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2017-2018 LG INTERNATIONAL SUSTAINABILITY REPORT

Global Business *Challenger*

2017-2018 LG International Sustainability Report



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LG International



ABOUT THIS REPORT

Overview

Since 2014, LG International has shared its sustainability management performance and activities with stakeholders through annual Sustainability Reports. The 2017-2018 Sustainability Report addresses five material issues that are of utmost interest to internal and external stakeholders. Through its annual Sustainability Report, LGI seeks to promote sustainable management and proactive communication with its diverse stakeholders.

Reporting Standards

1. GRI (Global Reporting Initiative) Standards, Core Option
: Global standards for sustainability reporting
2. ISO 26000: International guidance on corporate social responsibility
3. K-IFRS (Korean International Financial Reporting Standards)

Reporting Scope

Economic, environmental, and social activities and performance of LGI's headquarter and operating investment corporations.

Reporting Period

This report covers LGI's sustainability activities and performance from January 1, 2017 to December 31, 2017. Important achievements include activities until March 2018.

Assurance Standards

The report was assured by an independent external assurance provider in accordance with the AA1000AS, an international assurance standard.

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2017-2018 LGI Sustainability Report

In the graphic, the small circles symbolize LGI's different stakeholders, which gradually form a bigger circle, reflecting the growth of LGI and its stakeholders on a profound level.

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CEO MESSAGE

Above all, please allow me to express my gratitude for your continuous support and encouragement for LG International.

In 2017, LGI has boosted the competitiveness of resources businesses and improved its business structures, achieving improved financial performance. Achievements in our resources and Infra & Industrial businesses have become more tangible, with the recently begun commercial production at the GAM coal mine in Indonesia, which produced 4 million tons last year, and the launch of a cement plant in Myanmar.

Beyond our financial achievements, LGI will continue its commitment to sustainable development, serving as an environmentally and socially responsible corporation in which employees can work with joy. In 2018, we will measure up to your expectations by concentrating our efforts in three major areas.



First of all, we will stabilize business structures and secure growth potential for the future.

By expanding the revenue base of existing businesses and securing new revenue sources, we will consolidate a sound and stable business portfolio, which can weather any change in the business environment. In resources businesses, we will seek to maximize the operational efficiency in existing businesses and develop new businesses at an accelerated rate. In infrastructure businesses, we will continue to develop new investment-type businesses with a focus on the Middle East and Southeast Asia, regions where we have extensive experiences.

Secondly, we will create “A Great Workplace,” providing a conducive work environment for employees.

We will create a sound organizational culture in which employees can work innovatively and be committed to happy households, promoting mutual growth between the company and employees. We will strive to accomplish our vision of Global Business Challenger by promoting the culture of “Leaps and Bounds Through Work” and “A Happy Home Makes Excellence at Work.” These will enable our employees to find joy and value in their work and be content with their individual life outside work.

Lastly, we will establish ourselves as a corporation that plays a leading role in creating better environmental and social values and progresses in cooperation with local communities.

In order to maintain competitiveness, it is indispensable to adhere to the basics and principles and to communicate proactively with stakeholders. Accordingly, we will bolster preventative activities for the environment and safety of each operating investment corporation, continue to operate enhancement programs, and remain committed to developing local economies and addressing local issues.

We will always stay attentive to your concerns and strive to provide the best values.

Thank you very much again.

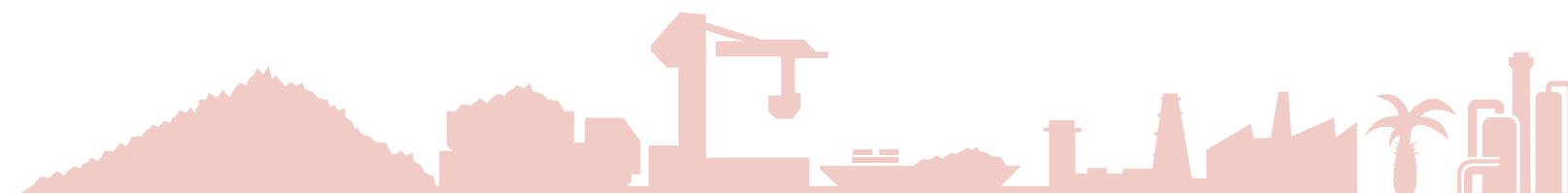
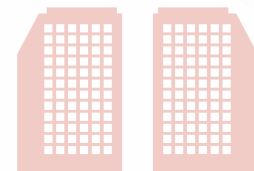
CEO of LG International
Song Chi-ho

A handwritten signature in black ink, appearing to read 'Song Chi-ho', written over a vertical line.



