnam and various other regions, including Korea. While fulfilling such contracts, we localized products and expanded our customer base in China and Russia. Based on the creative/autonomously-driven organizational culture LG Hausys aspires to, we project that our Z:IN Window will in the upcoming years, invariably offer differentiated customer value.



Lee Eun-cheol, Vice President



### Decorative Materials

Through such eco-friendly interior materials as ‘ZEA Sorijam’, ‘ZEA flooring’ and ‘ZEA wall-covering’ (made of naturally-sourced corn starch) and our fire-proof, energy-efficient high-performance insulation panels, we aid in improving the quality of life for our customers.

#### Main Products

- **Flooring materials:** Noise-attenuating ‘ZEA Sorijam’, eco-friendly material-based ‘ZEA flooring’, Style carpet, Phthalate-free flooring
- **Wall-covering/Wall tiles:** Natural material-based ‘ZEA wall-covering’, air-purifying Breathing ‘Sum’ Tile, ‘ZINNIA wall-covering’
- **Insulation panels:** High-insulation and semi-non-combustible high-performance PF Board
- **Wood polymer composites:** Natural and non-toxic raw materials-based eco-friendly wood polymer composites Woozen



Growing into a global company that helps improve the quality of life for customers through eco-friendly, market-leading products



In line with growing customer interest in eco-friendliness and increasingly stringent environmental product regulations, we strive to deliver safer and more convenient differentiated products. In the latter half of 2013, the PVC flooring quality safety test was conducted by the Fair Trade Commission and consumer advocacy groups (Consumers Union of Korea, Green Consumer Network in Korea). The results identified LG Hausys as the sole company to have its sheets, tiles and all the other products evaluated as ‘appropriate’ in all test categories. To further position ourselves as a truly eco-friendly company, we launched the production of ‘ZEA Sorijam’ sheets, which were Korea’s first to receive the highest HB (Healthy Building) grade, in addition to our corn starch-based flooring and wall-covering. Our high-performance semi-non-combustible insulation panel PF Borad was newly launched following last year’s investments and its operations are in full swing and continuing to expand. This year, we plan to invest in large-scale production lines to advance into Europe, Russia, the Middle East, Latin America and other emerging markets with a promising competitive edge. Aside from our goal to evolve into a socially responsible and global company that produces quality products, we hope to lead the industry in both Korea and China.

Hwang Jin-hyung, Vice President



### High Performance Materials

With our adhesive & coating technology and design capabilities, we manufacture and supply adhesive materials for touch screen panels mounted on mobile phones and tablets, decoration film used for interior furniture material, windows and buildings, finishing materials for home appliances, vacuum insulation panels and advertising application materials.

#### Main Products

- **Adhesive materials:** Transparent adhesive materials for touch screen panels, functional film and tape
- **Decorative materials:** Decoration film for furniture, windows and interior applications
- **Vinyl coated materials for household appliances:** Surface finishing materials for refrigerators, washing machines and other home appliances
- **Sing & Graphic materials:** Materials used for corporate CI, BI, public transportation and other advertising media
- **Vacuum insulation panels:** High-insulation panels for home appliances and construction applications



Developing products that deliver customer-driven value to build a stronger competitive edge in the market

Our high-performance material operations lead the touch screen IT device market. This can be attributed to our top-notch adhesive and coating technology and our customized approach in meeting customer needs. Through our differentiated design development capability and material processing technology, we have become even more globally competitive in the home appliances, furniture, advertising materials and vacuum insulation panel markets. Yet, paramount to functionality in developing materials and strengthening our R&D capabilities to develop market-leading products, is our customer's health and the environment. To this end, we aspire to become a responsible corporate citizen and make a positive impact on the lives of our customers and the condition of the world. We vow to continue our R&D initiatives to deliver differentiated customer value and fortify our position as a market leader.



Park No-woong, Vice President



### Automotive Materials and Components

We contribute to the development of the automotive industry through providing differentiated autoskin and interior/exterior materials for automobile applications. Our goal is to improve customer satisfaction in terms of energy efficiency. To this end, we will create more lightweight materials and expand our global presence.

#### Main Products

- Automotive interior skin
- Automotive plastic components: Bumpers and other exterior parts, engine parts, lightweight composites and parts



Growing into a global No. 1 company by developing differentiated technology and broadening overseas customer base

The automobile market is subject to a constant myriad of shifting trends. These can range from sophisticated interiors and improved fuel efficiency to tighter environmental regulations. We are committed to developing materials and conducting research on lightweight materials as a way to set our products apart from those of our competitors. In developing autoskin, we focused on using greener manufacturing technology and bio materials that actually help improve the air quality within the cabin. We are also developing lightweight composite materials (that may replace steel) for electric vehicles. Our success in developing glass fiber-based high-strength plastics has presently prompted us to focus on commercializing products that help reduce vehicle weight. Furthermore, we are pioneering the high-end segment of the automotive interior market through our stereoscopic autoskin and real wood-based components. Our goal is to reinforce our differentiated materials and component technology, enhance the competitiveness of our products and to grow into a global top company that distributes first-rate products both domestically and internationally.



Min Kyung-jip, Vice President



### Surface Materials

In expanding our global presence in the acrylic solid surface market and operating a quartz surface plant in the U.S., we solidify our market dominance and truly evolve into a major global player.

#### Main Products

- **HI-MACS:** Prestigious acrylic solid surface HI-MACS that helps create diverse design spaces, ranging from the upper layers of kitchen furniture to surface materials and exterior building
- **Viatera:** High-quality quartz surface Viatera that compensates the shortcomings of natural stones concerning hygiene and durability while maintaining its natural sophistication and beauty



Pioneering LG Hausys's global management by developing market-leading products and expanding the scope of operations

Our top priority is to respond to rapidly shifting market conditions by integrating customer needs and the latest trends in developing new products, while striving to steadily lead the global market. As we strengthen our capabilities and expand our global presence in countries like China and India, our U.S. corporation is paving the way for further growth through the simultaneous operation of HI-MACS and Viatera production lines. To deliver differentiated products that consider customer health and the environment, we verify that the materials we use (from raw materials to finished products), and establish a production system that recovers and recycles waste from manufacturing processes. We aim to broaden the scope of our operations from the residential market into the commercial one and diversify our operations into other areas such as: furniture, exterior materials and artwork.



Kim Kwang-jin, Vice President

“ LG Hausys takes a three-phase business development strategy to transform its fundamentals through a stable profit structure, pave the way to become a market leader and help realize the goal of No. 1 LG ”

GROWTH ROAD MAP



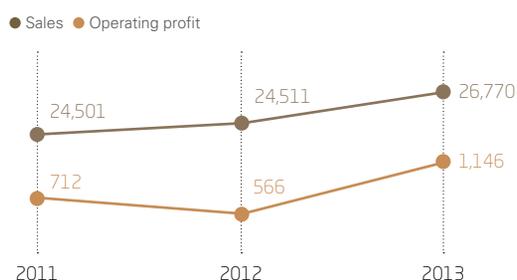
To reach our mid/long-term goal, we plan to differentiate our construction and decoration material operations, expand our global presence (mainly in China), and foster market-leading businesses.

We plan to recover our competitive edge through eco-friendly, energy-saving products and exceptional business models that set us apart from industry peers while increasing our overseas sales primarily in China and the U.S.. We will also foster our automotive materials, OCA and high-glossy material operations into market-leading, world-class businesses.

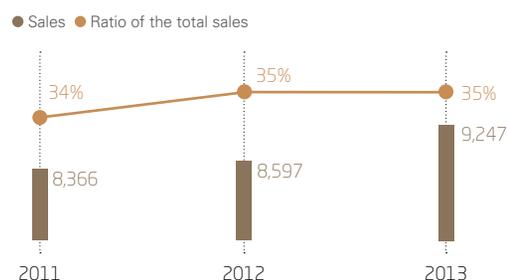
In so doing, we will transform our business fundamentals for greater profitability and create customer value through company-wide quality innovation initiatives.

In the face of the continued recession in the construction and real estate markets in 2013, LG Hausys stays focused on building a stronger product competitive edge. This will be achieved through the tangible growth of overseas and new operations, the launching of market-leading products and the fostering new growth engines.

[ 2013 Performance (Unit: KRW 100 million) ]



[ Achievements in Overseas Operations (Unit: KRW 100 million) ]



[ Profitability Indicators (Unit: %) ]

Main Financial Indicators	2011	2012	2013
Ratio of Operating Profit to Net Sales	2.9	2.3	4.3
Ratio of Net Profit to Net Sales	1.9	1.2	2.7
Return on Assets (ROA)	2.4	1.6	3.7
Return on Equity (ROE)	6.4	3.9	9.2

[ Activity Indicators (Unit: No. of times) ]

Main Financial Indicators	2011	2012	2013
Total Assets Turnover Ratio	1.26	1.38	1.26
Receivables Turnover Ratio	5.58	5.86	5.35
Inventory Turnover Ratio	11.80	12.52	10.47
Tangible Assets Turnover Ratio	3.37	3.16	2.82

[ Growth Indicators (Unit: %) ]

Main Financial Indicators	2011	2012	2013
Sales Growth Rate	9.1	0.2	9.2
Tangible Assets Growth Rate	14.0	6.8	12.3
Net Income Growth Rate	15.6	Δ 38.4	153.5
Total Assets Growth Rate	27.8	Δ 8.5	9.8

[ Stability Indicators (Unit: %) ]

Main Financial Indicators	2011	2012	2013
Current Ratio	123.7	133.6	115.3
Deb-to-Equity Ratio	168.9	144.7	149.3
Non-current Asset-to Long-term Capital Ratio	77.7	79.1	84.6
BIS Capital Ratio	37.2	40.9	40.1

· Δ indicates negative (-) value.

\* Stability : At LG Hausys, we ensure business stability through improved external credibility and stabilized financial operations. As of the end of 2013, our corporate bonds and corporate bills remained AA- and A1-graded according to domestic credit rating agencies. This demonstrates our commitment to managing our credit ratings and our competency in repaying the principal & interest of corporate bills and debts in a timely manner. Such credit ratings reflect our current business status, growth potential and financial stability. This includes the economic impact from the construction, automobile, IT and other upstream industries, entry into high value-added related industries, and the expansion of our global presence.

### Economic Achievements in 2013

LG Hausys’s business portfolio consists of construction and decoration materials, high performance materials and automotive materials. In 2013, our sales grew by 9.2% through operational expansion and advancement into new markets.



**Construction and Decoration Materials |** While the 2012 recession in the housing market failed to subside in 2013, the government’s real estate market stimulus policy was recently announced to help recover the market. Although the stimulus policy led to only a slight increase in housing transactions, this increase gave evidence to a weak but clear sign of recovery. Furthermore, energy regulations continue to tighten in relation to eco-friendly housing, which will drive the demand for high-insulation panels, mainly in the housing renovation sector. As for the overseas market, the Chinese government’s domestic demand stimulus and energy saving policy initiatives may boost the demand for high-insulation panels that meet local needs. Following the recovery from the fire at our Ulsan Plant, the operation of new facilities was initiated from the 2<sup>nd</sup> half of 2013 to ensure a stable supply of PVC flooring materials. We expanded our eco-friendly interior product line-ups to satisfy the needs of our customers. In so doing, we established our own differentiated eco-friendly product market segment. Our window operations aim to deliver greater customer value through the Total Window Solution which combines diverse materials, high-functional glass and processing/installation. To reinforce our functional glass operations, we established the joint venture Hausys Interpane Co. Ltd., with the German company Interpane in 2010, to produce Low-E functional glass at our Ulsan Plant. Furthermore, we are extending the scope of our Grade 1 window products for finished windows to respond to the government’s window energy consumption efficiency rating scheme.

**High Performance and Automotive Materials |** In 2013, the continued growth in the global automobile market was driven by North America and China, along with the diversifying customer needs of automobile materials. To this end, we are launching market-leading products with differentiated designs, high-end exterior components and lightweight & composite materials to stay ahead of shifting market trends. In 2014, the global automobile market is set to grow rapidly due to the continued launching of new models and a more visible recovery of the global economy. The signing of the Korea-U.S. and Korea-EU FTAs and economic stimulus packages from various nations around the world will have a positive impact on the growth of the automobile industry. This, in turn, will lead to sustained growth in the automobile materials segment. Our plan is to deliver differentiated functional automobile materials while extending the scope of their applications. This scope extension will base itself on our lightweight and composite material technology, surface coating technology and other key capabilities that will accelerate the growth of new operations. In response to the increasing adoption of touch screen panels for electronic devices and customer demand for multi-purpose materials, we are developing differentiated products and increasing our sales in China as a sustained source of profits. Thus, we are reinforcing our R&D capabilities to develop specialized products based on our adhesion and coating technology. While we face an intensifying competition among various materials and a limited growth of the upstream market in the home appliance finishing material business, we are paving the way for sustained growth and undertaking joint R&D projects with major customers in Korea and abroad to increase our global sales. In addition, we are expanding business opportunities in the insulation panel market in response to tightening energy regulations concerning home appliances in the Americas and Europe.

# Distribution of Economic Achievements

LG Hausys shares its economic achievements with shareholders & investors, suppliers, employees, governments, and local communities. The latent effects of its achievements go on to contribute economic value through job creation, social-giving programs and providing direct economic value.

KRW 18 billion in dividends paid to shareholders

**Shareholders & Investors** | As we acknowledge and believe that LG Hausys is truly owned by our shareholders, we are committed to maximizing their value. LG Hausys returns its profits to shareholders through cash dividends. In 2013, KRW 1,800 was decided as the cash dividend per common share and earnings per share amounted to KRW 7,333.

KRW 1834.3 billion in purchasing products and services

**Suppliers** | We purchase products and services from suppliers and maintain fair and sustained business relationships. In 2013, we worked with approximately 2,000 suppliers and our total product and service purchases amounted to KRW 1834.3 billion, out of which 39% was directly sourced in local communities.

KRW 329.3 billion in wage, benefits and retirement pay

**Employees** | We provide competitive wages, welfare benefits and retirement pay to our employees. We will continue to expand the economic value distributed to our employees through the fair distribution of economic value and wide-ranging benefits programs.

KRW 30.6 billion in corporate taxes and other taxes & public utility charges

**Governments** | We transparently disclose our generated economic outcomes and faithfully pay corporate, income, real estate and other taxes to central and local governments.

KRW 500 million in local community investments

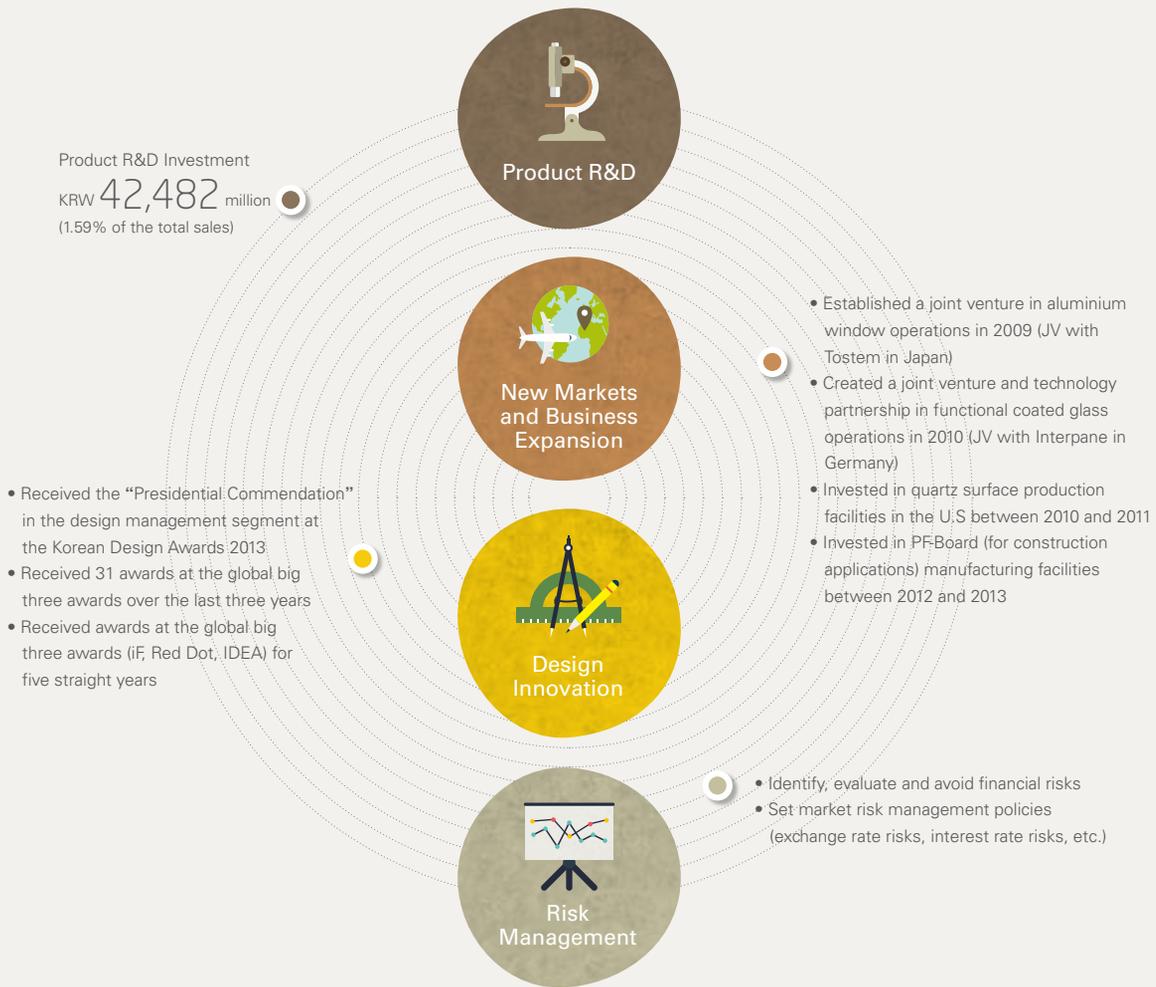
**Local Communities** | We contribute to local infrastructure support funds and sponsor arts and educational events & programs as part of our social contribution initiatives. In so doing, we give the economic value we create back to the local communities where we are based.

## [ Distribution of Economic Achievements ]

Recipient	Category	2011	2012	2013
Shareholders & Investors	Dividends per share (KRW)	1,000	1,000	1,800
	Earnings per share (EPS, KRW)	4,631	2,852	7,333
	Total dividends (KRW 100 million)	100	100	180
Employees	Wage (KRW 100 million)	2,005	2,110	2,574
	Welfare benefits (KRW 100 million)	448	490	536
	Retirement pay (KRW 100 million)	118	145	183
Suppliers	Products and services (KRW 100 million)	16,066	15,423	18,343
Governments	Corporate taxes and other taxes & public utility charges (KRW 100 million)	234	247	306
Local Communities	Investment in local communities (KRW 100 million)	16	6	5
Total (KRW 100 million)		18,987	18,521	22,127

“ At LG Hausys, not only do we develop sustainable products and customer-centered and creative designs, ”  
 we also expand new operations and tap into the wider global market for a sustainable future.

SUSTAINABLE GROWTH

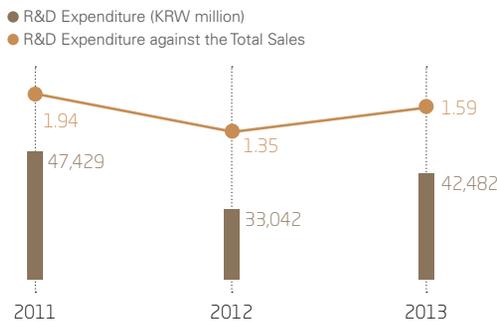


It is through product R&D and design innovation that we develop differentiated products, tap into new markets and expand existing operations for sustainable growth.

## Product R&D

At LG Hausys, our R&D activities conducted at our research institutes, and which focus on construction/decoration, high-functional and automotive materials, play a crucial role in strengthening the structural competitive edge of existing operations. Moreover, such activities help in identifying new opportunities for future growth. These continued product R&D initiatives were driven by investments amounting to KRW 42.482 billion (1.59% of the total sales).

### [ R&D Expenditure ]



· R&D Expenditure against the Total Sales = (R&D expenditure ÷ current period sales) x 100

### [ R&D Organization ]

Research Centers	Research Parts
PCA Lab	Research on base films, eco-friendly materials and energy-saving insulation materials on the basis of polymer processing technology
CTA Lab	Research on lightweight automobile materials on the basis of composite materials processing and structural design technology
AAA Lab	Research on adhesive films for electronic devices and industrial applications on the basis of adhesion technology
IMA Lab	Research on indoor air quality and energy saving technology on the basis of inorganic materials

**Status of R&D Activities** | Since the initiation of our R&D on plastic processing technology in 1989, its scope has extended to include inorganic, biodegradable, composite and other diverse materials and systems. On the basis of such core platform technology concerning polymer processing, composite materials, surface treatment, structure design and analysis, and adhesion, our R&D endeavors will focus on the new growth engines of functional glass, high-performance insulation panels, functional adhesives, eco-friendly fabrics and lightweight materials.

**Energy-Saving, Eco-Friendly Construction and Decoration Materials** | Our Low-E coated glass for residential and commercial building applications contributes to reducing energy consumption and maximizing the insulation performance of windows. We also developed next-generation high-performance insulation panels, which are fire-repellent through the application of foaming technology. Furthermore, the development and launching of eco-friendly flooring and wall-covering made of corn-extracted PLA (Poly Lactic Acid) enables us to lead the eco-friendly construction and decoration materials market.

**Functional Film/Autoskin and High-Strength Lightweight Materials** | Our transparent adhesive films and industrial adhesive films enhance lifestyle convenience while our anti-strain, high-durability eco-friendly autoskin made of bio-based plastics contributes to reducing GHG emissions. Our high-strength lightweight materials used for electric vehicles and other eco-friendly transportation modes also assist in increasing the driving range and fuel efficiency of automobiles.

**R&D Organization** | LG Hausys's research centers are located in Anyang and Gyeonggi Province and house the Polymer & Composite Applications Laboratory (PCA Lab), the Coating Technology Applications Laboratory (CTA Lab), the Advanced Adhesives Applications Laboratory (AAA Lab), and the Inorganic Materials Applications Laboratory (IMA Lab).

