

05

ESTABLISH A SUSTAINABLE SUPPLY CHAIN



Goals

- Achieve a higher grade of the Safe Quality Certification with 528 suppliers (accumulated, by 2023)
- Provide suppliers with technical support (1,376 cases, accumulated, by 2023)
- Provide suppliers with financial support (KRW 233.2 billion, accumulated, by 2023)
- Minimize risks by enhancing suppliers' capabilities for CSR
- Provide consultation service to bolster overseas suppliers and explore potential suppliers

LG H&H implements the CSR assessment of suppliers and the Safe Quality Certification System to minimize risks across the supply chain and promote win-win growth with suppliers. We aim to support suppliers to identify weaknesses and improve their capacity regarding sustainability management while building sustainable competitiveness even outside the country.

Current Status of Suppliers (Unit: Company)

Total number of suppliers		725
Primary (Tier 1)	Suppliers	207
	Core suppliers	93
Second- or higher-Tier	Suppliers	85
	Core suppliers	38

*Non-consolidated

The supply chain management with consideration of economic, environmental, and social factors is essential in strengthening the capacity of a company across the supply chain and minimizing risks in business management. Enterprises should fulfill their social and environmental responsibilities with the code of ethics in overall business activities including transactions. Companies should also make efforts to actualize the sustainable growth of themselves and society.

Assessment and Management of Suppliers' CSR

LG H&H conducts the CSR Assessment to help suppliers identify and control potential risk factors regarding safe work environments, human rights of workers, and environmental responsibility, thereby fostering a sustainable supply chain. We also proactively support them to find and address their weaknesses related to CSR to build relevant capabilities.

Assessment Targets

LG H&H defines major companies based on the amount of procurement at each division and type, companies that have an enormous impact on product quality regardless of procurement amount, and companies that cannot be replaced, as core suppliers.

Assessment Criteria

LG H&H conducts an overall assessment when selecting new suppliers for raw and subsidiary materials and products and when deciding whether to retain partnerships with existing suppliers. Potential suppliers should undergo the Safe Quality Certification Assessment and CSR Assessment. They are allowed to register as suppliers and start deals only if they score 550 or more from 1,000 points in the former assessment, and 75 or more from 100 points in the latter assessment. In terms of existing suppliers, we introduced the Safe Quality Certification System. Both LG H&H and suppliers work to achieve a higher grade every year, aiming to reach the World Best grade. We separated the category of CSR from the overall assessment, and warn any supplier that fails to gain 75 points or over. If such a supplier does not improve the aspect in question, we terminate the business relationship with the company under the revised procurement policy, putting more weight on the CSR assessment.

Development of the CSR Assessment Guidelines for Suppliers

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

Safe Quality Certification System for Suppliers

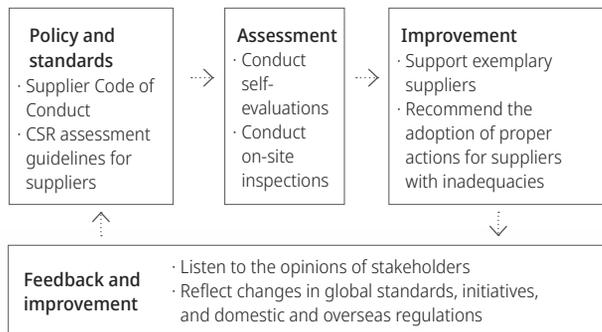
LG H&H developed the Safe Quality Certification System by applying a stricter criteria than relevant regulations to create products that consumers can use without concern. The Safe Quality Certification System evaluates the companies' compliance with the work standards of 4Ms (Man, Material, Machine, Method) in six major categories of compliance with regulations, safety against harmful substances, effect and performance of products, safety of contents, quality of subsidiary materials, and convenience for users. We implemented the system targeting core suppliers in 2018 and expanded the scope to new suppliers in 2019.