Overview

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Company Profile

Since its establishment in 1953, LGI has paved the foundation of the Korean economy through trading fiber and home products. It has played a leading role in the national economy through tapping into high-potentials areas. Recently, LGI has been securing a sustainable competitive advantage through two business pillars: resources business and infrastructure business.

<Overview>

(As of December 2018)

Company Name	LG International Corp.
Number of Employees*	481*
CEO	Song Chi-Ho
Establishment Date	1953.11.26
Total Assets**	KRW 4.9676 trillion
Sales**	KRW 12.8272 trillion

* The number includes all employees at the headquarter and overseas subsidiaries and registered board members.

** Based on consolidated financial statements. Please refer to the 65th (FY2017) business report (Financial Supervisory Service, DART System, <http://dart.fss.or.kr>)

Vision

LGI has reestablished its vision to reinforce organizational unity and enhance the understanding of its vision. The new vision consists of "Global Business Challenger" which enshrines LGI's mandate to create values through investments in people and business, with the focus on resources and infrastructure business, and "Our Commitments," which guide the behavior and judgments of our employees. Every member of LGI is striving to leap ahead as a "Global Business Challenger" while constantly reiterating his or "Our Commitments" and LGI's overarching vision.

OUR VISION SYSTEM

Global Business Challenger

Vision

LG International is a Global Business Challenger that creates greater value for the world by investing in opportunities for people and business based on its expertise in natural resources and infrastructure.

Our Commitments

We shall stick to the basics and comply with company rules and regulations under any circumstances.

We shall communicate in an aggressive and fierce manner in a free and unconstrained environment with outspoken and open mindset.

We shall prepare for a bright future through disruptive innovation instead of just setting for the present.

History

LGI has been at the forefront of global business that connects Korea and the globe.

Trader addressing needs and challenges of the times

1950s

- 1953. 11 Establishment of Lucky Industry
- 1956. 04 Renamed "Bando Corporation"

1960s - 1970s

- 1969. 10 Export sales reach USD 5 million
- 1976. 01 Initial public offering; capital increase to KRW 1.2 billion
- 1976. 11 Designated as a general trading company; operation of 22 global branches

▼ Designated as a general trading company, 1976



Energy resources firm participating at every step in the value chain

1980s - 1990s

- 1983.03 Winning bids for bituminous coal development projects in Queensland, Australia
- 1984.01 Renamed Lucky Gold Star International Corporation
- 1995.02 Renamed LG International Corporation

▼ Participation in the development of the Ensham mine in Australia, 1983



▼ Concludes contract for oil plant in Qatar, 1998



Ever-evolving enterprise: "Global Business Challenger" leading resources and infrastructure businesses

2000s - Present

- 2009. 02 Initiation of commercial production of the MPP coal mine in Indonesia
- 2009. 11 Takeover of a palm plantation in Indonesia
- 2015. 01 Acquisition of Pantos Logistics
- 2016. 09 Beginning of commercial production at the GAM coal mine in Indonesia
- 2016. 10 Financing of the Hasang hydroelectric power plant project
- 2017. 12 Commencement of operation of cement plant in Myanmar

▼ Start of commercial production at the MPP coal mine in Indonesia, 2009



▼ Launch of palm oil business in Indonesia, 2009



▼ Commencement of operation of cement plant in Myanmar, 2017



Global Network



Subsidiaries 6

Japan	Singapore	Hong Kong
Shanghai	U.S.A.	Europe

Global Offices 19

Beijing	Lanzhou	Erdos
Chongqing	Guangzhou	Shenzhen
Taipei	Jakarta	Yangon
Bangkok	Ho Chi Minh	Dubai
Muscat	Almaty	Moscow
Ashkhabad	Istanbul	Sao Paulo
Mumbai		