### New Markets and Businesses

To build a technological competitive edge in new markets, we are working with major overseas companies. In 2009, we forged a strategic alliance with LIXIL (formerly Tostem), Japan's No. 1 aluminum window company, to pave the way to expand our domestic aluminum window operations. In May 2011, our Ochang Plant was completed and is under operation to produce aluminum windows. In 2010, we set up a joint venture with Interpane, a Germany window company, to respond to the functional glass market. Within the 1st half of 2012, our Ulsan Plant was fully equipped with production facilities to gain a greater competitive edge in functional glass products. Furthermore, Hausys ENG was established in 2009 as a subsidiary in charge of installation operations. The aim was to listen to and address customer concerns to improve the quality of finished windows, and to enhance our customer response capabilities. To deliver core solutions that maximize the energy efficiency of buildings, we invested in the PF Board (phenol foam insulation board for construction purposes) production facility at the Oksan Plant. Meanwhile, we signed a technical agreement with Asahi Organic Material Industries Co., Ltd. and invested KRW 26 billion (by September 2013), to establish mass-production lines. We are planning to initiate lightweight material operations as a way to lead the future market. We believe that the development of lightweight materials and products may become our next 'blue ocean' of opportunity.

LG Hausys has established overseas production locations and is directly investing in production facilities to tap the wider global market. In 2010, we made a \$40 million facility investment in the U.S., the largest engineered stone market of the world, to construct a quartz surface plant as part of LG Hausys America, Inc.. This allows us to use the established production capacity and distribution channels of HI-MACS so as to maximize sales and create synergistic effects.

### Design Innovation

LG Hausys's Design Center is committed to the sustained creation of new value, growth engines and ultimately to shared growth with its customers. In recognition of our resources, expertise and creative approach, we were honored with the 'Presidential Commendation', the grand prix award in the design management segment, at the 'Korean Design Awards 2013' for our endeavors to create economic and social value as a market leader. Furthermore, our design innovation was widely recognized globally: we received three iF awards in 2013 and came close to placing the LG Group in the No. 1 position of the iF ranking. Our design center established its own distinctive organizational culture driven by its 'Creative Air' initiative, a creative design process to predict and prepare for shifting conditions in the design field. The center also provides Biz Talent nurturing and professional design training programs to deliver a design workplace and foster designers for future growth.



## Risk Management

At LG Hausys, we are exposed to a myriad of financial risks including market risks, credit risks and liquidity risks due to our wide-ranging operations. Our overall risk management policy is focused on minimizing the potentially-disadvantageous impact it could have on our financial outcomes.

**Risk Management System** | The central fund management department (the finance department of the consolidated company) is responsible for risk management. This finance department cooperates closely with working-level departments within the consolidated company to identify, evaluate and avoid financial risks. The central fund management department offers documented policies to govern such specific fields as currency risks, interest rate risks, credit risks, the use of derivatives and non-derivatives and investments that exceed available liquidity, along with general risk management policies.

**Market Risk Management** | LG Hausys takes a systemic approach in managing market-induced risks from currency risks and cash flow risks to fair value interest rate risks.

- **Currency Risks** : LG Hausys' global presence inevitably exposes the company to currency risks and specifically, to currency fluctuation risks pertaining to the U.S. dollar. Currency risks occur in relation to expected future transactions and recognized assets and liabilities. Our top management sets policies that enable members of the consolidated company to manage risks concerning their own functional currency. Each company consults with the finance department to address currency risks caused by expected future transactions and recognized assets & liabilities. Currency risks occur when expected future transactions and recognized assets & liabilities are denominated in currencies other than the functional currency. The consolidated company ensures that maximum currency exchange losses from currency exposures are limited within allowable ranges through the use of currency risk management models. Meanwhile, we invest in our overseas sites and the net assets of these sites are exposed to currency translation risks. We ensure that such currency risks are managed through borrowings denominated in relevant currencies.
- **Cash Flow and Fair Value Interest Rate Risks** : At LG Hausys, our interest rate risks mainly come from borrowings. Floating-rate loans expose our operations to cash flow and interest rate risks, a portion of which are offset by interest rate risks from floating-rate cashable assets. In addition, fixed-rate loans expose the consolidated company to fair value interest rate risks. As of the end of the reporting period, the floating loans of the consolidated company are floating-rate borrowings denominated in foreign currencies. The consolidated company conducts multi-dimensional analyses of its exposure to interest rate risks. Such risks are addressed by reducing high interest-rate loans, improving on long/short-term loan structure, conducting comparative analyses of borrowing conditions between fixed and flat rates, monitoring domestic/overseas interest rate trends and developing countermeasures. In accordance with these interest rate risk management policies, a 0.1% change in interest rate may increase or decrease our profits or losses for the current term by up to KRW 2.02 million (KRW 2.06 million in the previous term) by the end of the reporting period, due to fluctuations in financial gains or losses pertaining to floating-rate borrowings.

## Harmony with Space, Nature and Human

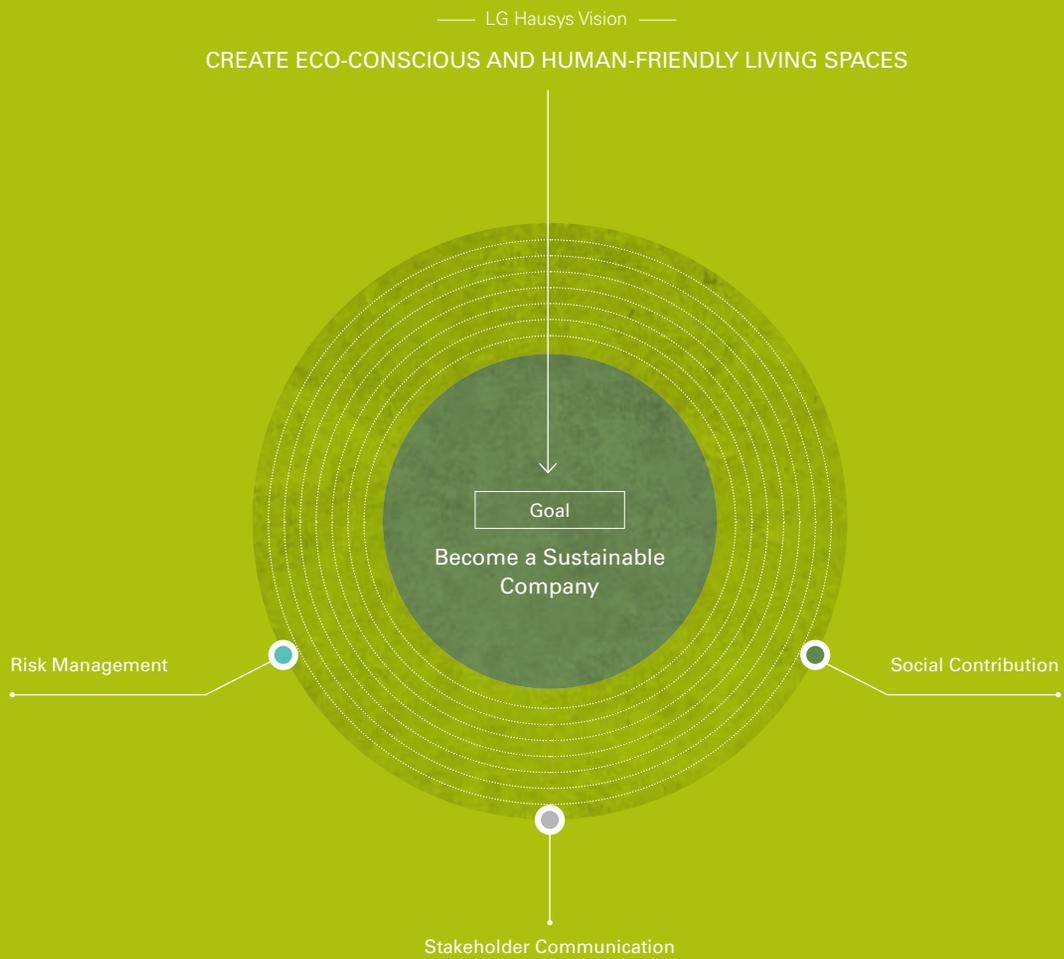
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LG Hausys seeks to balance economic performance, social responsibility and environmental values. We fully engage in addressing climate change and protecting the environment to improve environmental value while undertaking a wide array of initiatives to bring pleasant changes to the space jointly occupied by nature and people as a way to fulfill our social responsibility. We strive to advance sustainability management in a way that befits our status as a global company so that we can evolve into a company trusted and respected by customers.



# 1 Sustainability Management System

SUSTAINABILITY MANAGEMENT VISION AND ACTION FRAMEWORK



# Sustainability Management System

LG Hausys explores ways to fulfill its corporate social responsibility in the entire spectrum of business conduct through the development of its sustainability management system

## Sustainability Management

At LG Hausys, our pursuit of sustainable growth is based on our vision of “Creating Eco-Conscious, Human-Friendly Living Spaces”. We advance sustainability management through CSR risk management, social contribution and stakeholder communication. Our goal is to become a sustainable company by delivering differentiated value to stakeholders and communicating with them ceaselessly.

## Risk Management

We identify and improve on economic, social and environmental risks through external assessments and diagnoses. In 2013, our domestic and Chinese sites were evaluated. While these sites proved free from any serious risks, the need for further improvements was identified in a portion of the evaluation categories.

To ensure these risks are subject to consistent management, self-diagnoses will be conducted and CSR risk management plans will be developed more systematically.

## Social Contribution

LG Hausys is engaged in social-giving initiatives that reflect its specific business characteristics: Dokdo Nature Preservation Zone ‘Jikimi (keepers)’ initiative, ‘Make a Happy Space’ initiative, and Happy Design Sharing campaign. We fulfill our corporate social responsibility in consideration of social requirements and possible impacts it could have on our business conduct, while improving on our relationship with the local communities where we are based. We will engage more employees in our social contribution initiatives and undertake unique and differentiated social-giving initiatives.

## Stakeholder Communication

We disclose our sustainability management initiatives and achievements to stakeholders through sustainability reports, business reports and the environmental information disclosure system. In addition, we actively interact with customers through blogs, and the housewife prosumer ‘Z:ENNE’ program and build a closely-aligned employee network through in-house communication channels. It is through active communication with stakeholders that we pursue stability and growth potential while giving back to society. Thus, we will move even closer to stakeholder expectations through CSR promotional and training activities, as well as through the transparent disclosure of information.

## Sustainability Management Performance and Future Plans

Since 2011, LG Hausys has been disclosing its sustainability management performance to stakeholders through its annual sustainability reports. In 2012, we were honored with the Carbon Disclosure Special Award by CDP (Carbon Disclosure Project) Korea. We plan to develop a sustainability management action roadmap to ensure the systemic management of sustainability management performance and to set clear strategic directions. LG Hausys will integrate sustainability management value into its daily operations and take a step further in becoming a sustainable company.

### [ Progress of Sustainability Management ]



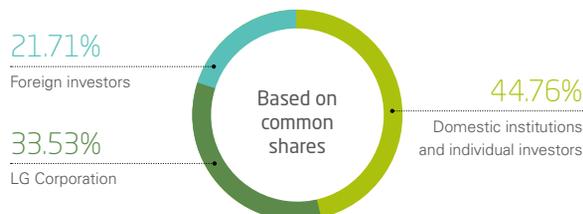
# Governance

To become a company truly trusted by its stakeholders, LG Hausys establishes a sustainable and fair decision-making system on the basis of transparent information disclosure and through an independent Audit Committee.

## Shareholder Composition and Rights

We establish a fair and stable ownership structure to become a sustainable company. As of the end of 2013, LG Hausys' largest shareholder was LG Corporation with 33.53% share, based on issued common shares. The remaining shares were owned by domestic institutions or individual investors with 44.76% and foreign investors with 21.71%. Our shareholders are entitled to wide-ranging shareholder rights in accordance with Article 542-6 of Korea's Commercial Code (minority shareholder rights). In addition, information on major business issues is disclosed through the electronic information disclosure system of the Financial Supervisory Service, on the LG Hausys website and at the general shareholder meetings to guarantee our shareholders the right to access information.

### [ Shareholder Composition ]



## BOD Composition and Operation

LG Hausys' board of directors (BOD) is responsible for making decisions on major business conduct and supervising the operation of the board members. The board also votes on matters specified by relevant laws and the Articles of Association, matters delegated by the general shareholder meetings and other important business-related matters. There are a total of seven directors on the board. The separation of the CEO from the position of chair, as well as the appointment of independent directors, guarantees that decisions are made in a reasonable and transparent manner.

### BOD Composition

LG Hausys operates a one-tier board of directors system, which consists of two executive directors, two non-executive directors and three independent directors. The appointment of the board members follows procedures stipulated in the Commercial Code and other relevant regulations and should be approved by the BOD and at the general shareholder meetings. Independent directors should account for more than one fourth of the total number of board members. Our independent directors should not be related to our business operations and they should possess abundant experience and expertise in the fields of management, construction and design. They learn about the strategic directions and current issues of LG Hausys on economic, social and environmental aspects and present their opinions actively. In so doing, our independent directors serve to monitor, check and objectively support our operations.

### [ BOD Composition ]

Category	Name	Position	Responsibility or Primary Title	Transaction with the Company	Note
Standing	Oh, Jang-soo	Executive Director	CEO	None	
	Kim, Hong-gi	Executive Director	CFO	None	
Non-Standing	Cho Jun-ho	Non-executive Director	CEO and President of LG Corporation	None	BOD Chairman
	Yu, Ji-yung	Non-executive Director	Managing Director, Business Administration Team, LG Corporation	None	
	Oh, Chan-seok	Independent Director	Independent Director, LG Hausys	None	Chairman of the Audit Committee
	Kim, Myung-hwan	Independent Director	Vice Chairman, Haeahn Architecture, Inc.	None	Member of the Audit Committee
	Kim, hyun	Independent Director	Professor, School of Art & Design, Korea University	None	Member of the Audit Committee

**BOD Operation and Evaluation** | LG Hausys' board met seven times in 2013, and on average, 100% of the members attended. A total of 36 agenda items (approval of business plans, etc.) were discussed, out of which 28 concerned BOD approval and the remaining eight were reports. Our BOD remuneration is determined each year in consideration of annual performance evaluations, inflation and the external competitiveness of independent director compensation. The remuneration limit is approved at the general shareholder meeting and any modification to the remuneration is proposed to the BOD for approval.

**[ Main Agenda Items of the BOD in 2013 ]**

BOD Meeting	Date	Details	Directors' Attendance
1st	Jan. 30, 2013	Reporting business results in 2012 and five others	100%
2nd	Feb. 19, 2013	Approving business plans (draft) for 2013 and three others	100%
3rd	Mar. 15, 2013	Appointing the CEO and six others	100%
4th	May 4, 2013	Reporting Q1 2013 business results and two others	100%
5th	Jul. 22, 2013	Reporting Q2 2013 business results and six others	100%
6th	Oct. 18, 2013	Reporting Q3 2013 business results and four others	100%
7th	Nov. 27, 2013	Approving the appointment of executive officers (draft) and three others	100%

**Audit Committee Operations** | At LG Hausys, the Audit Committee is operated as part of the BOD to enhance the independence and transparency of audit operations. The committee consists of three independent directors who are free from any disqualifying reasons stipulated in the Commercial Code as a way to guarantee its independence. The committee votes on matters specified in relevant regulations and the Article of Association, as well as matters delegated by the BOD, while independently planning and performing internal audits and using the outcomes to identify necessary improvements. It is also responsible for inspecting corporate accounting and business practices, requiring board members to report on business operations at any time, investigating the status of operations and corporate assets, and calling to convene ad-hoc general shareholder meetings through the submission of letters that describe the purpose of such meetings and reasons behind the convocation to address special issues. In addition, as part of its operations, the committee can request subsidiaries to present business reports and investigate the status of the operations and assets of subsidiaries at any time in the case that these subsidiaries fail to report or in the case they need to verify reports.

**[ Main Agenda Items of the Audit Committee in 2013 ]**

Committee Meeting	Date	Details
1st	Jan. 30, 2013	<ul style="list-style-type: none"> <li>- Planning Jeong-Do Management operations in 2013</li> <li>- Reporting 4th-term financial statements</li> <li>- Reporting the 4th-term business report</li> <li>- Reporting the operational status of the internal accounting management system in 2012</li> </ul>
2nd	Feb. 19, 2013	<ul style="list-style-type: none"> <li>- Approving the audit report (draft) concerning the 4th-term financial statements and business report</li> <li>- Approving the evaluation report (draft) on the operational status of the internal accounting management system</li> <li>- Approving the evaluation opinion report (draft) on the Internal Monitoring Scheme</li> </ul>
3rd	Oct. 18, 2013	<ul style="list-style-type: none"> <li>- Reporting Q3 2013 business results</li> </ul>

# Jeong-Do Management

LG Hausys advances Jeong-Do Management to become a company respected for its sincere accountability to customers, suppliers, shareholders, employees and society.

## The LG Way and Jeong-Do Management

The LG Way defines LG's unique corporate culture: its ultimate goal is to move towards becoming 'No. 1 LG' by 'creating value for customers' and 'respecting human dignity' through 'Jeong-Do Management'. Through Jeong-Do Management, LG aims to consistently build capabilities and compete fairly on the basis of its ethics management.

**Code of Ethics** | LG established and practices its Code of Ethics to help guide the behaviors and value judgments of all its employees. LG's Code of Ethics Handbook is available in Korean, English and Chinese and they are distributed to each local corporation.

### [ Code of Ethics – Table of Contents ]

Category	Details
Chapter 1	Responsibility and Obligation to Customers
Chapter 2	Fair Competition
Chapter 3	Fair Transaction
Chapter 4	Basic Employee Ethics
Chapter 5	Responsibility to Employees
Chapter 6	Responsibility to the Society and the Nation

## Jeong-Do Management at LG Hausys

We at LG Hausys, clearly recognize that 'Jeong-Do Management is not a mere option but an essential requirement for our survival as a company'. To prevent any corruptive practices among our employees and to establish a culture of 'Jeong-Do Management', we advance Jeong-Do Management by placing a greater focus on field operations through our dedicated Jeong-Do Management department. By Jeong-Do Management, we are not simply referring to ethics management; its intent is to go further on the basis of our capabilities to produce substantial outcomes and stay ahead of competitors. To this end, we constantly innovate and build capabilities to deliver greater and more genuine customer value as a way to 'create value for customers', while offering our employees equal opportunity and performance-driven fair treatment as a way to 'respect human dignity'. Not only do we practice Jeong-Do Management and the Code of Ethics in business conduct, we also improve on any unreasonable practices from the past and weave Jeong-Do Management into the fabric of our corporate culture.

### [ Jeong-Do Management System ]



**Jeong-Do Management Programs**

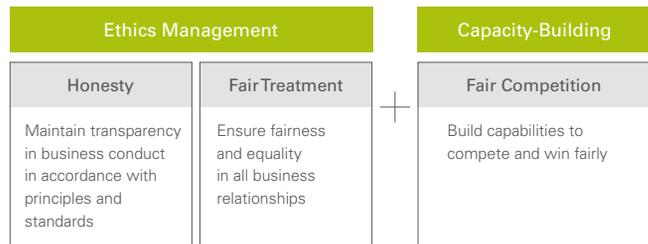
LG Hausys advances Jeong-Do Management through the Jeong-Do Management Pledge, whistle-blowing & the Shinmungo systems, and through Jeong-Do Management training.

**Jeong-Do Management Pledge** | All LG Hausys employees and suppliers sign the ‘Jeong-Do Management Pledge’ online each year. In doing so, they commit themselves to abiding by the LG Code of Ethics and to advancing Jeong-Do Management.

**Whistle-Blowing System** | LG Hausys strictly prohibits any employee from accepting any type of bribe or reward from our stakeholders for any reason. In the case that such bribes or gifts are offered, they should be politely refused and returned in accordance with the Code of Ethics. If for any reason, this is not possible, the concerned articles should be reported to the Ethics Office and be donated to welfare organizations or sold through an in-house auction so that the proceeds can be used for social-giving initiatives.

**Shinmungo System** | Our Shinmungo System allows violations of Jeong-Do Management principles to be reported. These include unfair practices, the acceptance of bribes by any LG Hausys employee, any employee taking advantage of their superior position or any other practice that goes against the LG Code of Ethics. In the case that online reporting is unavailable, such unjustified practices can be also reported by phone, fax, and mail or through personal visits. Whistleblower-related information is subject to the strict confidentiality principle. If whistleblowers become compromised due to filing such reports, they are entitled to restoration or equivalent compensation measures.

**[ Jeong-Do Management System ]**



**Jeong-Do Management Training and Promotion** | LG Hausys employees receive annual job-related Jeong-Do Management training as well as job training. We also inform our suppliers and distributors about our ethics management and we make sure that they are able to receive relevant training at least once every three years. In 2013, Jeong-Do Management training and promotional initiatives were extended to cover our overseas corporations in China, Russia and Europe while each corporation trained their own in-house lecturers to provide consistent training. Our training and promotional activities will continue to encourage all our employees and suppliers to live by Jeong-Do Management principles in guiding their behaviors. We will also strive to further improve the overarching Jeong-Do Management so as to grow into better leaders in ethical corporate culture.