Management Direction of Suppliers

	Quality (Safety)	Deadline	PDS ¹⁾ performance	Credit rating
Aspects to be managed with priority	Quality- and safety-related factors, including violations of harmful substance regulations and guidelines	Meeting the deadline based on the initial supply request date	Synergy from cooperation, including new ideas and proposals for new technologies	Financial stability based on the result of credit rating
From the perspective of ESG	Technological capacity, sustainability, field management			
	Grade of Safe Quality Certification	Upgrade the average level of CSR and expand the scope of management		
	Expand the scope of application of the Safe Quality Certification System for suppliers to prevent quality issues	Identify the overall CSR activities of suppliers, including the perspectives of environment, labor and human rights, ethics, and safety, and strengthen their CSR competitiveness		

1) PDS (Performance Distribution System): A management system of suppliers' proposals, in which LG H&H receives and examines new ideas and proposals for new technologies submitted by suppliers who are supplying or want to supply their products to LG H&H

CSR Management Process for Suppliers



Assessment of Suppliers' CSR

LG H&H has set the code of conduct for suppliers with 28 items in four categories, including labor and human rights, environment, safety, fair transaction, and personal information protection, which are part of corporate responsibilities. This code of conduct is available on the website of the procurement system. We conduct an annual on-site assessment to enable suppliers to pay more attention to CSR and comply with relevant principles. Based on the annual plan, we visit suppliers, check potential CSR risks, and reflect the results of the on-site assessment in the overall assessment of suppliers, thereby reducing risks. In 2019, we carried out the overall and online CSR assessment of 207 suppliers. As some aspects including human rights, environment and safety were found inadequate in the assessment of three suppliers, we advised them to improve these weak points and make a plan for enhancement.

Third-party CSR Assessment

Aside from the annual on-site inspection, we selected 10 major suppliers to conduct a third-party inspection in 2019. We employed this method to increase the expertise and objectivity of the CSR assessment, while providing more diverse information and aspects for improvement related to CSR. In the on-site inspection, the management of the fire protection system, the environment and safety management group, and the management of harmful chemical substances were found inadequate. The result of the assessment was shared with all target suppliers in the form of a report. Based on the report, suppliers are planning for the improvement and management of potential risk factors. In 2020, we will expand the scope of our supplier management activities to our overseas businesses.

CSR Assessment Result of Suppliers (Unit: Company)

	Category	2019
Primary (Tier 1)	Suppliers that underwent CSR assessment	207
	- Self-assessment ¹⁾	207
	- On-site inspection ²⁾	63
	- Third-party inspection ³⁾	10
	Suppliers with high CSR-related risks ⁴⁾	5
Second- or higher-Tier	Suppliers that underwent CSR assessment	21
	Suppliers with high CSR-related risks	1

*Non-consolidated

2) Self-assessment: The assessment through the procurement system

3) On-site inspection: The on-site inspection conducted by the procurement team and other relevant teams

4) Third-party inspection: The on-site inspection carried out by an external agency

5) Suppliers with high CSR-related risks: In the overall assessment, we use the CSR checklist consisting of 47 questions regarding governance (2.5%), environmental management (17.5%), safety and health (20.0%), ethical management (7.5%), labor and human rights (37.5%), management of suppliers (10.0%), local community (2.5%), and information protection (2.5%). We separated the CSR assessment category from the overall assessment and set the criteria for acceptance (75 points) to increase the percentage of the CSR assessment, so that we only make deals with suppliers that meet the standard under the revised procurement policy.

Performance and Goals with Suppliers

	Achieve a higher grade of the Safe Quality Certification	Number of cases of technical support	Amount of financial support
2017	Stabilize the Safe Quality Certification system of suppliers	174 cases	KRW 32.25 billion
2018	Number of suppliers: 94	360 cases (accumulated)	KRW 67.78 billion (accumulated)
2019	Number of suppliers (accumulated): 192	557 cases (accumulated)	KRW 99.21 billion (accumulated)
2023 Goals	Number of suppliers (accumulated): 528	1,376 cases (accumulated, since 2017)	KRW 233.2 billion (accumulated, since 2017)

CASE Human Rights Protection Activities across the Supply Chain

Whether it is used as fatty acid derived from palm for products such as detergents or as glycerin, a solvent from secondary- and tertiary-processed raw materials for emulsifiers, palm oil is widely utilized in the manufacturing process of cosmetics as well as home and personal care products. LG H&H deeply understands the severity of issues related to the violation of the human rights of workers and the reckless destruction of the environment caused during palm oil production. We support the activities of RSPO (Roundtable on Sustainable Palm Oil), established with the participation of global NGOs and companies. In 2014, our business sites in Ulsan and Onsan became the first to receive the RSPO Segregation Certification for the entire process from raw material storage to production, product warehousing and shipment. We retained the certification in 2019. We immediately terminate contracts with suppliers that violate human rights in producing palm oil.