Liaison Offices 6

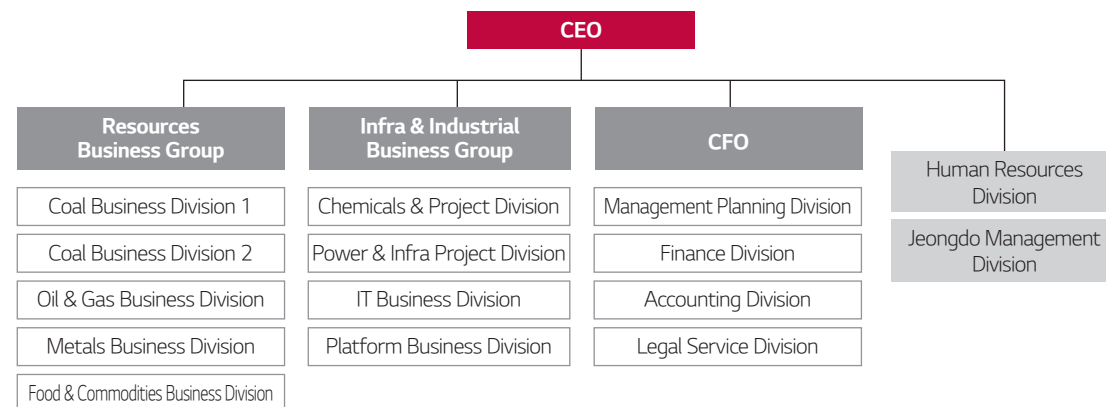
Wuhan	Qingdao	Hanoi
Yakutsk	New Delhi	Vladivostok

<Global Network>

(As of May 2018)