**[ Jeong-Do Management Training in 2013 ]**

Category	Domestic	Overseas
No. of Training Sessions	25	7
Trainees (No. of persons)	2,135	712
Training Hours (hour/person)*	1.5	1.5

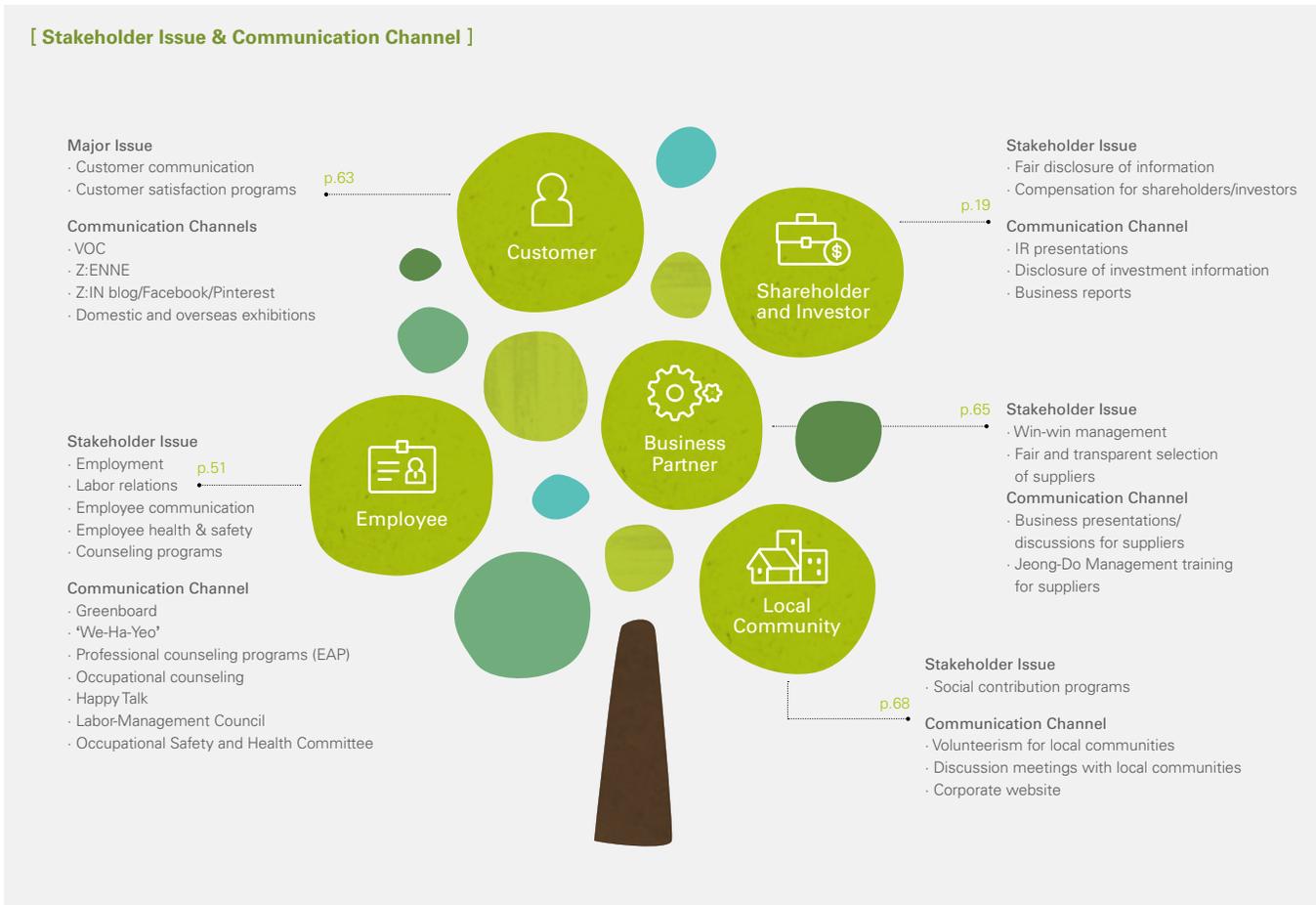
# Stakeholder

LG Hausys identifies the concerns and expectations of stakeholders to reflect them into its sustainability management while communicating with stakeholders through diverse channels.

## Stakeholder Communication

**Stakeholders** | At LG Hausys, we define stakeholders as individuals or organizations who interact with us in business conduct. We categorize stakeholders into shareholders & investors, employees, customers, suppliers, competitors, local communities, governmental agencies, NGOs and academia in accordance with their roles, influence and responsibilities.

**Stakeholder Communication** | LG Hausys uses diverse communication channels for different issues that affect specific stakeholder groups to enhance stakeholder engagement. Our sustainability management will ensure that stakeholders are directly/indirectly involved in business conduct through close communication with the company, while the company identifies the major concerns and expectations of on the part of the stakeholder and responds to them effectively to grow with greater synergy. Outcomes of our stakeholder communication activities are integrated into our operations and are shared through our sustainability reports and on our corporate website.



# Materiality Test

LG Hausys conducted the materiality test to select issues to be highlighted in its 2014 sustainability report.

## Materiality Test

**Materiality Test** | The materiality test is used to prioritize issues that a company faces in accordance with their materiality. In 2014, we identified key issues on the basis of media analyses, global benchmarking, interviews with internal stakeholders and the review of internal documents. It is based on the materiality test that we present sustainability reports that focus on issues material to stakeholders.

**Materiality Test Process** | The materiality test was conducted as follows: internal/external issues of interest were identified concerning the economic, environmental and social initiatives and achievements of LG Hausys to create a pool of issues and then social interest and business impacts were taken into account to identify key issues. Out of the key issues identified as a result of the materiality test, stakeholder interest, the materiality of issues, and alignment with business operations were comprehensively considered in selecting the issues to be reported.

### [ Materiality Topics ]



Economics and Management	EHS	Society
<ul style="list-style-type: none"> <li>① Products/services for society and the environment p.23,47</li> <li>② Growth drivers based on new operations p.24</li> <li>③ Sustainability management strategy p.29</li> <li>④ Fair distribution of economic outcomes p.21</li> </ul>	<ul style="list-style-type: none"> <li>⑤ Environmental pollutant management p.44</li> <li>⑥ Design of eco-friendly products p.47</li> <li>⑦ Promotion of health and safety at each site p.41</li> <li>⑧ Response to climate change p.45</li> <li>⑨ Establishment of a company-wide environmental management system p.40</li> </ul>	<ul style="list-style-type: none"> <li>⑩ Marketing-related customer communication p.63</li> <li>⑪ Support for suppliers p.65</li> <li>⑫ Product safety p.60</li> <li>⑬ Social contribution strategy and policy p.69</li> <li>⑭ Environmental improvement for local communities p.72</li> <li>⑮ Recruitment of key talent and employee capacity-building p.52</li> </ul>

**STEP 1. Identify External Issues**

**Review of International Standards**

GRI G4, ISO26000, FTSE4GOOD, DJSI and some of the other latest international standards on sustainability management were reviewed to identify sustainability management issues. This allowed us to recognize the need to extend our scope of influence from our own operations into the overall supply chain and value chain in selecting material issues. Furthermore, we identified an emerging trend to transparently disclose human rights & labor practices and remuneration for top-level executive and BOD members.

**Global Benchmarking**

Our benchmarking primarily targeted domestic/overseas leading companies and industry peers who publish sustainability reports. The materiality test outcomes and the table of contents were analyzed to identify commonly-found material issues. Furthermore, the development of eco-friendly products, product liability and other specialized issues inherent to LG Hausys operations were identified, in addition to business innovation, health & safety and other common issues.

**[ Topics Reported through Global Benchmarking ]**

Category	Reporting Topics
General Issue, Global Issues	Business innovation: Business diversification, stronger technological capabilities for an improved competitive edge, etc.
	Health & safety management
	Response to climate change
	Employee value creation
Sector Issue, Sector-specific Issues	Communication with local communities
	Technology-enabled greener value: Expansion of eco-friendly products, etc.
	Customer satisfaction delivered through quality innovation
	Stronger product responsibility: Product safety and product information disclosure, etc.

**Media Research**

Media articles issued between Jan. 1 of 2013 and Dec. 31 of 2013, in relation to LG Hausys, were used to analyze major issues from the media perspective. The development of products and services that serve towards social and environmental purposes, along with attendance at numerous overseas exhibitions were identified as major issues, and social contribution initiatives, employee satisfaction and other diverse issues that were covered by media outlets were also important from the media perspective.

**[ Materiality Test Process ]**

**STEP 1. Identify External Issues**

- **Review of international standards**  
: GRI G4, ISO26000, FTSE4GOOD, DJSI, etc.
- **Global benchmarking**  
: Domestic/international leading companies and industry peers
- **Media research**  
: Articles issued between Jan. 1 of 2013 and Dec. 31 of 2013

**STEP 2. Identify Internal Issues**

- **Review of internal documents**  
: Analyses of in-house policies & management strategies and customer value
- **Interview with internal stakeholders**  
: Feedback on the Sustainability Report 2013

**STEP 3. Select Key Issues**

- **Creation of a pool of issues**  
: Analyses of relevance of internal/external issues and their frequency
- **Selection of 15 key issues**  
: In consideration of social interest and business impact

[ Major Issues Identified through Media Research ]

Reporting Topics	Percentage
Products and services for society and the environment	24.4%
Attendance at overseas exhibitions	12.8%
Social contribution initiatives	5.1%
Recruitment of key talent	3.5%
Shared growth with suppliers	2.6%
Expansion of flexible employment	2.3%
Customer communication initiatives	1.5%

STEP 2. Identify Internal Issues

Review of Internal Documents

Internal policies and management strategies, as well as customer value, were analyzed to identify such material topics as building a corporate competitive edge, the environment and health & safety, shared growth with suppliers, and social contribution to local communities.

Interviews with Internal Stakeholders

Sustainability management surveys were conducted of employees responsible for the publication of our Sustainability Report 2013. In addition, feedback from the previous year's sustainability report served to identify such material issues as growth drivers based on new operations, the design of eco-friendly products and employee health & safety.

STEP 3. Select Key Issues

Creation of a Pool of Issues

Material issues were identified through the analyses of international standards and media research outcomes, the review of internal documents, and global benchmarking. These issues were reorganized into 36 topics.

Selection of Key Issues

In consideration of social interest and business impact, 15 key issues were selected from the pool of issues.

# 2

## Green Management



### MANAGEMENT PRINCIPLE

To create eco-conscious, user-friendly living spaces, we at LG Hausys use more eco-friendly materials and develop highly energy-efficient products as a way to deliver more natural living spaces to customers. In 2013, our company-wide safety environment organization was realigned and fortified while a disaster prevention system improvement task force team was set up to prevent the occurrence of fires.

### 2013 PERFORMANCES

Category		2011	2012	2013
Management System	ISO certification	Maintained	Maintained	Maintained
	Green Company designation	Maintained	Maintained	Maintained
Response to Climate Change	Reduction in energy consumption (TJ)	216	192	183
	Reduction in GHG emissions (tCO <sub>2</sub> eq)	11,186	9,757	9,321
Minimization of Environmental Pollutants	Recycling of waste (%)	89.9	88.7	85.9
	Hazardous chemicals (intensity)	0.0539	0.0306	0.0221
Eco-friendly Products	No. of certified products	95	111	95

\* Eco-friendly products: HB Mark-certified products or Korea Eco-labeled/Carbon Footprint-labeled products

### 2014 GOAL

To extend the scope of green products made from eco-friendly materials and products that are more energy-efficient

To reduce energy consumption and GHG emissions through energy innovation initiatives

To strengthen environmental safety management and disaster prevention systems

# Green Management

LG Hausys advances green management to pursue a harmonious balance with nature and respect for human dignity.

## Green Management Philosophy

LG Hausys' green management is founded upon LG's management philosophy of 'creating value for customers' and 'respecting human dignity'. LG Hausys' green management aims to consistently improve our environmental impact in business conduct and to grow hand-in-hand with both the natural environment and people, by delivering products and services made from naturally-inspired materials and through our efforts to preserve invaluable resources. LG Hausys' environmental and health & safety management policies are based upon LG's green management philosophy. This philosophy highlights a company's social responsibility and role in environmental preservation and health & safety. These policies are the driver behind the company's commitment to a harmonious balance between its business operations and the environment.

### [ LG Green Management Philosophy ]



## LG Green Management

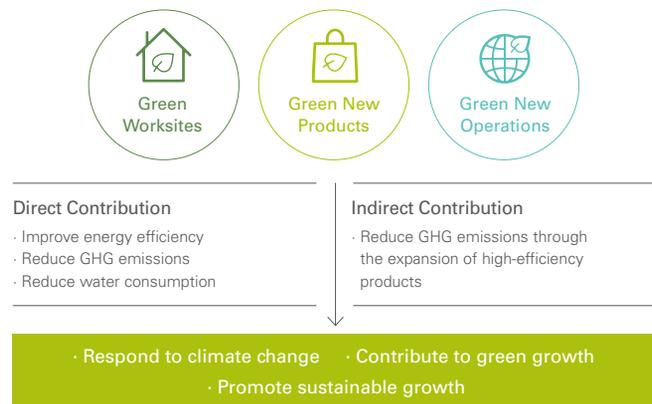
LG green management represents LG's new management policy that aims to create customer value and contribute to the society and the nation by integrating an environmental management philosophy that emphasizes the environmental protection of work-site vicinities into the broader spectrum of business conduct.

### [ LG Environmental Statement ]

- LG puts the environment, and health & safety first in every stage of its business conduct and uses this as an opportunity to create value for its customers.
- LG sets strict standards for the environment and the health & safety-related regulations of all the regions and countries where it is based, while fully complying with these standards to consistently improve its environmental and health & safety performance.

- LG regularly measures its environmental, health & safety performance and discloses the outcomes.
- Every LG employee recognizes the need for social responsibility in preserving the environment and the ability it gives them to fully engage in the environmental preservation initiatives within local communities.

### [ Green Management Contributions ]



## LG Hausys Green Management

LG Hausys systemically advances environmental management on the basis of its green management system. In so doing, we aim to deliver eco-friendly worksites that reduce GHG and air pollutant emissions, save resources and expand recycling initiatives. In addition, eco-friendly material-based and highly energy-efficient products will be our top priority in developing products and undertaking business strategies so that we fulfill our social responsibility in assisting the Korean government to achieve low carbon green growth.

### [ Green Management Worksites ]



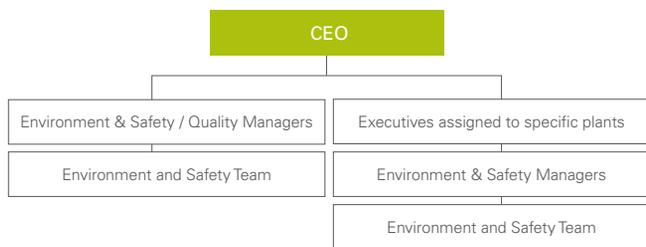
# Environment and Safety System

## Environment & Safety System

Our environment & safety department was promoted into an executive-level organization in 2013 in a push to establish a stronger and more dependable environmental and safety management system. In addition, company-wide environment and safety goals are set and managed accordingly. We also maintain related management systems that abide by the Green Company Certification of the Ministry of Environment, ISO 14001 (environmental management system), KOSHA 18001 and OHSAS 18001 (health and safety management system).

**Organizational Realignment and Stronger Executive-level Accountability Management** | In 2013, an environment and safety organization was created to act as a control tower that governs company-wide environmental and safety issues as a way to strengthen the environment and safety management system. In addition, company-wide environment and safety management targets are set and the outcomes are reflected in organizational evaluations in order to reinforce accountability in our environment and safety management.

### [ Organizational Structure of Environment and Safety Management ]



### [ Environment & Safety Target Management ]



It is through our environment & safety management system that we at LG Hausys make sustained improvements for the safety of our employees and communities, as well as the environment.

**ESH IT System** | In 2007, our ESH IT system was launched to efficiently manage environmental and safety management documents and their related operations. This system also helped to ensure improved communication with our employees (information sharing). Through constant system management, we will stay ahead of changing business conditions.

**Environment & Safety System Certifications** | LG Hausys has maintained its status as a Green Company designated by the Ministry of Environment since 1995. It has also been maintaining its environmental & safety management systems certified in accordance with ISO14001 (environmental management system) and KOSHA18001 & OHSAS18001 (health and safety management system).

### [ Initial Certification Date by Management System Standard ]

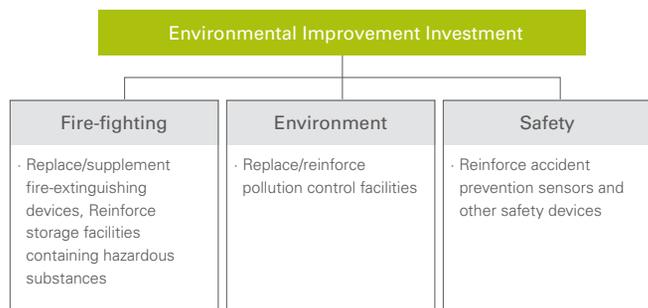
System Name	Ulsan Plant	Cheongju Plant
ISO14001	Dec. 1996	Nov. 1999
KOSHA18001	Nov. 2000	Dec. 2009
OHSAS 18001	Nov. 2013	Dec. 2000
Green Company	Dec. 1995	Dec. 1995

**Integrated Disaster Prevention System** | Our integrated disaster prevention system is based on an automated fire detection system (temperature/smoke detection), a video information system, and geographic information system technology. This greatly helps in preventing fires and environmental accidents and in immediately responding to such accidents early-on. In addition, real-time monitoring of major air pollution control facilities ensures that these facilities are operated under optimal conditions, which prevents the waste of energy and/or abnormal operations.

### Workplace Environment & Safety Improvement Initiatives

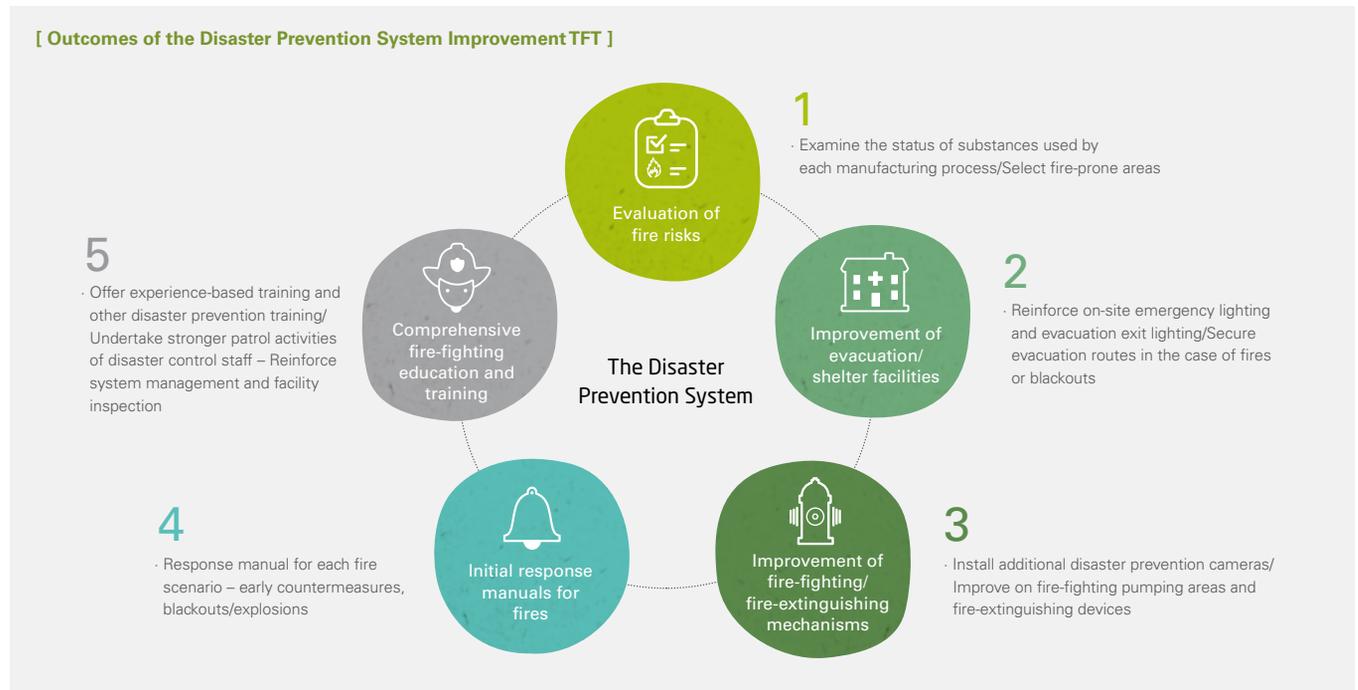
**Investments in Improving the Workplace Environment** | To preemptively eliminate accident risks, investment plans are set in the fields of fire-fighting, the environment and in safety, as a way to improve the workplace environment.

**[ Environmental Improvement Investment ]**



**Disaster Prevention System Improvements** | The fire occurred at the foam chamber of the Ulsan Plant in 2012 prompted us to create a task force team (TFT) in charge of improving our disaster prevention system as a way to prevent the recurrence of such accidents. This allowed us to re-evaluate fire risks, reinforce fire-fighting devices and supplement evacuation/shelter facilities. In addition, relevant corporate policies and manuals were revised or updated, while field training (including hands-on disaster prevention training) was offered to fully commit ourselves to delivering a safer workplace.

**[ Outcomes of the Disaster Prevention System Improvement TFT ]**



# MATERIAL FLOW

[ Flow of Product Input and Output ]



## Consumption of Recycled Materials

27,814<sup>ton</sup>

· Recycled materials that are used for flooring and window profiles

## Waste Recycling Rate

86.1 %

## Protection of Biodiversity

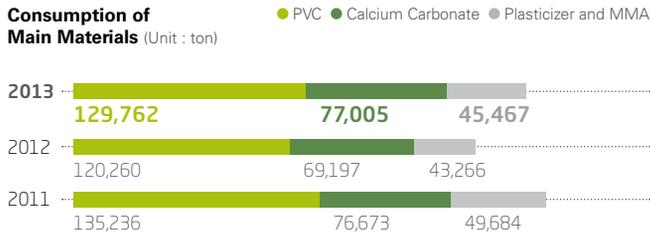
To protect biodiversity, we have been undertaking ecological preservation initiatives with the Taehwa River Ecological Research Center. As part of this commitment, we have been providing an ecological environment for the endangered fish species (*Pungitius kaibarae*) within the water quality control room of one of our worksites since 2009. In addition, we conduct environmental impact assessments in compliance with ISO 14001 on all our activities that may affect the environment in Ulju-gun where our Ulsan Plant is located, as a way to preserve the environment.

## Management of Ozone-Depleting Substances

LG Hausys does not produce any ozone-depleting substances as defined in the Montreal Protocol or use such substances in its manufacturing process. Yet, R-22 is used as refrigerant for freezers and halon fire extinguishing devices are installed as part of the printing process at our Ulsan Plant where fire risks are high. The installed amount of halon amounts to 5,516 kg. In expanding our IMD printing facility in 2009, eco-friendly HFC 125-based automated fire extinguishing devices were deployed. We plan to replace our conventional fire extinguishing mechanisms with cleaner and greener ones or adopt water-based (water spray) fire extinguishing systems.

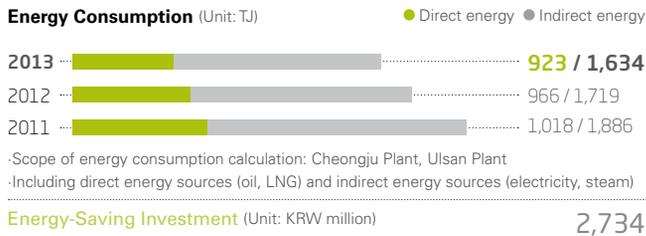
## INPUT

### Materials

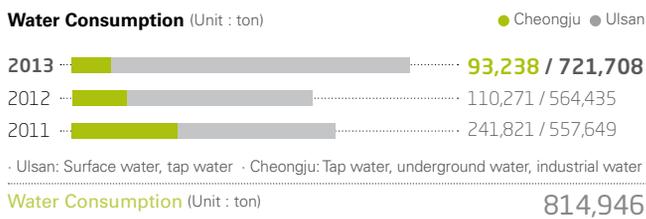


· The Data calculation method was modified from the previous year

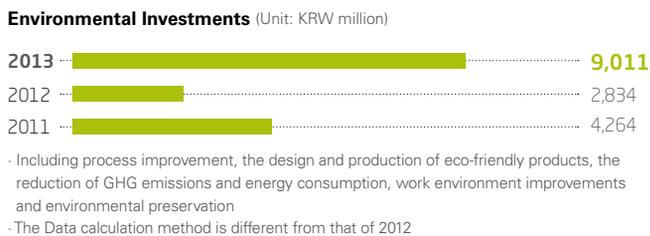
### Energy



### Water

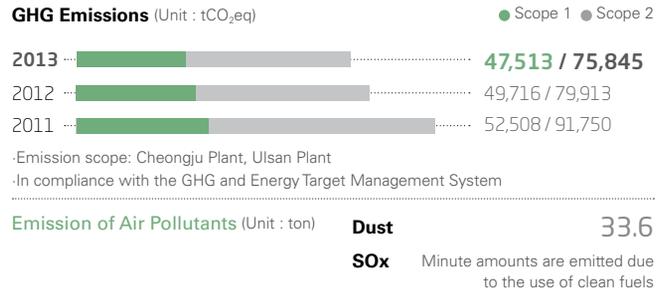


### Environmental Investment

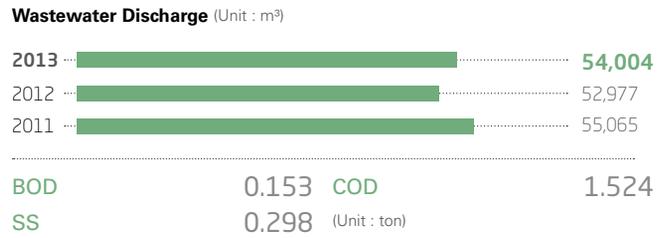


## OUTPUT

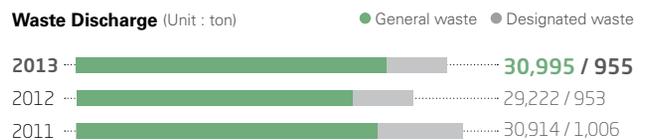
### Air



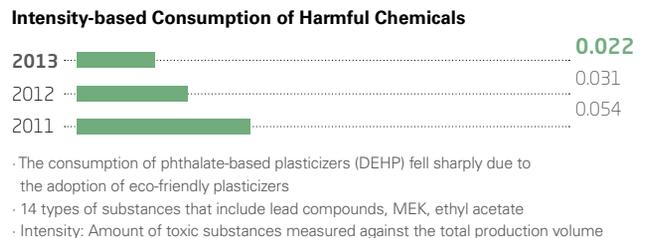
### Water



### Waste



### Hazardous Chemicals



# Eco-Friendly Workplaces

## Management of Atmospheric Quality

We replace old or lower efficiency air pollution control devices with high-efficiency ones. The Ulsan Plant operates an air quality monitoring system that consists of 15 RTOs (Regenerative Thermal Oxidizer) and 18 electric precipitators. These RTOs help ensure an immediate response to the spread of odors caused by abnormal facility operations. In so doing, the plant also prevents any possible odor-related complaints.

### [ Environmental Facilities at the Ulsan Plant ]



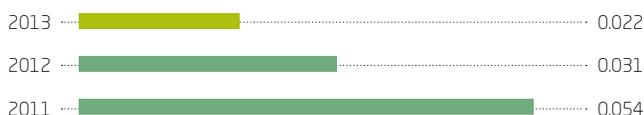
## Water Resource Management

Air-water separator tanks are installed at major locations within our plants to regularly monitor the status of pollution. While our Ulsan Plant does not generate any wastewater from its manufacturing process, it operates its own wastewater treatment facility to handle wastewater from LG Chem and LG H&H which are located at the same site. The plant also has an early warning system that detects liquid leaks and issues alerts accordingly. Our Cheongju Plant uses the common wastewater treatment facility of LG Chem to responsibly manage its water resources.

## Management of Hazardous Chemicals

Our Ulsan and Cheongju Plants handle 14 types of hazardous chemicals from lead compounds and MEK to acetic acid ethyl. In 2013, the consumption of harmful chemicals at these plants dropped by 22.2% from the previous year to 5,470tons. This can be attributed to their sharp reduction in the consumption of phthalate-based plasticizers (DEHP) as a result of the adoption of eco-friendly plasticizers.

### [ Intensity-based Consumption of Hazardous Chemicals ]



## Waste Management

LG Hausys is fully engaged in the governmental policy to promote resource preservation and recycling. In 2008, we signed a volun-

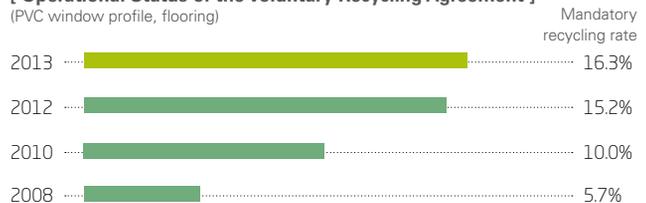
LG Hausys is undertaking wide-ranging initiatives to minimize its discharge of air/water and oil pollutants as well as to prevent any type of safety or environmental accident.

tary recycling agreement with the Ministry of Environment concerning our flooring and window profile products. This enabled us to establish a recycling system that includes the development of recycling technology, the expansion of waste collection systems and support for recycling service providers. Furthermore, our recycling initiatives have continuously extended their scope since 2012, through a new recycling agreement regarding plastic molds and profile packaging materials. In 2013, 86.1% of the waste from major worksites was recycled. Specifically, all waste from flooring and profile production processes is turned into scraps and these internal scraps are fed back into our manufacturing process. In addition, raw material compositions are developed and used to maximize external scraps, which are created when end-of-life products that have been disposed of, are collected and turned into resources.

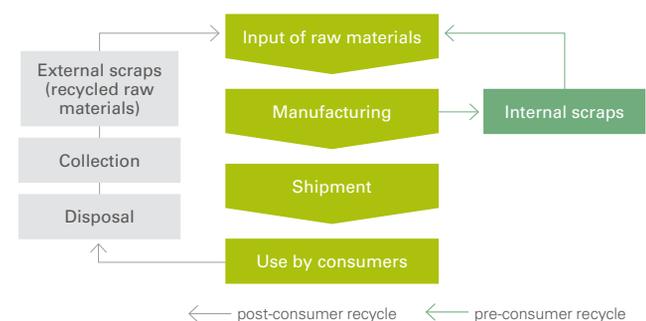
### [ Workplace Waste Treatment in 2013 ]



### [ Operational Status of the Voluntary Recycling Agreement ]



### [ Recycling Process ]



## Climate Change Response Strategy

In 2010, LG Group introduced Green 2020 as a way to contribute to eco-friendly green growth while pursuing sustainable growth. To reach ‘Green Goal 2020’, LG Group plans to invest KRW 20 trillion in R&D in three categories: Green Worksites, New Green Products and New Green Businesses. LG Hausys is also undertaking three green strategies to reduce energy consumption & GHG emissions, expand eco-friendly products and develop natural and new materials.

## GHG Emissions Reduction

**GHG Emissions** | LG Hausys established GHG inventories at major domestic worksites to pave the way in reducing GHG emissions. In 2013, our GHG emissions amounted to 133,902 tCO<sub>2</sub>eq, which was verified by DNV in March 2014.

**Self-Initiated GHG Emissions Reduction** | While we do not bear any obligation to reduce GHG emissions, we have been committed to reducing GHG emissions through the minimization of the discharge of pollutants that may come from the manufacturing process and by using cleaner fuels for major boiler facilities.

**GHG Emissions Reduction Registration Project** | Since 2006, we have been shifting to clean fuels in powering our major boiler facilities. We also joined the national GHG emissions reduction project and a total of 50,253tCO<sub>2</sub>eq has been registered as early reductions since 2012. Furthermore, we became the first Korean company to register our ‘clean fuel conversion project for steam production boilers’ in the overseas voluntary carbon market (certification standard: Voluntary Carbon Standard (VCS)) in 2009.

**Energy-Saving Initiatives** | In 2013, we at LG Hausys undertook such top priority initiatives as improving utility efficiency, increasing the recovery of waste heat and condensates, improving facility efficiency and taking stronger management activities in order to reduce energy consumption and GHG emissions. In so doing, we were able to reduce our GHG emissions by 9,321tCO<sub>2</sub>eq in 2013. These initiatives will be further expanded through sustained facility improvement and the optimization of operational conditions, the introduction of renewable energy and through the execution of new technology and high efficiency facilities.

[ Fuel Switching (Unit: tCO<sub>2</sub>eq) ]

Category	Reductions Made	Governmental Procurement	Early Reductions Recognized
Fuel Switching for Heat Source Boilers	6,733	1,285	5,962
Fuel Switching for Waste Heat Boilers	10,214	3,553	8,082
Fuel Switching for Steam Boilers	42,754	10,908	36,209
Total	59,701	15,746	50,253



**Energy Saving TFT |** In April 2013, an energy saving task force team (TFT) was set up at the Ulsan Plant to engage all employees in such energy-saving initiatives as: eliminating losses, improving facility efficiency, improving supply & demand of energy sources, undertaking energy management, and building energy-saving awareness.

**[ Energy Saving Slogans ]**



**Five Energy-Saving Habits**

1. Turn-off: Test equipment facilities, lighting, computers
2. Pull: Plugs – Reduce standby power
3. Fasten: Prevent losses due to the leak of solids, liquids or steam
4. Comply: Standard heat facility, standard cooling/heating temperatures (19°C in winter, 27°C in summer)
5. Focus: Focus on work (job) to improve yields (efficiency) (prevent losses from redoing tasks)

**Other Initiatives to Manage GHG Emissions**

**Green Logistics |** Our Central Distribution Center (CDC) was built in Cheonan in 2011 to improve on our complex logistics network and management efficiency. In 2014, Ilsan Warehouse was integrated into CDC to reduce operational complexity. This also helped us use larger transport vehicles and more electric forklifts, which contributed to reducing the amount of fuel consumed for warehouse operations and transportation, and thus to reducing GHG emissions.

While in 2013, 100% of our adhesive film products had been shipped overseas by plane, from 2014, we are gradually shifting to marine transportation. Transporting large shipments by sea, rather than frequent shipments by air, will naturally help reduce the amount of GHG emissions that are being released into the atmosphere. We contribute to greener logistics by constantly undertaking the following initiatives.

- Switch to electric forklifts for warehouse operations
- Practice eco-driving (prevent idling and speeding)
- Optimize work flow and frequency through the use of WMS (Warehouse Management System)

**Video Conferencing |** Our major domestic and overseas work-sites are equipped with video conferencing systems that allow for multi-party communication. This contributes to reducing GHG emissions in that no travel for business trips is required.

- Multi-party video conferencing systems are installed and operated through employee PCs at domestic sites including at the headquarters in Seoul, the R&D center in Anyang, the plants in Cheongju and Ulsan and at the overseas corporations in China, the U.S., the EU and Russia.

# Eco Products

It is based on our core values of ‘Eco-Friendly, Energy Saving, Human-Friendly’ that we at LG Hausys develop eco products and deliver flourishing living spaces to our customers.

## Development of Eco Products

LG Hausys uses its definition of Green Identity in developing eco products. Our top priorities in product development are ‘Eco-Friendly’ products that are made from eco-friendly materials to deliver more natural and enjoyable living spaces as well as ‘Zero-Emission’ products that are highly efficient and adopt renewable energy to help minimize GHG emissions. These principles guide our endeavors to develop new green products.

### [ Ratio of Green New Products in Sales, Achievements and Targets ]



· New green products target decoration materials and windows

## Stronger Eco Product Solutions

We strive to increase the sales of new green products that deliver energy-savings through the use of natural and recycled materials and to launch new green businesses through the development of eco-friendly technology. In 2013, we will continue to extend our ZEA product line-up and develop high-performance insulation panels as a way to strengthen our eco product solutions.

### [ New Eco Products ]

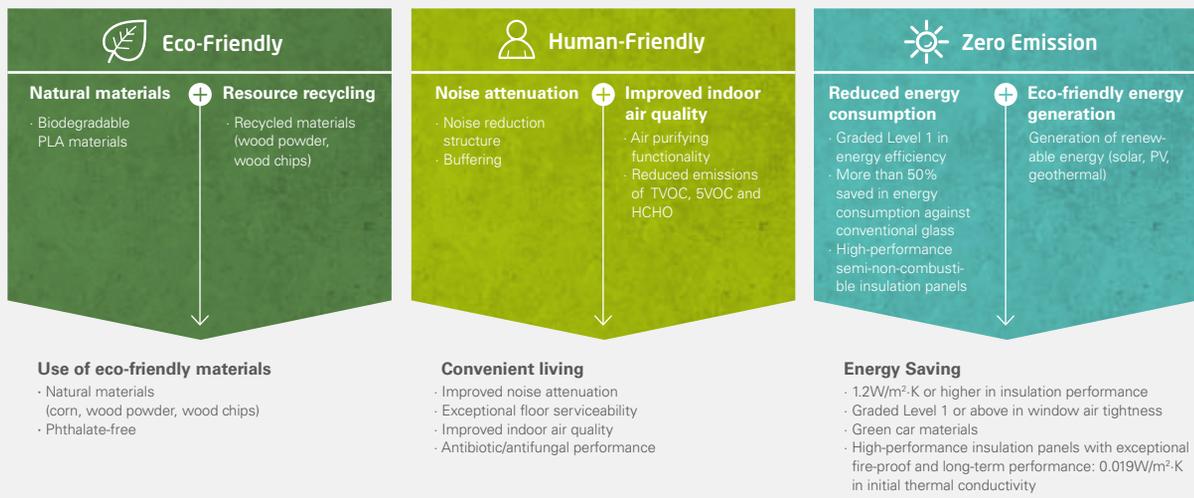
Category		New Green Products	Future Plans
Eco Materials	Bio materials	ZEA line-up (floor, flooring, wall covering), Woozen	To expand their application and exports while using them for general purposes
	IAQ materials	ZINNIA, Breathing Tile	To differentiated exterior designs and expand exports
Energy Saving	Insulation windows	High-strength/insulation windows made of composite materials	To secure steel application technology
	Insulation panels	High-performance insulation panels for construction purposes	To advance into export markets and develop new products

## Eco Product Certification

LG Hausys is extending the scope of its construction material products that are certified domestically and internationally for their exceptional eco-friendliness. In so doing, we fully engage ourselves in the governmental low carbon green consumption policy while delivering more natural and safer products to our customers.

- 49 Eco-Labels, 28 HB Marks
- 18 Carbon Footprint Labels (including two Low Carbon-certified products)
- Window Energy Consumption Efficiency Rating Labels: 248
- Two NET (new technology) and one NEP (new product)

### [ Green Identity ]



# ECO COLLECTION

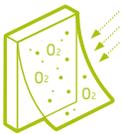
LG Hausys strives to provide more natural and greener products and materials (Eco-Friendly), deliver systems and solutions that maximize energy efficiency (Energy Saving), and interact with customers to confidently provide a truly impressive experience (Human-Friendly).

## Wall Covering & Closet Materials



### 'ZEA Wall Covering'

Being the world's first corn-based 100% natural wall covering, ZEA wall covering does not emit any environmental toxins and its eco-coated layer assists with indoor air quality improvement.



### Eco-coated Wall Covering 'ZINNIA'

The eco-coated layer on the wall covering surface reacts to the visible rays of the sun or from fluorescent lights to decompose harmful substances and create cleaner and more refreshing indoor air. As the first-of-its kind in Korea to deliver a stereoscopic surface appearance, ZINNIA remarkably enhances the interior of any living space.



### Air-purifying Breathing 'Sum' Tile

This eco-friendly wall covering material made from natural soil ingredients reduces hazardous indoor substances and daily odors to prevent a number of diseases and sick house syndrome. The natural mineral substances uniformly dispersed within the tile create micropores (4~5nm) to absorb harmful substances, deodorize and control indoor humidity.

## Floor



### 'ZEA Sorijam'

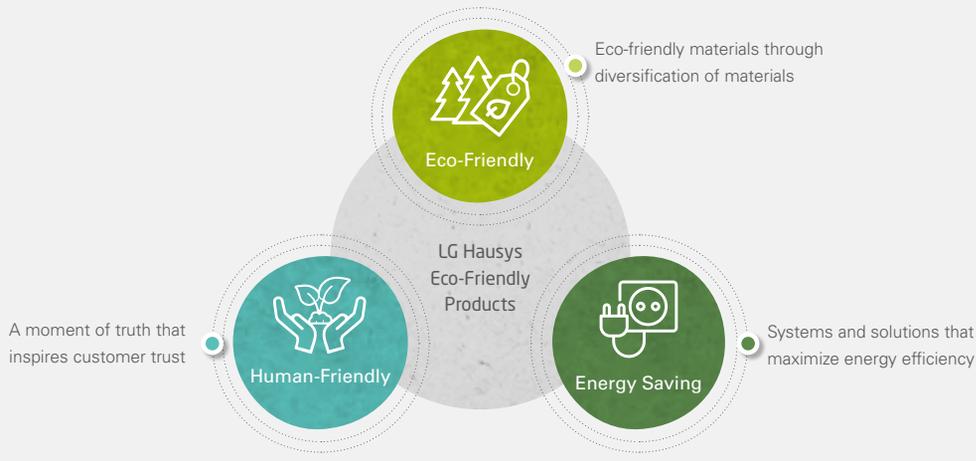
ZEA Sorijam adopted a naturally-sourced vegetable resin layer to become Korea's first to receive the highest grade in eco-friendly certification in the high-thickness sheet sector. This eco-friendly flooring product helps with residential noise attenuation and floor serviceability through high-elasticity sports flooring material technology.



### 'ZEA floor'

ZEA floor is made from such natural materials as corn, natural stone and cypress and is baked with Red Clay Full, a paste made from red clay and other substances. This gives consumers peace-of-mind in knowing their floors won't emit any hazardous gasses or environmental toxins. In fact, ZEA floors absorb odors and purify the air.

### [ Eco Collection ]



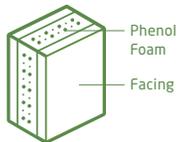
Wood Polymer Composite



**‘Wood Polymer Composite Woozen’**

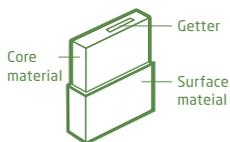
Woozen is LG Hausys’ line of eco-friendly wood polymer composite products manufactured from recycled natural wooden chips & powder and non-toxic eco-friendly olefin resin. Woozen is more than 10 times superior to ordinary wood in terms of discolorization and decay. It also presents a wide spectrum of wood-like colors and patterns and is safe from contraction, expansion or cracking, even after prolonged use.

High-Performance Semi-Non-Combustible Insulation Panels



**Construction Insulation PF Board ‘Clo-Cell’**

By applying eco-friendly foaming gas (non-Freon gas) to thermosetting plastic resin, our high-performance semi-non-combustible insulation panel ‘Clo Cell’ maximizes its energy efficiency and enhances safety by not generating harmful gas when burned. The fine particles 1/10 of the size of Styrofoam enable a thin, yet strong internal structure to deliver excellent insulation performance that lasts for more than 25 years.



**Vacuum Insulation Panel ‘V-Panel’**

Combining the core made primarily from glass fiber with the envelope made of special materials, our V-Panel prevents moisture-mediated thermal conductivity and thus improves energy efficiency.

HI-MACS®



**HI-MACS Eden**

Manufactured from recycled chips, this interior decorative marble not only has exceptional material properties but it is also remarkably durable, hygienic and germ-resistant. Furthermore, it is easy to clean and maintain as it is resistant to color absorption and hard water stains.

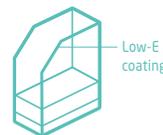
Windows



**Natural Wooden Windows**

This premium system window is manufactured through unique craftsmanship and customized processing technology. The use of multi-laminated hardwood and eco-friendly water-based paint improves the durability of the wood and minimizes the emission of any substances that could be potentially harmful to the human body.

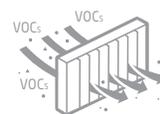
Glass



**High-Insulation Low-E Glass**

Based on the coating technology of Interpane, an advanced German glass manufacturer, the surface of plate glass is coated with multiple thin layers of metals and metallic oxides to reduce energy consumption by 50% compared to conventional glass.

Composite Material Parts



**Automotive Filter ‘Cabinar’**

This eco-friendly filter efficiently removes hidden dust existing within our daily living environment - office equipment, office spaces, and automotive interior spaces - to deliver refreshing and clean indoor air.