Headquarter & Subsidiaries	7
Branches	19
Liaison offices	6

<Organizational Structure>



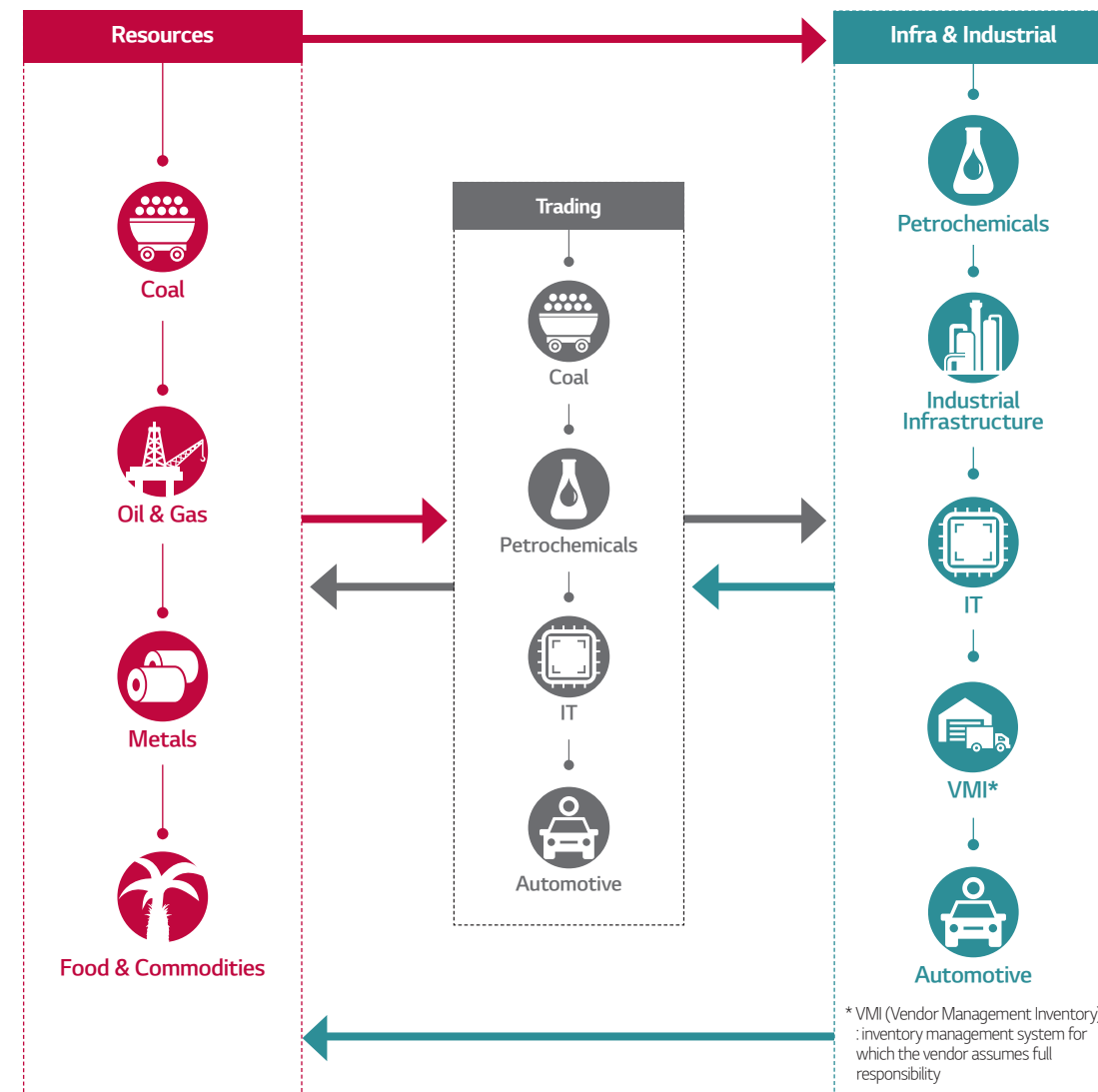
<Major Business Sites>

Coal 1 Indonesia GAM 2 Indonesia MPP 3 China Wantugou 4 Australia Ensham	Food & Commodities 1 Indonesia PAM	Metals 1 China Tianjin Steel Processing Plant 2 China Guangzhou Steel Processing Plant 3 Vietnam Haiphong Steel Processing Plant 4 U.S.A. Rosemont
Oil & Gas 1 Oman 8 2 Vietnam 11-2 3 Chile Geopark 4 Colombia Geopark 5 Kazakhstan ADA 6 Qatar LNG	Petrochemicals 1 China Inner Mongolia Coal-to-Chemical Plant	Power Generation and Industrial Infrastructure 1 Indonesia Hasang Hydroelectric Power Plant 2 Oman Musandam IPP Plant 3 China Wuwei Thermal Power Plant 4 Myanmar Cement Plant

Business Areas

Business Structure

LGI prioritizes securing a sustainable competitive advantage revolving around resources and Infra & Industrial businesses. Furthermore, LGI is establishing a stable business structure by diversifying its portfolio through the development of new businesses.



Resources Business

Coal



▲ Cargo-loading site at GAM, Indonesia



▲ Coal mining site at MPP, Indonesia

Business Overview

Mine Development and Operation

LGI develops and operates coal mines in Indonesia, China, and Australia and produces bituminous coal. Currently, four bituminous mines (GAM, MPP, Ensham, and Wantugou) are in operation, producing more than 15 million tons of coals per year in total.

Coal Trading

LGI produces bituminous coal from mines that it directly invested in and developed. It supplies the output to the global market including Korea, China, Japan, India, and Southeast Asian countries. It has established a stable coal supply system by securing the value chain ranging from mine development to coal supply and power plant investment.

Growth Strategy

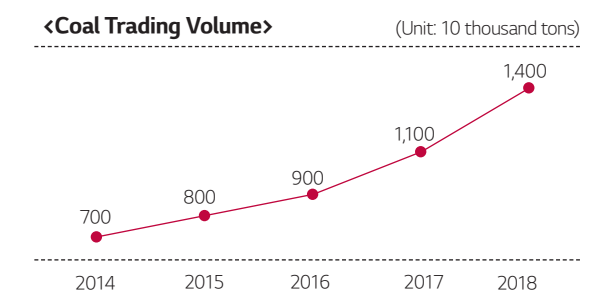
- Enhance productivity and operational efficiency at existing coal mines
- Secure future revenue streams through investments in new coal mines