# 3

## Social Responsibility Management



### MANAGEMENT PRINCIPLE

At LG Hausys, we value the creativity and independence of our employees as the guiding principles in operating our HR organization and strive to deliver a wholesome and flourishing corporate culture. We undertake a multitude of initiatives that bring pleasant changes to the space jointly shared by nature and people so as to fulfill our social responsibility to our customers and local communities.

### 2013 PERFORMANCES

Category		2011	2012	2013
Employees	Welfare benefits (KRW million)	44,679	49,035	53,551
	New hires (No. of persons)	137	223	218
	Annual average educational expenses per person (KRW)	1,351,091	1,541,962	1,230,744
	Occupational injury rates (%)	0.44	0.11	0.54
Customers	Customer-engaging prosumer initiative 'Z:ENNE' (No. of activities)	75	82	90
Suppliers	Fair trade compliance program (No. of operations)	13	18	15
Local Communities	Investment in local communities (KRW million)	1,576	553	504

### 2014 GOAL

- To nurture global talent and expand communication with employees —————
- To provide stronger employee health care programs —————
- To launch company-wide quality innovation initiatives and reinforce product responsibility through customer communication —————
- To expand supplier support, social contribution programs and communication —————

# Employee

At LG Hausys, we live by our ‘respect human dignity’ business philosophy as a company that grows with its employees. We respect the creativity and independence of our employees and ensure that our employees are fairly evaluated and compensated.

## Employee Data

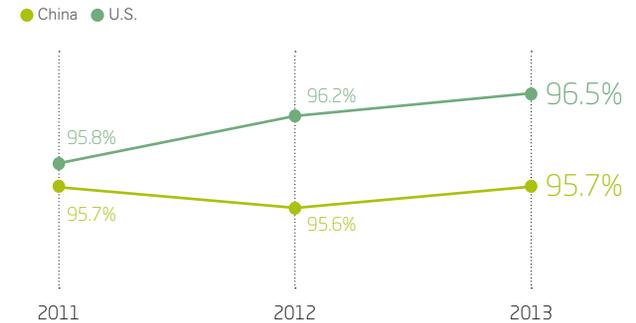
We employed a total of 2,979 persons on a consolidated basis at the end of 2013. The ratio of production and office workers was 35.6% to 64.4% respectively. In 2013, we hired 218 new employees. Over the past three years, we have continued to increase our recruitment of new hires, women, the handicapped, men of national merit and other socially-underserved minorities.

### [ Employee Data ]

Category		2011	2012	2013
All Employees		2,751	2,843	2,979
Type of Employment	Regular	2,732	2,786	2,902
	Contract-based	19	57	77
Socially-underserved Minorities	Women	327	342	368
	Handicapped	58	52	52
	Men of national merit	80	79	82
Age Group	20's	249	332	432
	30's	964	947	899
	40's	920	954	980
	50's and over	618	610	668
Job Level	Executives	17	18	17
	Employees	2,734	2,825	2,962
Type of Job Responsibility	Office workers	1,730	1,834	1,918
	Production workers	1,021	1,009	1,061
Regional Location	Headquarters (Seoul)	685	731	768
	Cheongju Plant	584	591	595
	Ulsan/Onsan Plant	1,079	1,059	1,081
	Others	403	462	535
Transfer		64	57	62
New Recruitment		137	223	218

- 1) Criteria : The data includes subsidiary employees and expatriate workers at the latter end of December of the concerned year
- 2) Others : Non-Seoul sales teams, overseas corporations/branches, other plants, the design center, the R&D center
- 3) Transfer : The data includes those who were transferred to affiliated companies, as well as voluntary retirees

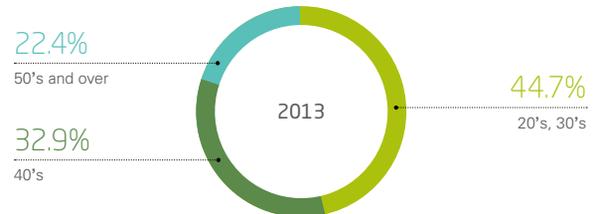
### [ Ratio of Locally-hired Employees at Overseas Establishments ]



### [ Ratio of female employees ]



### [ Employee Composition by Age ]



# Employee Value Creation

## Ideal LG Hausys Employee

The ideal LG Hausys employee “believes in and is capable of practicing the LG Way”. As such, we strive to hire and nurture globally-competent individuals who satisfy this definition.



**HR Management Principles** | Value is created from individual creativity—while performance is driven by employee capabilities. At LG Hausys, we respect the individual personality and diversity of employees. This enables these employees to fully unleash their creativity, while undertaking procedures to hire and internally nurture highly-competent talent. We go the extra mile to offer equal opportunity in accordance with the abilities and qualifications of each individual. We fairly evaluate the delivered outcomes and compensate according to the individual and organizational contributions made. In addition, we take a long-term and consistent approach in making HR management decisions. We guarantee equal employment opportunities and respect for human rights. As specified in our Code of Conduct and Employment Policy, we do not differentiate base salary levels on the grounds of gender, age, or religion.

### [ HR Management Principles ]



At LG Hausys, we offer training programs that help build stronger employee capabilities as a way to foster talent and create employee value.

## Talent Nurturing

We believe that developing employee capability is a critical factor in becoming a market leader. This is why we provide wide-ranging talent nurturing programs by job level and responsibility. Such programs include: leadership development training, business leader training, specialized job training and global competence training.



### [ Training Expense per Employee (Unit: KRW) ]



**Leadership Development Training** | Our level-specific job training aims to enable our employees to satisfy qualifications defined in the LG Way, the philosophy that governs the behavior of all LG employees: the creation of customer value, respect for human dignity and Jeong-Do management. Annual training is offered during the first three years following recruitment and is augmented with sustained refresher training every four years afterwards. Additionally, we also offer job-level-specific mandatory courses, in conjunction with the LG Academy. Furthermore, the positions of team leader and above are subject to annual 360-degree leadership diagnoses performed by their juniors, bosses, colleagues and themselves. The outcomes are used in operating leadership development programs that are aligned with leadership coaching and training (offered by bosses).

**Business Leader Training** | This training program was designed to quickly identify exceptional talented individuals who could take on leadership roles for future operations and systematically nurture them to become future CEOs. Once chosen for their capabilities, performance and potential to undertake key projects, these talented individuals receive intensive early-stage nurturing support. Their results are segmented in the selection stage into HPIs (High Performance Individual – assistant managers), Biz/Pro Talents (senior managers and managers) or placed in the

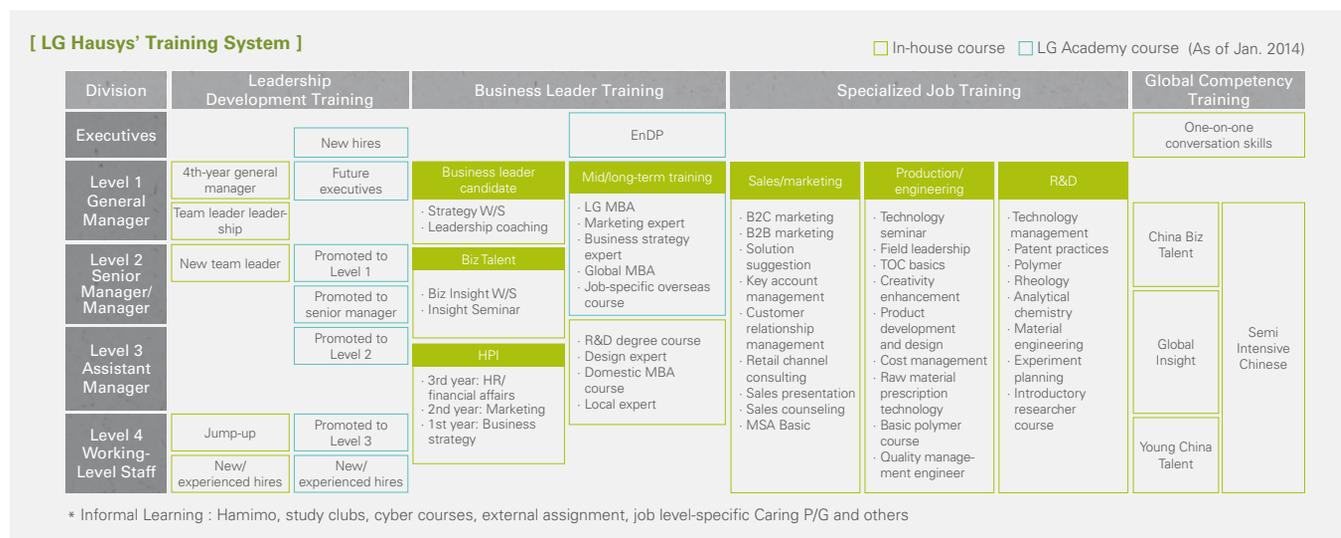
Leader Candidate Pool (general managers) and they are then provided with level-specific training courses. Specifically, the newly-launched Professional Talent was designed for key talent in R&D and design (aside from business operations), as a differentiated talent nurturing program. Our three-year, learning-based HPI courses include collective training and task undertakings that address such topics as business strategy, marketing, financial accounting and HR organization. Our job-based Biz/Pro Talent courses include how to address job-related challenges, as well as bi-monthly Insight Seminars. These seminars help build capacity in leading business operations by learning about future business strategies and discussing the application of this learning into actual operations. In addition to our HPI and Biz/Pro Talent courses, we offer separate overseas/domestic MBA programs and other mid/long-term training programs.

**Specialized Job Training |** We offer level-based courses to improve the working-level outcomes of our sales/marketing, production/engineering and R&D workforce who take on key responsibilities in our business conduct.

Job	Educational Content
Sales/Marketing	B2B/B2C marketing strategy, customer management, sales counseling training, key account management, etc.
Production/Engineering	Basic polymers, raw material prescription technology, creativity enhancement, etc.
R&D	Experiment planning methodology, material engineering, analytical chemistry, rheology, etc.

**Global Competence Training |** Our global programs aim to respond to the expansion of our overseas operations, mainly in China. Our Young China Talent and Semi-Intensive Chinese programs aim to prepare for our growing business operations in China. Global Insight, our unique overseas visit program, aims to assist working-level staff, assistant managers and managers in developing global perspectives and performance capabilities. Through such programs, we continue to develop globally-competent talent from the mid/long-term perspectives.

Program	Educational Content
Young China Talent	Chinese language courses for all new recruits and overseas training for top-performers
Semi-Intensive Chinese	Short-term intensive Chinese language courses Working-level staff, assistant managers and managers
Global Insight	Voluntarily create their own team, plan overseas visit projects, and submit their plans in an open in-house competition. The final winning team is granted an opportunity to undertake their overseas visit plan.



### Compensation System

At LG Hausys, we offer competitive wages and rewards based on the performance-driven HR principle that respects the individual creativity and independence of each employee. Our compensation system involves both cumulative and non-cumulative components: our cumulative annual salary scheme compensates individuals based on the previous year’s evaluation outcomes while the non-cumulative system consists of role-based pay, performance pay, On-Spot Incentives, diverse team-level rewards and business unit-level TA\* rewards. Our On-Spot Incentive scheme was designed to reward exceptional outcomes as a way to comply with our HR management principle of “High Performance, High Returns”. Meanwhile, the TA reward scheme is operated to reward business units for reaching their targets, as a way to take a stronger performance-driven approach on both a business unit level, and on an individual employee level.

\*TA (Turn Around)

### Welfare Benefits Programs

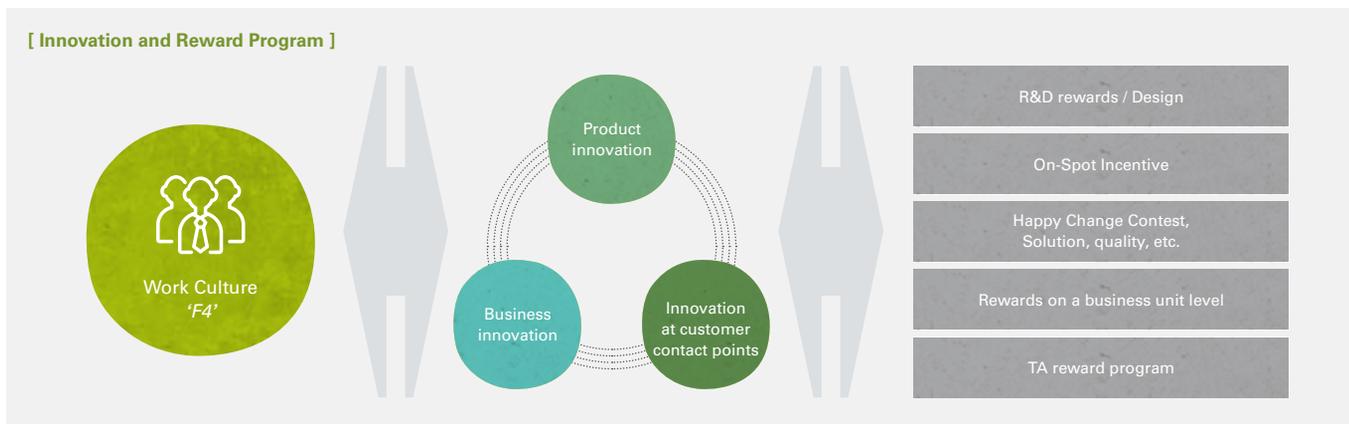
Our welfare benefits programs consist of four major social insurance components – national pension, health insurance, unemployment insurance, and worker’s compensation insurance – as well as optional and basic benefits schemes. Our selective benefits schemes allow employees to choose from health care, self-development, leisure, and e-shopping to suit their preferences. Meanwhile, our basic schemes include housing/livelihood support, medical/health care support and leisure activity support. More specifically, we offer support with housing funds, tuition & scholarships, family event expenses, corporate dormitories, and medical expenses. In addition, our employees are entitled to health examinations and counseling services, as well as guest house services, in-house club activities, retirement pensions and childcare services.

#### [ Ratio of Employees Subject to Regular Performance Evaluations and Career Development Reviews (Unit : Person/Percentage) ]



·Target: Domestic office workers (excluding executives and senior-level employees)

\* Ratio of employees subject to relative evaluation out of the total employees



# Corporate Culture

To become a market leader recognized by its customers, LG Hausys created its own working culture 'F4': *Focus, Fun, Fair, Fast*.

## LG Hausys' Work Culture 'F4'

'F4' is LG Hausys' own working culture which consists of four sectors; *Focus, Fun, Fair and Fast*. Briefly, 'F4' exists for encouraging the employees to focus on their work, and achieving the goals promptly while having fun and observing the work ethics.

We at LG Hausys undertook diverse initiatives to help our employees actually practice the 'F4' initiatives. These initiatives were systematically categorized into: 1) "measurement" to develop area-specific 'F4' surveys and make improvements, 2) "promotion" through games and cartoons, 3) "understanding" through 32 workshops and 'F4' lectures as part of the internal training courses, 4) at the working level "implementation" to promote 'F4' for guidance in meetings and reports and in hosting meetings to set future directions for LG Hausys and operate self-initiated learning clubs. Through these activities and initiatives, 'F4' is now embedded into the fabric of our corporate DNA.

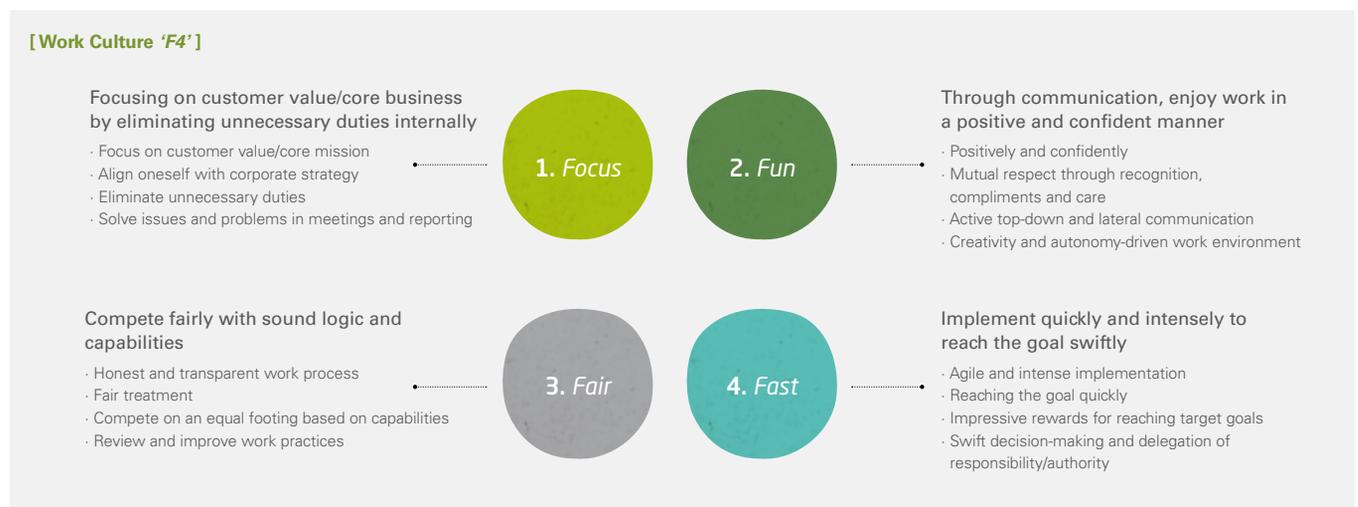
## 'Green Board' and 'We-Ha-Yeo', Change Agent of Organizational Culture Initiatives

'Green Board', which consists of approximately 100 employees and 'We-Ha-Yeo', a gathering of female employees, continue to serve their role as change agents. Both initiatives ensure com-

munication between the top management and working-level employees to reap success in TA (Turn Around) and help build an 'F4'-driven organizational culture.

Green Board operates subgroups and undertakes area-specific initiatives: the 'Communication' subgroup is responsible for communication between employees and the top management; the 'Education' subgroup is in charge of internal training to help with employees' capacity building (as well as mentoring to assist new recruits helping them adapt to the company), and the 'Welfare' subgroup reports employee complaints and suggestions for improvements.

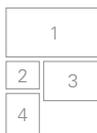
'We-Ha-Yeo', as a communication channel dedicated to female employees, arranged special lectures by renowned opinion leaders to help build a positive and flexible organizational culture and to boost the morale of employees, while holding charity bazaars and fund-raising events to support childcare centers. In addition, 'Writing a Postcard to Your Family' was held in the Month of Family and at the end of the year while 'Smile Man' was designated in each department. Green Board and 'We-Ha-Yeo' also contribute to discussing employee issues and handling their grievances through quarterly meetings with the CEO. In so doing, they fulfill their role as change agents at LG Hausys.





1/2/3. LG Hausys provides a venue for communication among employees and is building a culture that fully engages its employees in work in an enjoyable manner.

4. LG Hausys offers health care programs for employees.



### Labor Relations Led by a Sense of Community

LG Hausys' labor-management partnership is built upon and practiced through engagement and cooperation. This helps generate sustained outcomes and secure a top-notch competitive edge as a way to improve the quality of employee work. The ultimate goal of this partnership is to establish community-oriented labor relations that contribute to the development of society. To this end, our unique three-dimensional labor relations model is operated on the three pillars of business management, shop floor operations and collective bargaining. This allows us to fully engage and seek cooperation from our employees. Furthermore, major changes in business operations require sincere consultations with the labor union (as stipulated by the collective agreement) to strengthen the foundation of labor-management cooperation.

#### [ Vision for Labor Relations ]



**Protection of Employees' Human Rights** | We are in full compliance with the Freedom of Association clause as defined by relevant domestic laws and the ILO (International Labour Organization). Specifically, any expected change in the status or working conditions of unionized employees should be notified to the union in advance and subject to sufficient consultations as stipulated in the collective agreement. As of the end of 2013, 98.4% of the field employees were unionized. Furthermore, we strictly prohibit forced labor or child labor and restrain pregnant employees from working overtime or at night. There have been no violations identified concerning either forced labor or workplace discrimination.

**Labor-Management Community** | At LG Hausys, we pursue engaging and cooperative labor relations: labor relations are built horizontally, not vertically, and employees and the top management respect each other's roles on equal footing. Our executives host regular dialogs with employees and quarterly management meetings. Annual sports events held by each worksite also contribute

to revitalizing the organization. In addition, we hold quarterly labor-management conferences, along with consultations concerning the scheduling of jointly-held events. We also meet to discuss matters concerning the improvement and expansion of welfare facilities and to share business results and major corporate schedules.

### Three Counseling Programs Designed for Heartfelt Communication with Employees

As LG Hausys believes in the importance of mutual understanding among employees as a way to create a fun organizational culture, we offer three counseling programs

**Specialized EAP Counseling** | This counseling program is led by professional psychologists and our employees receive such counseling twice a week. Both individual counseling and a team-level communication program are provided to ensure individual psychological stability and seamless communication among employees. The confidentiality principle is respected by allowing employees to make appointments through the website, phone or e-mail.

**Industry Counseling** | Our industry counseling program was designed to address work-related issues through a more professional mode of communication: co-workers become counselors and offer counseling as such. So far, a total of 58 industrial counselors have been fostered after completing a six-month specialized training. This training motivates these industrial counselors to deeply understand themselves and to recognize how they are unique from others. This greatly helps them empathize and care for people.

**Happy Talk** | To communicate and build empathy among employees, team leaders and their team members engage in dialogues more than once every quarter. Happy Talk encourages our employees to feel comfortable in expressing their inner-most thoughts and facilitate effective communication, in addition to discussing business-related issues.

#### [ Utilization of Counseling Programs in 2013 (Unit: Cases) ]

Area	Happy Talk	Industrial Counseling	Specialized EAP Counseling
Psychological Counseling	1,526	52	148
Job Counseling	4,967	65	56
Career Counseling	933	15	34
Total	7,426	132	238

# Employee Health and Safety

LG Hausys considers employee health and safety as its top priority and offers a wide array of training, exercises and diagnostic programs at each of its worksites.

## Employee Health and Safety

At LG Hausys, we have taken even stronger initiatives to ensure workplace safety and to offer training, PR and diagnostic programs to deliver a safer workplace. Yet, in 2013, our injury rate rose from 0.43% to 0.54%. To secure workplace safety and reduce injury rates, our diagnostic program is fully localized to assess the status of major improvement tasks at each plant while identifying improvement tasks in the entire spectrum of our environment & safety operations. This safety-centered focus extends from safety, work environments and firefighting to air & water quality.

**Occupational Safety and Health Committee** | The Occupational Safety and Health Committee that consists of equal numbers of labor and management representatives, is under operation under the official agreement signed with the labor union in relation to employee health and safety. The committee meets regularly every quarter. Furthermore, preventive initiatives led by manufacturing teams are specifically undertaken to identify blind spots while half-yearly work environment activity measurements are attended by employee representatives, as a way to resolve health and safety issues.

**Employee Health Care Programs** | Our health care rooms reflect the characteristics of each worksite and health care training

& events are offered to prevent disease and improve on the work environment. We also plan to introduce exercise programs for each age group, nurture health care specialists, and install more exercise equipment to help bolster disease prevention programs. Meanwhile, we will facilitate the suggestion incentive program and reinforce the joint labor-management examination of health care programs, so as to attend to the health and contentment of our workforce.

### [ Occupational Injury Ratio ]



· Occupational Injury Ratio: The ratio of injured employees per every 100 employees per year (No. of injured employees ÷ No. of employees x 100)

### [ Ratio of the Diagnosed ]



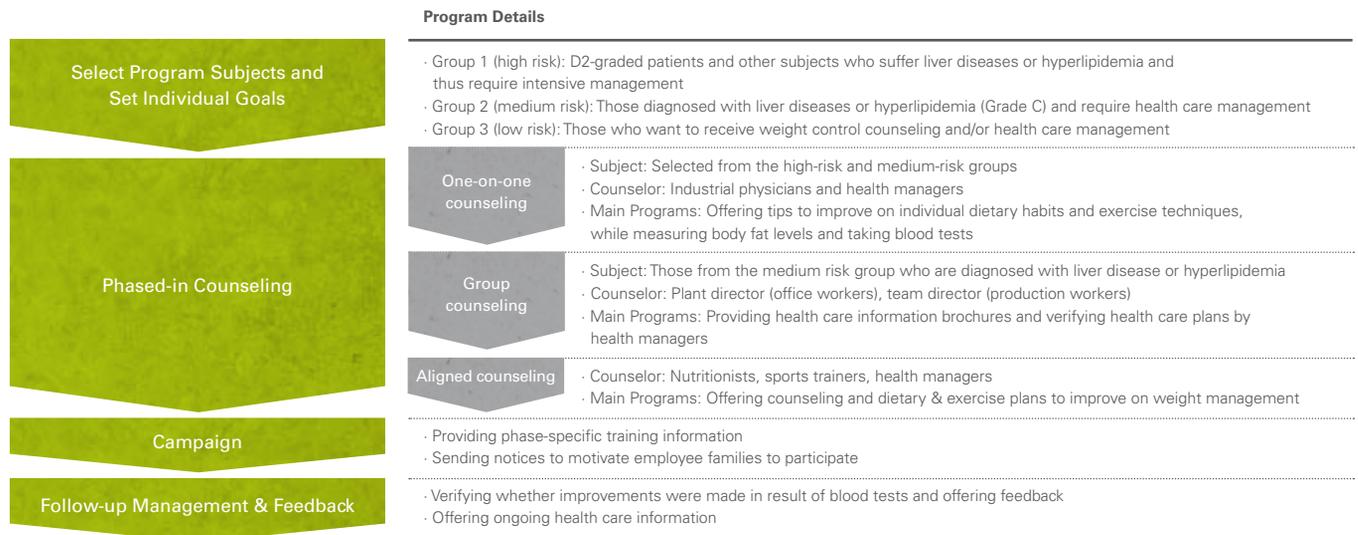
· The diagnosed: The diagnosed is a term referring to those suspected of having a specific condition or disease as a result of a medical check-up: Grade C requires observation and Grade D is diagnosed with specific condition or disease in accordance with the criteria set by the Korea Occupational Safety and Health Agency

### [ Operational Status of Employee Health Care Programs ]

Program	Description
Health Counseling and Training for the Diagnosed	<p><b>Managing employees in need of health care by grade</b></p> <ul style="list-style-type: none"> <li>· Those who need observation (Grade C): Submitting health care plans and interviewing with the team manager, interviewing with industrial physicians, attending health care programs</li> <li>· Those who are diagnosed with specific diseases (Grade D): Submitting health care plans and interviewing with the plant manager, interviewing with industrial physicians, attending health care programs and health training, restrained from working overtime</li> </ul> <p><b>Health counseling and training</b></p> <ul style="list-style-type: none"> <li>· Nurse visits for health counseling, health counseling by industrial physicians · Health training: Once a year (3rd~4th session)</li> </ul>
Health Care Events	<ul style="list-style-type: none"> <li>· Obesity program: Obesity/muscle mass control, weight loss tips</li> <li>· Anti-smoking program: Psychological and health counseling for smokers, nicotine replacements</li> <li>· Downsize the pint drinking program: Offer No Drinks campaign, Reduce Alcohol Consumption campaign, etc.</li> <li>· Get into Shape Project, health promotion experiences in alignment with public health centers, etc.</li> </ul>
Health Care Center Services	<ul style="list-style-type: none"> <li>· Resident nurses at each worksite · Offering year-round health care and counseling</li> <li>· Offering 'visiting' health counseling services · Offering physical therapy at the workplace for employees with musculoskeletal diseases</li> </ul>
Health Letter Publication	<ul style="list-style-type: none"> <li>· Offering health care information and tips</li> <li>· Those subject to the anti-smoking program: Offering information on smoking cessation</li> </ul>
Support for Medical Expenses	<ul style="list-style-type: none"> <li>· Supporting medical expenses for employees and their nuclear family (spouses and children)</li> </ul>

### Hyperlipidemia Care Program

At the Ulsan Plant, the medical check-ups performed in the 1st half of 2013 discovered that those with hyperlipidemia, the basal liver disease that leads to brain and cardiovascular diseases, accounted for 67% of the total diagnosed. This prompted the plant to initiate a 12-week “Get into Shape program” to prevent brain and cardiovascular diseases and this led to a 19% drop in the number of employees suffering from liver diseases. In addition, the physical therapy program launched in 2012 is used by an average of 50 employees per month and the continued therapy and counseling is instrumental in effectively preventing work-related musculoskeletal diseases.



# Product Responsibility

LG Hausys defines the process of interacting with customers as the moment of truth and thus expands direct communication with its customers throughout the entire process—from product development to disposal.

## Quality and Product Safety

### Quality Management

To secure market-leading top-notch quality, we undertake company-wide quality innovation initiatives with 6 Sigma playing a central role. At LG Hausys, we establish a quality management system that delivers customer satisfaction, as well as a quality-driven culture that engages every employee. We focus on Critical To Quality (CTOQ) management that delivers the greatest-possible customer value on the basis of the Voice of Customers (VOC), while building a Statistical Process Control (SPC) system to ensure sustained quality management. We believe that our quality management initiatives will enable us to strengthen our manufacturing competitive edge and deliver the highest-possible value to our customers.

**CTQ Management** | Quality is ultimately determined by how well customers are provided with the right value. Thus, our quality management is initiated from the Critical To Quality (CTQ) management based on the voice of customers.

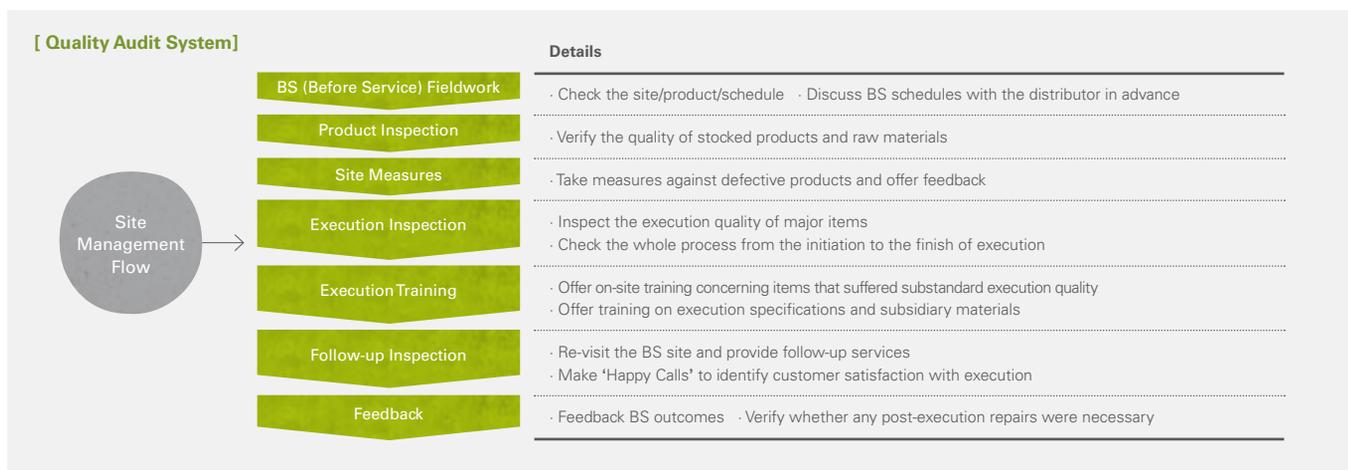
**SPC Management** | Processing data obtained through measurement, and turning this data into valuable information and knowledge, requires statistical analyses. To solve problems and ensure daily quality management, we are building a 6 Sigma-based Statistical Process Control (SPC) management system.

**Quality Cost Management** | Our quality cost management aims to secure a sustained manufacturing competitive edge. With the full engagement of the top management, practical initiatives are being undertaken to contribute to the generation of financial outcomes.

### Field Quality Audit System

**Field Quality Audit System** | Our field-quality management and follow-up services are initiated when we ship and install our windows and decoration products. In so doing, we eliminate any possible customer complaints in advance and deliver greater customer satisfaction. To this end, we defined work processes and detailed management items for each phase of the fieldwork.

**Legal Compliance** | LG Hausys is dedicated to assisting customers in making informed purchasing decisions by providing proper product information. As of December 2013, we have fully abided by regulations in relation to customer health and safety, product and service information & labeling.



### Product Safety

We care about the health and safety of our customers and stakeholders, as well as our social and environmental impact throughout our entire process—from product development and manufacturing to distribution and disposal. Furthermore, as a way to secure product safety, we regularly diagnose our raw material suppliers and inspect the supplied materials to fundamentally prevent the inclusion of any harmful substances into our products.

[ Value Chain & Product Safety ]

Value Chain	Health/Safety of Customers and Consumers	Social/Environmental Impact
R&D	<ul style="list-style-type: none"> <li>· Research to reduce VOC (Volatile Organic Compounds)</li> <li>· Develop core materials for harmless vacuum insulation panels</li> <li>· Research to strengthen the stain-resistant and high-durability properties of autoskin</li> <li>· Develop high performance insulation panels with semi-non-combustible-level fire stability</li> </ul>	<ul style="list-style-type: none"> <li>· Develop a surface coating agent that prevents contamination by organic substances</li> <li>· Develop high-strength lightweight composite materials to enhance automobile driving range and fuel efficiency</li> <li>· Research to reduce carbon emissions from wall coverings, flooring and autoskin through the use of PLA and other biodegradable materials</li> <li>· Develop new energy-saving materials (lightweight plastics, vacuum insulation panels)</li> </ul>
Supply and Use of Raw Materials	<ul style="list-style-type: none"> <li>· Use natural materials, green plasticizers and additives, and raw materials with the least possible amount of heavy metals</li> <li>· Shift to high-durability autoskin materials</li> <li>· Secure MSDS for each raw material</li> <li>· Regularly diagnose raw material suppliers and inspect supplied raw materials</li> </ul>	<ul style="list-style-type: none"> <li>· Turn scraps from manufacturing processes into saved and recycled resources</li> <li>· Use FSC (Forest Stewardship Council)-certified veneers</li> </ul>
Manufacturing	<ul style="list-style-type: none"> <li>· Assign safety properties according to window exposure conditions</li> <li>· Introduce automated window verification and testing equipment for worker safety</li> <li>· Acquire a flame-resistance certification for interior films</li> <li>· Acquire the international certification (National Sanitation Foundation, NSF) for the hygiene and eco-friendliness of surface materials</li> </ul>	<ul style="list-style-type: none"> <li>· Install air pollution control devices against the emission of organic solvents</li> <li>· Install dust collectors to capture and process scattering dust from vacuum insulation panels</li> <li>· Stringently classify defective parts and raw materials by type</li> </ul>
Storage & Shipment	<ul style="list-style-type: none"> <li>· Use portable carriers to offset any possible musculoskeletal injuries to our transportation workers</li> <li>· Ensure the safety of work spaces by building loading equipment designed for window storage</li> <li>· Change the pallet bending method of autoskin products (from bending to wrapping)</li> </ul>	<ul style="list-style-type: none"> <li>· Recycle packaging containers</li> <li>· Restrain the use of consumable packaging materials for autoskin and parts (PE WRAP Direct Packing)</li> </ul>
Use, Repair and Disposal	<ul style="list-style-type: none"> <li>· Apply protective caps to protect children from window edges</li> <li>· Label product use instructions and precautions</li> <li>· Process waste at the designated internal locations</li> </ul>	<ul style="list-style-type: none"> <li>· Collect and recycle existing windows, flooring, and L-panels (synthetic resin panels for molds)</li> </ul>



1. Our Z:ENNE initiative, a group of housewife prosumers, enabled LG Hausys to gather candid consumer feedback and requests while disseminating Z:IN's messages. Z:ENNE will faithfully serve its role as a messenger for Z:IN, which places priority on eco-friendly interiors, where people live in harmony with nature. They will disseminate this message to a wider group of consumers, while acting as a customer representative.

2. Z:IN Square is our flagship store that was launched to strengthen B2C marketing initiatives. Z:IN Square showcases diverse living spaces—through the combination of exhibition spaces dedicated to interior materials, design trend spaces and seminar rooms and cafes.

3. Our Happy Design Sharing initiative gathered a group of talent donation volunteers and helped improve on environmental designs for a total of five social welfare centers (Jingwan Local Children's Center, Geuruteogi Local Children's Center, Songil Senior Center, Shindangdong Catholic Daycare Center designated by Seoul City, and Seongshin Preschool designated by Seoul City).



# Customer Satisfaction

To reflect the voice of our customers in product development and business conduct, we at LG Hausys operate a wide array of communication channels—from VOC to Z:ENNE initiatives.

## Communication with Customers

LG Hausys cares for people and for nature and it delivers the greatest-possible value to its customers through its Brand Management.

## Z:IN

**Brand Meaning** | Nature and People – Embody the harmonious message of a natural lifestyle. Understanding People – Embody care and empathy for people.

**Brand Slogan** | The brand slogan ‘Long: Thoughts about Spaces’ embodies the basic philosophy of Z:IN, which is to take a ‘more far-sighted, more in-depth and more prolonged’ perspective on living spaces, so as to deliver the best value to our customers and lead the market.

**Brands and Z:IN** | Z:IN is the representative brand launched by LG Hausys. Z:IN roughly translates into either ‘nature and humans’ or ‘understanding humans’. It is based on the brand philosophy of interiors that convey a sort of care and comfort for both nature and people. Along with its products, Z:IN sells values that customers find important, as Z:IN customers love nature, life and the arts. Furthermore, as interior experts, Z:IN understands the needs of its customers, even before they do and delivers professional functionalities, the latest designs and best-in-class services.

**Z:IN Community** | Z:IN plays an instrumental role in communicating with customers through wide-ranging channels in order to convey our corporate value of ‘Nature, Human and Space’. In 2013, we opened new social network service channels through our Z:IN blog, and our facebook and pinterest accounts, to augment our existing prosumer Z:ENNE and Eco Campaign, to facilitate communicating with our customers.

### [ Z:IN Communication ]

#### Z:ENNE

Z:ENNE is a group of housewife prosumers that was launched in 2007, as the first of its kind in the domestic construction materials industry. Including the 8th class of Z:ENNE initiated in 2014, a total of 180 Z:ENNEs, as Z:IN prosumers, have participated in the diverse marketing activities of Z:IN—ranging from the development of collections to the creation of content. One of the biggest advantages that Z:ENNE offers is its ability to collect objective customer feedback and requirements. In turn, this information can be reflected in the initial product planning stages to the manufacturing and marketing stages to deliver even better products.

#### Z:IN Website

We revamped the Z:IN website ([www.z-in.com](http://www.z-in.com)) in 2013 to better provide Z:IN product information, store information and total interior services to our customers. Wider search options are available to easily guide customers to information on our best-selling and/or latest products. In addition to the latest interior trends, space-specific (living room, children’s room) interior design recommendations are offered, while the Z:IN Gallery section displays a wide array of execution examples and product images to deliver a more convenient customer experience.

Z:IN Website: <http://www.z-in.com>

## Z:IN

A Smarter and Closer  
Way to Reach  
Customers

#### Happy Design Sharing

In conjunction with Seoul Design Center, we at LG Hausys gathered up design majors and related experts to undertake the Happy Design Sharing initiatives designed to improve the interiors of social welfare centers.

#### Happy Design Sharing School

We created a pool of lecturers who are experienced experts in their own filed-social welfare, design, and construction interior- to provide our volunteers with diverse lectures ranging from universal design, color psychology & therapy to mural production techniques.

#### Happy Design Sharing Volunteerism

We conduct field surveys of social welfare centers, visit LG Hausys Z:IN exhibition spaces and research design materials, and hold team-level design planning meetings to improve on the interiors of social welfare centers and initiate volunteer programs for each of these centers.

#### Z:IN Blog/Facebook/Pinterest

To move beyond limited one-way communication through the website—to more interactive communication, we opened social network channels to take a clearer and more in-depth perspective upon customer value. The product and interior content uploaded on the Z:IN website over the years, is now available through even wider online channels.

- Z:IN Blog : [http://blog.naver.com/lghausys\\_zin](http://blog.naver.com/lghausys_zin)
- Z:IN Facebook : <http://www.facebook.com/LGHausys.Zin>
- Z:IN Pinterest : <http://www.pinterest.com/lghausyszin/>

**Service Improvement Measures (Processes)**

Our customer satisfaction activities—from counseling to the completion of after-sales services—are based on the VOC (Voice of Customer) system that handles any type of customer complaint. Upon receiving a customer complaint through the Customer Service Office, the website or fax, an after-sales service representative is designated (within 24 hours), to contact the customer to offer technical consultation to address product-related complaints and after-sales services. Furthermore, our Happy Call program helps improve both customer satisfaction and service quality. To respond to the customers of the emerging era, VOC is regularly provided to R&D and production departments in charge of developing and improving on products. This ensures that customer feedback is communicated to each sector of the company.

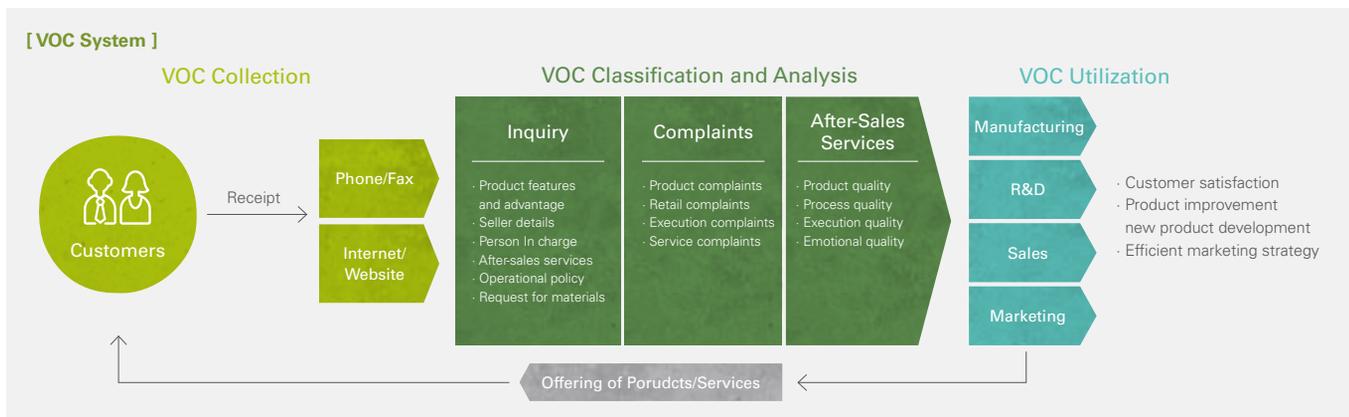
**Service Capacity-Building** | To build our service capacity at customer contact points, we offer consistent quality counseling services on the basis of standardized counseling manuals. Our employees receive specialized CS (customer satisfaction) training at least once each year at external professional training centers to offer better customer services. Our repair technicians (who frequently interact with customers), are provided with on-site exercises and theoretical training, courtesy training and video content that explains how to handle each type of defect, so as to improve their problem-solving skills and deliver top-notch services at customer contact points. In addition to such after-sales activities, we also undertake stronger Before Service (BS) activities to prevent customer complaints before they even occur and deliver differentiated customer satisfaction.

**Collection, Evaluation, Analysis and Utilization of Service Information**

| The LG Hausys portal website offers a wide array of report types, created through the integrated analyses of customer counseling details and after-sales service information. Employees can visit this portal website in real time, so as to fully reflect customer needs in improving on existing products, developing new products and setting marketing policies.

**Customer Information Protection**

To protect the personal information provided by our customers, we undertake wide-ranging security initiatives (network security, application security, PC security, physical security) in accordance with the “Act on Promotion of Information and Communication and Information Protection” and the “Personal Information Protection Act.” Specifically, those who are responsible for handling such personal information receive separate data privacy training to improve their awareness regarding customer data privacy. Furthermore, a company-wide information protection policy and a long-term roadmap have been established to reinforce our information protection systems and organizations, while the information security team operates to strengthen execution capabilities. These technical security measures, employee campaigns and the reinforcement of internal information security policies and organization, drive our commitment to continuously improve on our level of information security.



# Shared Growth

LG Hausys is committed to the shared growth of our suppliers. We establish fair trade practices and improve our mutual competitive edge through shared growth support systems.