Strengths

- Long-term and stable supply aimed at domestic and foreign markets based on existing mining assets
- The leading coal trader in Korea with an extensive presence in diverse markets around the globe
- Possession of a stable value chain that encompasses mine development, operation, and power plant investment

Achievements

<Coal Production>	(Unit: 10 thousand tons)			
	2016	2017	2018	Share
Indonesia GAM	-	400	600	60%
Indonesia MPP	300	200	200	75%
Australia Ensham	500	500	500	15%
China Wantugou	400	400	400	30%
Total	1,200	1,500	1,700	-



Opportunities and Risks

- **[Opportunities]** Expected increase in demand for raw material in emerging economies such as China and India
- **[Risks]** Uncertainties in market environment due to China's regulatory policies on coal production and Indonesia's market protectionism

Oil & Gas



▲ GeoPark, Colombia



▲ LNG, Qatar

Business Overview

Oil & Gas Development and Investment

LGI is investing in and developing oil and gas in the Middle East and South America based on its long-accumulated expertise and trust earned from local partners. LGI is investing equity in oil and gas plants abroad, including Block 8 in Oman, Block 11-2 in Vietnam, GeoPark in Chile & Colombia, ADA in Kazakhstan, and LNG in Qatar. It has strived to expand the production volume of existing investment assets and secure additional reserves.

Growth Strategy

- Expanding the production volume from existing investment assets and securing additional reserves
- Securing additional assets in North and Central America through strategic partnerships with global firms

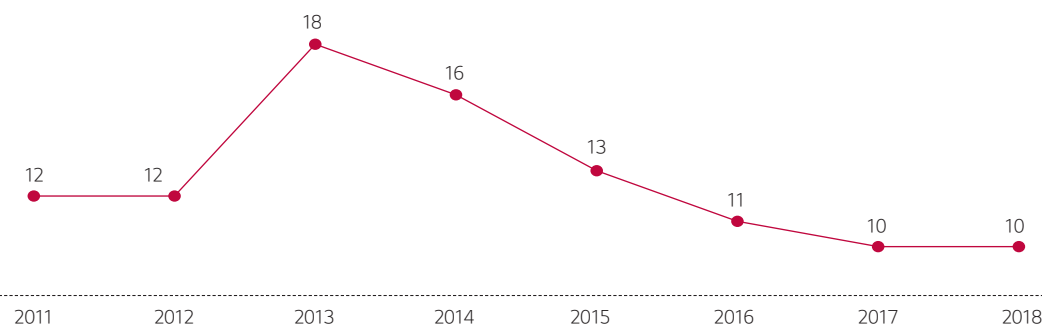
Strengths

- Skilled workforce and well-established strategic partnerships in diverse regions, including the Middle East, Central Asia, and South America.

Achievements

<Annual production rate*>

(Unit: 1000 BOE** per day)



* The number includes both oil and gas.

** Barrels of oil equivalent per day (BOE): a unit of energy to measure crude oil and natural gas in a unified manner. 1 BOE is equivalent to 1 barrel of crude oil or 6,000 cubic feet of natural gas.

Opportunities and Risks

- **[Opportunities]** Maintenance of long-developed cooperation and credibility with local partners
- **[Risks]** Risk of failure in oil exploration and fluctuation in production volume and oil price

Metals



▲ Steel Processing Plant in Tianjin, China



▲ Steel Processing Plant in Guangzhou, China

Business Overview

Investment in and Operation of Steel Processing Center

Non-ferrous Metals Mine Development

LGI operates steel processing centers which process and supply steel coils used for products such as home appliances. Currently, three steel processing centers in Tianjin and Guangzhou, China and Vietnam are in operation. LGI also generates revenues through equity investment in steel processing centers in India and Poland.

Aligning with the expected expansion of the secondary cell markets, including the electric vehicle (EV) market, LGI is concentrating its investments in green minerals, such as cobalt, lithium, nickel, and operating a non-ferrous metal mine business in Rosemont, U.S.A.