## Support for Suppliers

### Signing the Shared Growth and Fair Trade Agreements

LG Hausys has been signing the shared growth and fair subcontracting agreements since November 2008, to comply with subcontracting and other relevant regulations and to support our suppliers. We have also been subject to shared growth index evaluations since 2012 and our shared growth initiatives for the concerned year are objectively assessed by the Fair Trade Commission and the National Commission for Corporate Partnership. In 2013, we signed the shared growth agreement with 240 tier 1 suppliers to pursue mutually-beneficial development, through such support policies as the improvement of payment terms, financial support, technology protection and training support. Our tier 1 suppliers also signed the shared growth agreement with 80 tier 2 suppliers to join forces in expanding fair trade practices through the shortening of payment deadlines and the notification of price adjustments.

### Business Principle for Shared Growth

LG Hausys defined five key tasks for mutually-beneficial support on the basis of four fair trade principles to consistently undertake shared growth policies.

## Four Fair Trade Principles

To establish fair subcontracting practices and lay the groundwork for mutually-beneficial cooperation between large companies and their SME partners, LG Hausys integrated guidelines suggested by the Fair Trade Commission in its purchasing policy and abides by them as fair trade principles.

### [ Four Fair Trade Principles ]

	Principle	Contents
1	Fair Contracting Practices	We always sign contracts in written form and comply with delivery price adjustment methods and procedures that follow reasonable calculations, in consideration of increases in raw material prices, fluctuating exchange rates and inflation factors.
2	Fair Selection and Operation of Suppliers	We follow standards in registering and deregistering suppliers and ensure procedural objectivity and transparency.
3	Support for Quality and Technology Development	We operate an internal review body to voluntarily prevent and monitor unfair practices.
4	Workforce and Training Support	We issue and keep seven kinds of written documents as stipulated by law, including contract forms, object receipts and notices of contract modifications.



### Five Key Tasks for Mutually-Beneficial Support

**Financial Support** | LG Hausys offers Network Loans, Family Loans and the LG Partnership Fund to help suppliers take out low-interest rate loans. In 2013, such financial support amounted to approximately KRW 18 billion and benefited 54 suppliers. We will deploy diverse support methods and expand funding amounts to make these financial benefits available to more suppliers.

**Improvement of Payment Terms** | While the basic funding policy is to make cash payments for contracts worth under KRW 3 million and to make electric bill payments for contracts worth KRW 3 million or above, we significantly expanded cash payments to assist our suppliers' business conduct. Aside from payments subject to our basic funding policy, our cash payments in 2012 amounted to KRW 38.5 billion. However, this surged by KRW 117 billion in 2013 to KRW 155.6 billion, which contributed to building the competitive edge of our suppliers.

**Support for Quality and Technology Development** | LG Hausys invested approximately KRW 2 billion in such supplier support programs as facility investments to save energy, productivity improvements & quality stabilization, facility improvements to secure product reliability and a competitive edge, production stabilization and system infrastructure support. We also sent 55 technical employees and quality experts to 23 suppliers to aid these suppliers with productivity gains, manufacturing process improvements and quality management, so as to enhance the quality and technological capabilities of our suppliers. Furthermore, we actively use joint patent applications and technology deposit programs to protect the technology of our suppliers.

**Workforce and Training Support** | In 2013, we continued to offer training on the FTA-related origin of country management, as well as environmental safety and quality management to help suppliers with employee capacity-building. Specifically, three sessions of online training was provided to 204 supplier employees by the LG Academy on such topics as general business management and professional operations that cater to the needs of suppliers. We also assisted suppliers in installing booths at the Recruitment Festival for the Middle-Aged hosted by the Federation of Korean Industries under the supervision of the Ministry of Employment and Labor, to offer recruitment opportunities to these suppliers through the use of our brand power.

**Management Support** | ① **Price Coupling and Supply Program** : When raw material prices are at the mercy of frequently fluctuating currency rates and market conditions, we reflect average exchange rates or market conditions in the setting of our prices. We also operate the 'Supply Program' for wide-ranging materials—from PVC, plasticizers and other major chemicals, to steel, glass and other raw construction materials. This is aimed at helping suppliers mitigate risks from raw material and supply price fluctuations to ensure reasonable delivery prices. In 2013, our Supply Program amounted to approximately KRW 550 billion and the scope of items and eligible suppliers will be extended to solidify our shared growth partnership with suppliers.

② **Support for Exchange Initiatives-Supplier Subcommittees** : Our plant-specific supplier subcommittees are responsible for sharing sensitive issues that have impact on our operations—such as the business and market conditions of major raw materials – while the CEO and purchasing managers attend discussion meetings with suppliers and visit them to listen to their difficulties and reflect them in our business conduct. In 2013, a total of six supplier events were hosted and 210 executives from 182 suppliers attended these events and had an active exchange.

③ Included in other multi-faceted management support initiatives are awards granted to top-performing suppliers, the improvement of suppliers' financial structure through the delay of cost offset, the precision evaluation of financial structures through external professional credit rating agencies, and consulting for FTA-related origin of country management.

## Fair Trade

LG Hausys operates a self-initiated fair trade compliance program in accordance with the fair trade principles of ‘offering equal opportunity, establishing fair transaction procedures and pursuing mutual development’ and conducts the internal inspections and training of related regulations.

### Self-initiated Fair Trade Compliance Program

Since the spin-off from LG Chem, LG Hausys newly introduced its own self-initiated fair trade compliance program to fully commit itself to Jeong-Do Management and fair trade principles. With the CEO’s declaration to voluntarily abide by fair trade principles, LG Hausys was registered as a Compliance Program Operator, as recommended by the Fair Trade Commission.

#### [ Major Program Components ]

Program	Details
Internal Inspection	Conducting inspections of major departments and plants for their fair trade practices
Legal Training	Disseminating fair trade manuals and teaching materials, while offering regular internal/external training to raise employee awareness of fair trade and spread its practices
Preliminary Examination	Conducting examinations by internal fair trade experts prior to undertaking business activities, in order to prevent any violations of competition regulations in the entire operation—from planning, sales and marketing, to purchasing and financing.
Internal Review of Subcontract Transactions	Operating the ‘Internal Subcontract Transaction Review Committee’, attended by purchasing managers to prevent unfair subcontract practices and to build monitoring systems.

\* This internal legal compliance system is designed for companies to voluntarily abide by fair trade regulations. By defining behavioral standards for fair trade through employee training, this program aims to prevent legal violations and identify such violations—if they do occur, through regular internal inspections and corrective measures.

**Compliance Team** | Our self-initiated fair trade compliance program is operated by the dedicated working-level Compliance Team under the leadership of the executive-level CP (Compliance Program) manager. To ensure fairness in subcontracting with SME suppliers, we set up the Subcontract Review Committee responsible for conducting preliminary reviews of subcontract transactions valued above a specified amount and reviewing the legitimacy of such transactions to prevent any violation of subcontracting regulations.

### Outcomes of the Fair Trade Compliance Program

We conduct annual training and inspections on fair trade and subcontracting practices to departments and sites. Since 2009, we have been launching internal training and inspections in the sales operations with an emphasis on cartel (price-fixing) prevention. These endeavors granted us an excellent rating as a result of being evaluated on our compliance with fair trade agreements in the 1st half of 2010. In 2011, our team leaders and purchasing managers received specialized cartel and subcontract training. Yet, we paid KRW 4.37 million in penalties as decided by the Fair Trade Commission on account of the wall-covering cartel scandal in 2011. Presently, our revocation lawsuit is pending after being raised against the corrective order and the imposition of penalties by the Fair Trade Commission. To prevent the recurrence of such practices, our CEO offered cartel prevention training to all our employees in 2013, in addition to 2012. Specifically in 2013, sales marketing training and position-specific group training were provided to focus on the prevention of unfair trade practices on the distributor level.

#### [ Operation of the Fair Trade Compliance Program ]

Year	No. of Events	Details
2011	13	· Specialized cartel training for team leaders · Specialized subcontract training for purchasing managers
2012	18	· CEO-led cartel prevention training and sending anti-cartel messages to employees · On/off-line cartel prevention training by business team and position · Specialized subcontract training for purchasing managers
2013	15	· CEO-led cartel prevention training and sending anti-cartel messages twice to employees · Cartel/unfair trade prevention training by job position · Specialized subcontract training for purchasing managers



1 / 2. Our Dokdo Natural Preservation Zone 'Jikimi' initiative was designed to preserve the pristine natural landscape of the islet and improve on its living and office spaces. The Experience Dokdo program is also offered to undergraduate students as part of this initiative.

1	
2	
3	4

3 / 4. To support teenagers, our future leaders, in fulfilling their hopes and dreams, our Make a Happy Space project continues to improve public youth spaces with our differentiated products, execution and design capabilities.



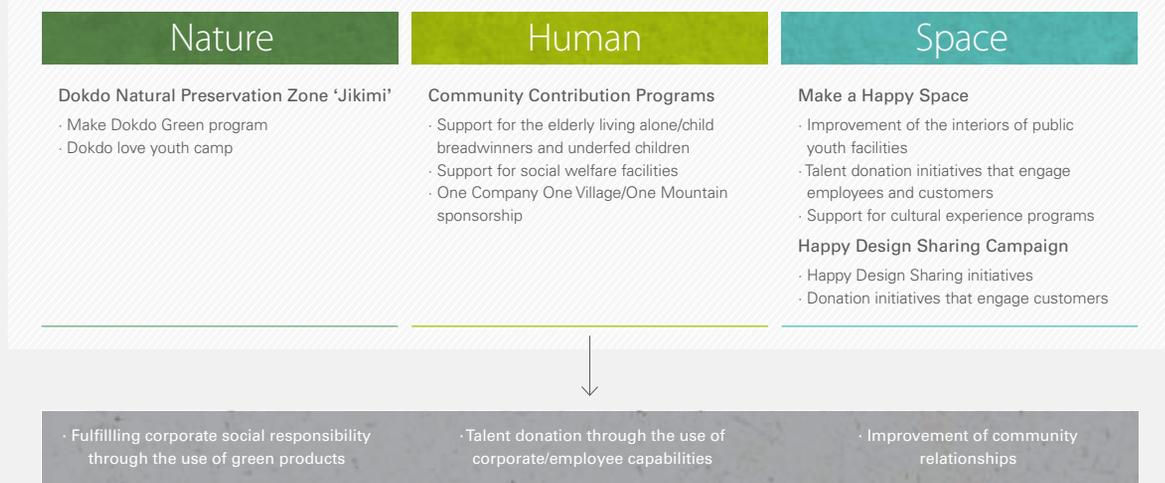
# Social Contribution

It is on the basis of HR and material capabilities that LG Hausys undertakes differentiated social giving initiatives in an aim to make social contributions to eco-conscious and user-friendly spaces.

## [ Social Contribution ]

### Social Contribution System of LG Hausys

“Social Contribution Initiatives that Bring a Pleasing Transformation to the Spaces of Nature and People”



### Investment in Local Communities (Unit: KRW million)



## Dokdo Natural Preservation Zone Jikimi

As a Jikimi (keeper) of the Dokdo Natural Preservation Zone, LG Hausys has been undertaking the ‘Make Green Dokdo’ and ‘Dokdo Love Youth Camp’ initiatives since 2008.

### Make Green Dokdo

To preserve the pristine natural landscape of Dokdo—a Korean territory designated as natural preservation zone—and improve the quality of life for Dokdo residents, LG Hausys improves the living/office spaces for guards, the lighthouse, the Management Office and local residences, as well as expanding safety facilities. In 2013, LG Hausys’ flooring and wall covering products were used to re-model the situation/operating rooms at the Dokdo Police Guard, as well as at the official residence of the Ulleung Police Guard. Our high-strength wood polymer composite ‘WOOZEN’ was also used to renovate the safety fences installed along patrol routes.

## Dokdo Love Youth Camp

The camp offers a variety of programs in which participants can experience Dokdo both directly and indirectly; such as visiting Dokdo, meeting with the Dokdo Police Guard, lectures, Dokdo Love projects, and nature trekking to enhance their understanding of Dokdo and train young people who can practice their love for Dokdo. Over the past four years, approximately 80 undergraduate students attended this ongoing initiative undertaken to experience the value of Dokdo and raise awareness about it.

### [ Details of the Dokdo Jikimi Initiatives ]

Category	Make Dokdo Green	Dokdo Love Youth Camp
2013	<ul style="list-style-type: none"> <li>· Replacing flooring and wall covering at the situation/operating rooms of the Dokdo Police Guard</li> <li>· Replacing flooring and wall covering at the official residence of the Ulleung Police Guard</li> <li>· Office residence at the headquarters/Cheonbu/Ganryeong</li> <li>· Offering supplies to the Dokdo Lighthouse/Management Office</li> <li>· Supporting video facilities for the Dokdo Exhibition Hall</li> <li>· Repairing and installing additional safety fences along patrol routes</li> </ul>	<ul style="list-style-type: none"> <li>· 4<sup>th</sup> class of Dokdo Love Youth Jikimi</li> <li>· Undertaking Dokdo Love projects: Producing umbrellas and fans with the Dokdo symbol, Producing ‘Know Dokdo’ calendars, Creating a Dokdo introduction UCC for kids</li> <li>· Visiting the Ulleung/Dokdo Police Guards</li> <li>· Taking field trips to the Dokdo Exhibition Hall of the Natural Heritage Center and receiving special lectures</li> <li>· Ecological experience trekking in Ulleung/Dokdo</li> </ul>
2012	<ul style="list-style-type: none"> <li>· Replacing flooring and wall covering at the operating/guest rooms of the Dokdo Police Guard</li> <li>· Renovating fitting rooms and installing furniture</li> <li>· Repairing and installing additional safety fences along patrol routes</li> </ul>	<ul style="list-style-type: none"> <li>· 3<sup>rd</sup> class of Dokdo Love Youth Jikimi</li> <li>· Hosting an one-day Dokdo Jikimi experience event</li> <li>· Undertaking Dokdo Love projects: Producing ‘Know Dokdo’ games, Producing t-shirts with a Dokdo symbol, Making a Dokdo lotus lantern</li> <li>· Night of Consolation for the Dokdo Police Guard Dokdo clean-up</li> <li>· Ecological experience trekking in Ulleung/Dokdo</li> </ul>
2011	<ul style="list-style-type: none"> <li>· Replacing flooring at the kitchen/dining room of the Dokdo Police Guard and improving on the air-conditioning system</li> <li>· Installing air-conditioning devices at the Dokdo Lighthouse</li> <li>· Supplying interior materials in the houses of local Dokdo residents</li> <li>· Repairing and installing additional safety fences along patrol routes</li> </ul>	<ul style="list-style-type: none"> <li>· 2<sup>nd</sup> class of Dokdo Love Youth Jikimi</li> <li>· Undertaking Dokdo Love projects: Making Korean national flags with handprints on them, Creating UCC titled Dokdo Is Our Land</li> <li>· Night of Consolation for the Dokdo Police Guard</li> <li>· Ecological experience camping in Ulleung/Dokdo</li> </ul>
2010	<ul style="list-style-type: none"> <li>· Replacing flooring and wall covering of the barracks of the Dokdo Police Guard</li> <li>· Repairing and installing additional safety fences along patrol routes</li> <li>· Installing blinds</li> </ul>	<ul style="list-style-type: none"> <li>· 1<sup>st</sup> class of Dokdo Love Youth Jikimi</li> <li>· Undertaking Dokdo Love projects: Making a Dokdo miniature, Creating Dokdo Love UCC</li> <li>· Night of Consolation for the Dokdo Police Guard Dokdo clean-up</li> </ul>

## Make a Happy Space

To support the hopes and dreams of our youth, our future leaders, LG Hausys continually undertakes the Make a Happy Space project aimed to improve public youth spaces with its differentiated product/execution and design capabilities.

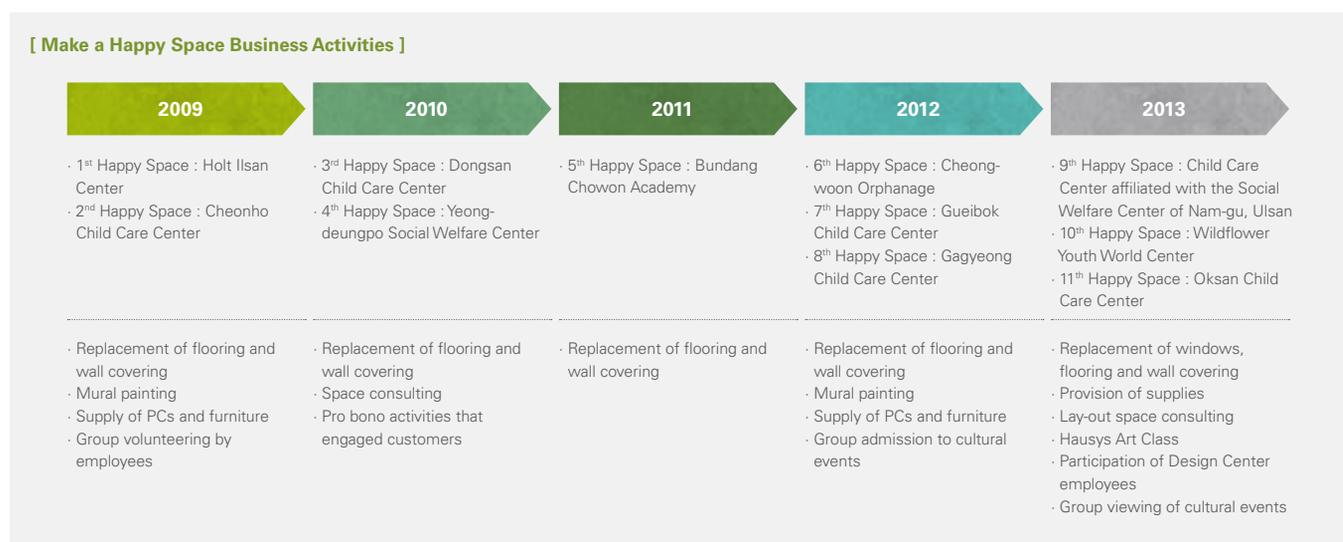
Since the 1st Happy Space (Holt Ilsan Center, 2009) until the 11th Happy Space (Oksan Child Care Center, 2013), this project has been replacing deteriorating facility interiors with LG Hausys products (windows, flooring, decoration materials) free-of charge. This project also offers interior consulting for the efficient use of living spaces and has launched mural-painting events, which have been positively welcomed by teenage facility users and operators. Meanwhile, this project has been also organized in collaboration with the Korea Association of the Community Child Center over the past two years (since 2010) to improve the interiors of 27 facilities.

In 2010, pro bono talent donation initiatives were undertaken in conjunction with our customers. These included art classes for teenagers at beneficiary facilities, and in 2012, mural painting activities were launched with undergraduate volunteer groups.

In 2013, Hausys Art Class was initiated, with the participation of professional designers at LG Hausys, to share the pleasure of social contribution and artistic expression with our customers and employees. LG Hausys is always willing to lend a helping hand to the underserved to create more flourishing world for everyone.

## Happy Design Sharing Campaign

LG Hausys is committed to delivering spaces filled with hope and happiness. Our Z:IN Green Space Sharing campaign is operated continuously. Since creating green living environments for social welfare facilities and underserved areas (in conjunction with celebrities of the 100 Council for a Good Society) in 2011, we signed the ‘sharing agreement’ with the Seoul Design Center, a foundation corporation under the leadership of Seoul Metropolitan Government. We have continued our ‘Happy Design Sharing’ initiatives to provide green interior materials to underserved areas and families, as well as interior consultations by experts. In 2013, the Design Sharing Volunteer Group was created for undergraduate design and construction majors and experts in respective fields to make design-centered talent donations to improve the environment of welfare facilities.



## Contribution Initiatives for Local Communities

To promote the balanced development and environmental protection in the communities where it is based, LG Hausys is undertaking fully localized social contribution initiatives.

### Environmental Protection Initiatives

Our Ulsan Plant is undertaking monthly clean-up activities near Daeun Mountain and the Heoya River that is located in its vicinity, in conjunction with Clean Ulsan Team (under the Ulsan City Government) under the One Company One Mountain One River campaign. In 2012, this campaign initiative awarded the plant the Commendation of the Ulsan City Mayor. Furthermore, indicator plants and clean-air plants are planted within the plant premise to minimize the impact of the production activities on the surrounding atmospheric environment. To understand the plant's environmental footprint on the surrounding aquatic ecosystem, the plant designated a total of 13 locations along Heoya River and voluntarily conducts water quality tests on six items.

Our Cheongju Plant signed an MOU for the Save the Miho River Campaign to undertake clean-up activities and plant aquatic plants in alignment with the Guem River Basin Environmental Office and also signed the Green Start Campaign business agreement to reduce its GHG\* emissions. Furthermore, the plant is continuously committed to local clean-up initiatives in alignment with local governments.

\*GHG (Green House Gas)

## Fully Localized Social Contribution Initiatives

Our employees at the Ulsan Plant have voluntarily organized fund-raising campaigns and an in-house volunteer club (True Love Volunteers) to provide living expenses, scholarship support, and supplies to seniors living alone, child breadwinners, the disabled and welfare organizations in the vicinity of the plant. They are also making designated donations to the Community Chest of Korea branch in Ulsan. Furthermore, the plant continues to participate in the 'Make Warm Houses' project designed to improve the living environment of its neighbors in need, in alignment with the LG Welfare Foundation and the 'Exchange Labor in Love' project, which includes the provision of supplies and employee volunteer activities for senior welfare centers.

Our employees at the Cheongju Plant also launched a fund-raising event to support children registered in the Edenwon and the Green Umbrella Child Funds. They have cleaned up Miho Stream and the surrounding environment together with in-house employee clubs, as a way to contribute to the community where they are based. Included in other employee-engaging social contribution initiatives undertaken jointly by labor and management, are the 'Delivery of Briquettes with Love' and the 'Delivery of Kimchi with Love' which target seniors living alone, child breadwinners and other less-privileged individuals.