Growth Strategy

- Concentrate the supply on high value-added processed steel products
- Stable supply of materials to major manufacturers

- Focus investments in cobalt, lithium, nickel
- Secure investments and supplies in mines in Australia and North America

Strengths

- Providing "one-stop" service encompassing processing, distribution, and sales of steel

- Monopolizes expertise in management and development of non-ferrous mine in Korea

Achievements

<Metals Production>

	Output(KMT1)	Investment Share
China Tianjin Steel processing plant (Steel processing Center)	120	100%
China Guangzhou Steel processing plant (Steel processing Center)	60	100%
Vietnam Haiphong Steel processing plant (Steel processing Center)	60	100%
India IPPC (Steel processing Center)	450	35%
Poland PWPC (Steel processing Center)	100	40%
Thailand Steel Plant (Colored steel sheets Producing Plant)	60	23%
U.S. Rosemont Copper Mine	Under development	10%

* KMT=Kilo Metric Tons

Opportunities and Risks

- **[Opportunities]** Stable supply capacities and revenue streams through advancement into the upstream metal industry
- **[Risks]** Fluctuation in supply volume and price due to global economic cycles and volatility of major economic indices including exchange rates and oil prices

Food & Commodities

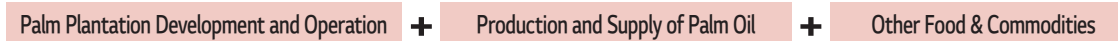


▲ Palm plantation, Indonesia



▲ CPO Mill, Indonesia

Business Overview



LGI operates palm oil business that includes plantation construction, harvesting, oil production, and sales. It is developing and operating a palm plantation in Kalimantan, Indonesia, which spans 20,000 ha, and produces 100,000 tons of palm oil from its CPO Mill. Produced palm oil is supplied to local oil processing corporations such as Wilmar, Salim, and Sinar Mas. Furthermore, LGI is currently reviewing an integrated business system that cultivates, distributes, and markets globally competitive domestic crops in Indonesia.

Growth Strategy

- Expand palm plantations and secure additional plantations with a regional focus on Kalimantan, Indonesia.
- Create future revenue streams by enhancing productivity of the plantations and minimizing production cost

Strengths

- Establishment of an integrated business system for palm oil
- Direct management of the plantation as the first Korean firm to have operated in palm oil plantations

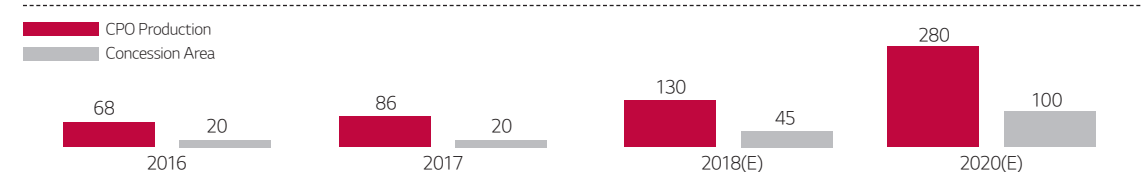
Progress & Achievements

<Palm Oil Production>

	Stage	Investment Share	Concession Area	Start date
Indonesia PAM	Production	95%	20,000ha	2009
Indonesia GUM	Production/Development	95%	17,000ha	Takeover prearranged
Indonesia TBSM	Production	95%	8,000ha	Takeover prearranged

<Palm Oil Business Progress>

(Unit: thousand tons, thousand ha)



Opportunities and Risks

- **[Opportunities]** The steady increase in demand for food resources precipitated by economic development and population growth in emerging economies and Southeast Asia
- **[Risks]** Volatility of commodity supply and price depending on climate changes such as global warming and economic cycles

Infra & Industrial Business

Petrochemicals



▲ Inner Mongolia Coal-to-Chemical Plant, China



▲ Gas Processing Plant, Turkmenistan

Business Overview



Based on its extensive experiences and capacity in project development and management, LGI is operating development projects through project organizing and equity investment in chemical plants. Ranging from the EPC* contracts to supplying raw materials, financing, and securing off-take agreements, LGI has created revenues, actively playing the role of project developer.