# Summary of the Data

## Financial Information

### [ Profit and Loss Statement (Unit : million KRW) ]

Items	2011	2012	2013
Sales	2,445,414	2,451,083	2,676,952
Cost of Sales	1,958,792	1,923,078	2,062,076
Gross Profit	486,622	528,005	614,876
Selling and Admin. Expenses	415,443	471,370	500,288
Operating Income	71,179	56,635	114,588
Non-operating Profit and Loss	△ 7,779	△ 4,239	△ 22,371
Continuing Business Profit Before Tax	63,400	52,397	92,217
Corporate Tax	12,973	13,505	19,500
Profit and Loss from Discontinued Operation	△ 4,116	△ 10,369	△ 419
Net Income for the Year	46,311	28,523	72,298

· △ indicates negative (-) value.

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

Items	2011	2012	2013
Current Assets	1,105,150	900,197	945,827
Notes and Accounts Receivable	437,931	418,163	458,083
Inventories	207,274	195,801	234,007
Non-current Assets	815,813	873,511	957,007
Tangible Assets	725,035	774,610	869,800
Asset Held for Sale	21,521	4,326	49,254
Total Assets	1,942,483	1,778,034	1,952,089
Current Liabilities	892,666	673,686	820,309
Non-current Liabilities	327,541	377,827	348,840
Total Liabilities	1,220,207	1,051,513	1,169,150
Controlling Interest	721,464	721,000	778,358
Paid-in Capital	50,000	50,000	50,000
Capital Surplus	618,187	618,208	618,208
Other Capital Items	△ 8,188	△ 8,188	△ 8,188
Aggregate of Other Universal Profit / Loss	△ 10,910	△ 18,808	△ 18,713
Retained Earnings	72,376	79,788	137,051
Non-controlling Interest	810	5,521	4,582
Total Equity	722,275	726,520	782,939
Total Equity and Liabilities	1,942,481	1,778,034	1,952,089

· △ indicates negative (-) value.

## Environmental Information

## [ The Amount of Raw Materials Used (Unit : ton) ]

Items	2011	2012	2013
PVC	135,236	120,260	129,762
Calcium Carbonate	76,673	69,197	77,005
Plasticizer	36,891	31,343	29,336
MMA	12,793	11,924	16,131
Total	261,593	232,724	252,234

## [ Energy Consumption (Unit : TJ) ]

Items	2011	2012	2013
Direct Energy Consumption	1,017.8	965.3	922.7
LNG	980.7	930.3	890.4
Diesel	16.6	16.2	10.2
Gasoline	0.7	0.6	1.8
Others	19.8	18.6	20.6
Indirect Energy Consumption	1,885.5	1,719.7	1,634.4
Electricity	1,610.6	1,527.6	1,445.1
Steam	274.8	192.2	189.3

## [ Environmental Data for Each Complex ]

		Unit	Cheongju			Ulsan		
			2011	2012	2013	2011	2012	2013
Energy Consumption	Direct Energy	TJ	51	40	46	967	926	877
	Indirect Energy	TJ	841	696	713	1,045	1,023	921
	Total	TJ	892	736	759	2,012	1,949	1,798
Water Consumption		ton	241,821	110,271	93,238	557,649	564,435	721,708
Greenhouse Gas Emission	Scope1	tCO <sub>2</sub> eq	2,612	2,040	2,332	49,896	47,676	45,181
	Scope2	tCO <sub>2</sub> eq	37,635	30,210	31,107	54,115	49,703	44,738
	Total	tCO <sub>2</sub> eq	40,247	32,250	33,439	104,024	97,379	89,919
Emission of Air Pollutants	Nox	ton	Partially emitted from RTOs or not measured due to the control facility exemption granted to RTOs			79.00	61.63	62.13
Discharge Volume of Waste Water	Waste Water	m <sup>3</sup>	1,216	1,313	1,107	53,849	51,664	52,897
	BOD	ton	0.013	0.009	0.010	0.200	0.083	0.143
	COD	ton	0.011	0.011	0.011	1.570	1.653	1.513
	SS	ton	0.019	0.028	0.018	0.392	0.300	0.280
Discharge Volume of Waste	General Waste	ton	15,644	11,604	12,364	15,270	17,618	18,631
	Designated Waste	ton	329	308	395	677	645	560
	Recycling	ton	14,651	10,530	11,421	14,032	16,245	16,075
	Recycling Rate	%	91.7	88.4	89.5	88.0	88.9	83.9

# Third-Party Assurance Statement

**Dear Stakeholders of LG Hausys** The Korea Productivity Center (KPC, the ‘assurance provider’ hereafter) was commissioned by LG Hausys to perform a third-party assurance engagement of the ‘LG Hausys Sustainability Report 2014 (the ‘Report’ hereafter) and present its findings as follows.

**Responsibility and Independence** The responsibility for the information and statements described in the Report solely lies with LG Hausys. KPC is responsible for the assurance findings generated in the Report. As an independent assurance provider, KPC was not engaged in the preparation of the Report in any other way and does not have any interest in LG Hausys in a way that may hamper its independence as an assurance provider.

**Assurance Standards** KSA performed a Type 1, moderate level assurance engagement in accordance with the AA1000AS (2008) assurance standards. Following these assurance standards, KPC verified the Report against such principles as inclusivity, materiality and responsiveness, as well as whether the Report complied with the GRI G3.1 Guidelines.

**Limitations** This assurance engagement covers LG Hausys’ 2013 performance in accordance with the assurance standards stated above. In terms of financial performance, KPC verified whether the financial information audited by the professional accounting auditor was appropriately reflected in the Report and did not verify the reliability of the financial performance itself as part of this assurance engagement. The on-site inspections were limited to the corporate headquarters.

**Assurance Methods** KPC adopted the following methods in assuring this Report.

- 1 KPC reviewed the ratio of indicators suggested by the GRI G3.1 Guidelines that were reported by LG Hausys, as well as how these indicators were described, in order to verify whether the Report satisfies the GRI Application Level A requirements.
- 2 KPC verified whether the Report abided by the principles that concern the report content and quality in accordance with the GRI G3.1 Guidelines.
- 3 KPC, based on media research and benchmarking analysis, reviewed whether major issues were selected and described appropriately in this Report.
- 4 KPC verified the appropriateness of the report content, and any errors regarding the representation of such content, through the comparative analyses made with other sources.
- 5 KPC conducted on-site inspections to verify the evidence of major data and information as well as internal processes and systems.

**Findings** KPC believes that the Report is a sincere and fair representation of LG Hausys’ sustainability management initiatives and achievements. As a result of this assurance engagement, KPC verified that the Report satisfied the GRI Application Level A requirements as self-declared by LG Hausys.

## 1 Inclusivity: Integration of Stakeholder Engagement Outcomes

The inclusivity principle stipulates that a reporting organization should engage its stakeholders in developing and making responsible and strategic responses towards its sustainability. KPC believes that LG Hausys understands the management issues of interest to its major stakeholders and communicates on each of these issues through various channels. In addition, LG Hausys uses its sustainability reports and website to disclose how the company reflects identified issues into its business operations and responds to these issues.

**2 Materiality: Selection and Reporting of Key Issues**

The materiality principle states that a reporting organization should decide those issues that are relevant and material to the organization and its major stakeholders. KPC verified that LG Hausys reviewed wide-ranging issues and selected key issues through media analyses, benchmarking and interviews, along with the review of internal documents and the gathering of stakeholder feedback. Key issues that were identified through these processes were categorized into economic social and environmental sectors and presented accordingly in the Report.

**3 Responsiveness: Organizational Response to Issues**

The responsiveness principle states that a reporting organization should respond to issues that may affect the performance of its stakeholders. Through this Report, LG Hausys discloses its management principles and outcomes on respective issues, as well as on its future goals, so that stakeholders can understand how the company responds to each of these issues. If LG Hausys provides background information for these issues and explains why these issues should be addressed, it will help its stakeholders better understand the sustainability management initiatives undertaken by LG Hausys.

**Recommendations**

KPC highly appreciates the wide array of endeavors and achievements made by LG Hausys to advance its sustainability and presents the following recommendations to enhance LG Hausys’ future reports and its level of sustainability management.

- 1 LG Hausys is advised to verify and report which stakeholder groups are heavily impacted by the key issues identified through the materiality test. In so doing, the company can assist its stakeholders in better understanding its sustainability management initiatives and find a way forward to advance sustainability management over the long haul.
- 2 LG Hausys is recommended to highlight special considerations or reviews made in relation to key issues in the reporting year. This will help its stakeholders clearly see how the sustainability management advanced by LG Hausys is changing and evolving according to the shifting business landscape.
- 3 LG Hausys needs to report whether it attained the set targets concerning issues under intensive management. If in its future reports, LG Hausys reports on its achievements made in reaching the 2014 Goal presented in this Report, it will enable the company to manage its sustainability management performance.



**AA1000**  
Licensed Assurance Provider  
000-81

May 2014  
Korea  
Productivity Center

**Hong Jin,**  
Chairman

**Dongsoo Kim,**  
Director

**Yang Ho Lee,**  
Team Leader

**Beomtaek Oh,**  
expert adviser

Korea Productivity Center’s Sustainability Management Center is an assurance agency officially certified by AccountAbility, which established AA1000 (international standards for stakeholder engagement and assurance), and has qualifications to perform an independent assurance engagement. Our Assurance Committee is comprised of competent experts who have ample experience in sustainability management consulting and assurance and have completed relevant professional training.

# GRI G3.1 Index

● Full Reporting ● Partial Reporting ○ Omitted N/A Not Applicable

Performance Index	GRI Indicators	Reporting Level	Page	
Profile Indication				
Strategy and Analysis	1.1	Statement from the most senior decision-maker of the organization	●	4~5
	1.2	Description of key impacts, risks, and opportunities	●	4~5,25
Organizational Profile	2.1	Name of the organization	●	8~9
	2.2	Primary brands, products, and/or services	●	12~17
	2.3	Operational structure	●	8~9
	2.4	Location of organization's headquarters	●	8~9
	2.5	Location of overseas branch offices and sites	●	8~9
	2.6	Nature of ownership and legal form	●	30
	2.7	Markets served	●	8~9
	2.8	Scale of the reporting organization	●	8~9
	2.9	Significant changes during reporting period regarding size, structure, or ownership	●	8~9
	2.10	Awards received in the reporting period	●	82
Report Parameter	3.1	Reporting period (e.g., fiscal/calendar year) for information provided	●	Inner Cover
	3.2	Date of most recent previous report (if any)	●	Inner Cover
	3.3	Reporting cycle (annual, biennial, etc.)	●	Inner Cover
	3.4	Contact point for questions regarding the report or its contents	●	Inner Cover
	3.5	Process for defining report content	●	34~37
	3.6	Boundaries of report	●	Inner Cover
	3.7	State any specific limitations on the scope or boundary of report	●	Inner Cover
	3.8	Basis for reporting on comparability from period to period and/or between organizations	●	Inner Cover
	3.9	Data measurement techniques and bases of calculations for data, including performance index	●	Inner Cover
	3.10	Explanation of the effects of & reasons for any re-statements of information provided in earlier reports	●	Inner Cover
	3.11	Significant changes from previous reporting periods applied in the report	●	Inner Cover
	3.12	Table identifying the location of the Standard Disclosures in the report	●	78~81
	3.13	Policy and current practices with regard to seeking external assurances for the report	●	Inner Cover, 76~77
Governance, Commitments, and Engagement	4.1	Governance of organization	●	30~31
	4.2	Indicate whether the Chair of the highest governance body is also an executive officer	●	30~31
	4.3	Number of members of highest governance body that are independent and/or non-executive members	●	30~31
	4.4	Mechanisms for shareholders and employees to provide recommendations or directions to highest governance body	●	30~31
	4.5	Compensation for members of highest governance body, senior managers, and executives	●	30~31
	4.6	Processes in place for highest governance body to ensure conflicts of interest are avoided	●	30~31
	4.7	Process for determining the qualifications and expertise of the members of the highest governance body	●	30~31
	4.8	Internally developed statements of mission or values, codes of conduct, and principles	●	10~11, 28~29
	4.9	Procedures of highest governance body for management of economic, environmental, and social performances	●	30~31
	4.10	Processes for evaluating highest governance body's own performance	●	30~31
	4.11	Whether and how the precautionary approach or principle is addressed by the organization	●	25
	4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives	●	82
	4.13	Membership in associations and/or national/international advocacy organizations	●	82
	4.14	List of stakeholder groups engaged by the organization	●	34
	4.15	Bases for identification and selection of stakeholders with whom to engage	●	34
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and stakeholder group	●	34	
4.17	key topics and concerns raised through stakeholder engagement, and responses to them	●	34~37	

● Full Reporting ◐ Partial Reporting ○ Omitted N/A Not Applicable

Performance Index	GRI Indicators		Reporting Level	Page
<b>Economic</b>	<b>Disclosure on Management Approach</b>			<b>18</b>
Economic Performance	EC1	Direct economic value generated and distributed	●	21
	EC2	Description of key impacts, risks, and opportunities	●	45-46
	EC3	Financial implications and other risks and opportunities for organization's activities due to climate change	●	54
	EC4	Coverage of organization's defined benefit plan obligations	●	54
	EC5	Operational structure	●	54
	EC6	Significant financial assistance received from governments	N/A	—
	EC7	Range of ratios of standard entry-level wages compared to local minimum wage at significant locations of operation	◐	52
	EC8	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	●	21
Market Presence	EC9	Procedures for local hiring and proportion of senior management hired from within local community	●	51
	EC10	Infrastructure investments and services provided primarily for public benefit	●	21, 69
	EC11	Understanding and describing significant indirect economic impacts	●	21
<b>Environment</b>	<b>Disclosure on Management Approach</b>			<b>38</b>
Materials	EN1	Materials used by weight or volume	●	43, 75
	EN2	Percentage of materials used that are recycled input materials	●	42-44
Energy	EN3	Direct energy consumption by primary energy source	●	43, 75
	EN4	Indirect energy consumption by primary source	●	43, 75
	EN5	Energy saved due to conservation and efficiency improvements	●	43, 75
	EN6	Reductions in energy requirements as a result of energy-efficient- or renewable energy-based products and services	●	45-49
	EN7	Indirect energy conservation businesses and achievements	N/A	—
Water	EN8	Total water withdrawal by source	●	43, 75
	EN9	Water sources significantly affected by withdrawal of water	N/A	—
	EN10	Percentage and total volume of water recycled and reused	○	—
Biodiversity	EN11	Location and size of land owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity	N/A	—
	EN12	Description of significant impacts of activities, products, and services on biodiversity	◐	42, 72
	EN13	Habitats protected or restored	N/A	—
	EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	N/A	—
	EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	N/A	—
	EN16	Total direct and indirect greenhouse gas emissions by weight	●	43, 45, 75
Emissions, Effluents and Waste	EN17	Other relevant indirect greenhouse gas emissions by weight	●	45
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	45-46
	EN19	Emissions of ozone-depleting substances by weight	●	42
	EN20	NOx, SOx, and other significant air emissions by type and weight	●	43, 44, 75
	EN21	Total water discharge by quality and destination	●	43, 44, 75
	EN22	Total weight of waste by type and disposal method	●	43, 44, 75
	EN23	Total number and volume of significant spills	●	None
	EN24	Weight of transported, imported, exported, or treated wastes deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII	N/A	—
	EN25	Processes for evaluating highest governance body's own performance	●	42
Products and Service	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	●	47-49
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	●	43-44
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	●	None
Transport	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce	●	46
Overall	EN30	Bases for identification and selection of stakeholders with whom to engage	●	46
Overall	EN30	Total environmental protection expenditures and investments by type	●	43, 75

● Full Reporting ● Partial Reporting ○ Omitted N/A Not Applicable

Performance Index	GRI Indicators		Reporting Level	Page
<b>Labor</b>	<b>Disclosure on Management Approach</b>			<b>50</b>
Economic Performance	LA1	Total workforce by employment type, employment contract, and region	●	51
	LA2	Total number and rate of employee turnover by age group, gender, and region	●	51
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	●	54
Labor/Management Relations	LA4	Percentage of employees covered by collective bargaining agreements	●	57
	LA5	Minimum notice period(s) regarding significant operational changes	●	57
Occupational Health and Safety	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	●	58
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	●	58
	LA8	Education, training, prevention, and risk-control programs to assist workforce members, their families, or community members	●	58
	LA9	Health and safety topics covered in formal agreements with labor unions	●	58
Training and Education	LA10	Average hours of training per year per employee	●	52
	LA11	Programs for skills management and lifelong learning for continued employability and managing career endings	●	—
	LA12	Percentage of employees receiving regular performance and career development reviews	●	54
Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per category by indicators of diversity	●	30, 51
	LA14	Ratio of basic salary of men to women by employee category	●	51~52
	LA15	Return to work and retention rates after paternal leave	●	100%
<b>Human Rights</b>	<b>Disclosure on Management Approach</b>		●	<b>50</b>
Investment and procurement practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	●	100%
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights	●	65
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including percentage of employees trained	●	33, 53
Non-discrimination	HR4	Total number of incidents of discrimination, and actions taken	●	None
Freedom of association and collective bargaining	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk	●	57
Child labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken	●	57
Forced and compulsory labor	HR7	Operations identified as having significant risk for incidents of forced labor, and measures taken	●	57
Security practices	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning human rights relevant to operations	N/A	—
Indigenous rights	HR9	Total number of incidents of violations involving rights of indigenous peoples, and actions taken	●	None
Evaluation	HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	●	32~33
Remediation	HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	●	32~33
<b>Society</b>	<b>Disclosure on Management Approach</b>			<b>50</b>
Local communities	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	●	69~72
Corruption	SO2	Percentage and total number of business units analyzed for risks related to corruption	●	32~33
	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	●	32~33
	SO4	Actions taken in response to incidents of corruption	●	32~33
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	N/A	—
	SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions, by country	N/A	—
Anti-competitive behavior	SO7	Total number of legal actions for anti-competitive behavior and monopoly practices, and outcomes	●	65

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Performance Index		GRI Indicators	Reporting Level	Page
<b>Society</b>		<b>Disclosure on Management Approach</b>		50
Compliance	SO8	Monetary value of significant fines, and total number of non-monetary sanctions for non-compliance with laws and regulations	●	65
Local communities	SO9	Operations with significant potential or actual negative impacts on local communities	●	69-72
	SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	●	69-72
<b>Product Responsibility</b>		<b>Disclosure on Management Approach</b>		50
Customer health and safety Product and service labelling	PR1	Life cycle stages in which health and safety impacts of products and services are assessed, and percentage of significant products and services subject to such procedures	●	61
	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	●	None
Marketing omunications Customer privacy	PR3	Type of product and service information required by procedures, and percentage of products and services subject to such information requirements	●	47, 61
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	●	60
Customer health and safety Product and service labeling	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	63-64
	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications	●	63-64
Marketing omunications Customer privacy	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications	●	None
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●	64
Customer privacy	PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning provision of products and services	●	None

### GRI G3.1 Applied Level of GRI G3.1 Guidelines

2012 LG Hausys Sustainability Report satisfied all 'A+' level requirements of the GRI G3.1 Guidelines Reporting Level. In addition, the appropriateness of the application of the 'A+' level of G3.1 Guideline Application Level to this Report has been confirmed by a third-party verification agency.

			C	C+	B	B+	A	A+
Standard Disclosures	G3.1 Profile Disclosures	Output	Report on : 1.1, 2.1-2.10, 3.1-3.8, 3.10-3.12, 4.1-4.4, 4.14-4.15		Report on all criteria listed for Level C : 1.2, 3.9, 3.13, 4.5-4.13, 4.16-4.17		Same as requirement for Level B	Report Externally Assured
	G3.1 Disclosure on Management Approach	Output	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach disclosed for each Indicator Category	
	G3.1 Performance Indicators & Sector Supplement Performance Indicators	Output	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of : social, economic, and environment		Report fully on a minimum of any 20 Performance Indicators, at least one from each of : economic, environment human rights, labor, society, product responsibility		Respond on each core and Sector Supplement indicator with due regard to the materiality Principle by either : a) reporting on the indicator or b) explaining the reason for its omission	

# Awards and Memberships

## Awards

Name of the Awards	Details	Awarded By	Product Category/ Business Site
2013 Johnson Controls Supplier Award	Silver Performance	Johnson Controls, Inc.	Autoskin
Identification of the Top 100 Technologies and Businesses to Lead the Korean Industry in 2020 (Sustainable Society)	Named one of the top 100 technologies (Eco-friendly organic/inorganic materials that improve fuel efficiency)	National Engineering Academy of Korea	Automotive Materials
Identification of the Top 100 Technologies and Businesses to Lead the Korean Industry in 2020 (Smart Society)	Named one of the top 100 technologies (Proactive environmentally-reactive materials)	National Engineering Academy of Korea	Eco-friendly Materials
Korea Marketing Awards 2013	Grand Prize in the Eco-friendly Marketing Sector	Hankook Economic Daily	Marketing
Excellent Company in Environmental Accident Prevention	Environmental Minister's Award (Grand Prize)	Green Company Council	Cheongju Plant
Excellent Company in GHG Emissions Reduction	Environmental Minister's Award (Grand Prize)	Geum River Basin Environmental Office	Cheongju Plant

### [ 2013 Domestic and International Design Awards ]

Name of the Awards	Details	Business Division
IF Design Award	Flat Window	Windows
	Breathing Tile	Decoration Materials
	ART POP	HI-MACS
IDEA Design Award	Urban Window	Windows
	Stereoscopic Wallcovering	Decoration Materials
	Air-Purifying Wallcovering	Decoration Materials
Korean Design Awards	'Presidential Commendation' in the Design Management Sector	Design Center

## Membership

Green Company Council	Korean Association of Occupational Health Nurses	Korean Industrial Health Association
Korea Industrial Safety Association	Korea Chamber of Commerce and Industry	The Federation of Korean Industries
Korea Air Cleaning Association	Korea Fair Competition Federation	Korea International Trade Association
Korea Vinyl Environmental Council	Korea Listed Companies Association	Korea Fire Safety Association
Korea Public Relations Association	Korea Fire Protection Association	Korea Chemicals Management Association
Korea Environmental Preservation Association	Korea Environmental Engineers Association	Korea Sustainability Investing Forum (KoSIF)

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