* EPC (Engineering, Procurement, Construction): a contract arrangement in which the contractor is responsible for all activities from design and procurement to construction

Securing off-take agreements in investment projects, LGI is creating revenues by marketing diverse petrochemical products such as PE (Polyethylene) and PP (Polypropylene). Meanwhile, LGI has successfully secured off-take contracts for the PP plant in Oman, the newly created PP/PE supply in Oman, and the synthetic fertilizer supply from Inner Mongolia, China. LGI operates businesses with a competitive advantage which provide functions based on assets, such as methanol and refrigerant.

Growth Strategy

- Stable revenue-streaming through securing investment dividends and off-take rights
- Expand the trade of petrochemical products and securing the off-take rights for the products
- Expand asset-based businesses and further advance into related businesses

Strengths

- Extensive experiences in diverse business projects in CIS countries and the Middle East
- Business operation revolving around off-take rights and asset-based operations

Achievements

<Capital-based Business>

Capital	Product	Production capacity	Investment share	Stage
Inner Mongolia Coal-to-Chemical Plant	Urea	940 K	29%	Production
Oman PTA	PTA	1,100 K	30%	Development

<Off-take Agreements>

Capital	Product	Production capacity	Sales	Stage
Oman PP	PP	340 K	80 - 90 K	Production
Oman PE/PP	PE/PP	1,500 K	150 K	Construction (contracted)
Turkmenistan PE/PP	PE/PP	470 K	235 K	Development

Opportunities and Risks

- **[Opportunities]** Maintenance of long-term chemical product contracts with corporations at home and abroad based on information and expertise
- **[Risks]** Volatility in oil price and exchange rate related to investment in oil-, coal-, or gas-based petrochemical plants
Wide range of fluctuation in price due to economic cycles and supply conditions

Industrial Infrastructure



▲ Musandam IPP Power Plant, Oman



▲ Cement Plant, Myanmar

Business Overview

Development of and Investment in Power Generation Business

LGI is participating in the whole process of financing, procurement, and construction, investing equity in the IPP (Independent Power Producer) business. Accordingly, it is creating stable profits by marketing electricity generated by the power plant through a long-term electricity supply contract. In the future, it will seek to create synergies between business areas by connecting the power business with the resources businesses.

Development of and Investment in Industrial Infrastructure

LGI is diversifying business areas by investing in and developing the infrastructure business that is indispensable for the early-stage industrialization of an emerging economy. LGI is engaged at various stages, from business development to equity investment, financing, resources procurement, construction, maintenance, and management. Starting from the recently inaugurated cement plant in Myanmar, LGI will further expand its business scope.

Growth Strategy

- Secure stable mid- to long-term profits through equity investment
- Establish a strategic portfolio that reflects LGI's investment capacities (Simultaneous implementation of new businesses and M&A)
- Develop Independent Power Producer projects with a focus on strategic regions such as Southeast Asia, the Middle East, and China.
- Early stage stabilization of power plants that are under construction
- Operate synergy-creating projects that link environmental elements (water treatment) and resources with a focus on Southeast Asian markets

Strength

- Unparalleled capacities for planning, managing, and operating proposal-based projects

Achievements

<Industrial Infrastructure Projects>

	Capacity	Used Fuel	Share	Stage
Musandam IPP Plant	120MW/hr	Gas, Diesel	30%	Production
Wuwei Thermal Power Plant	700MW/hr	Coal	30%	Production
Hasang Hydroelectric Plant	41MW/hr	Water	95%	Construction
Myanmar Cement Plant	450,000 tons/year	Coal	51%	Production

Opportunities and Risks

- **[Opportunities]** The increased demand and large-scale investment plans prompted by the expansion of energy and industrial facilities in emerging markets in Asia and the Middle East
- **[Risks]** Susceptibility to fluctuations in the global economy and national economic policies & investment plans and vulnerability to external factors such as relevant legislation and government regulations

IT



▲ LCD



▲ LCD equipment

Business Overview

Import, Export, and Tripartite Trade

LGI supplies electronics components and LCD production facilities to global IT firms located in China, Poland, and Indonesia. LGI is arranging new business areas that are centered on high-tech components, material, and software that are aligned with the 4th Industrial Revolution, including the IoT and 3D. It will dedicate itself to becoming a flagship model and creating new businesses by establishing partnerships through equity investment.

Growth Strategy

- Provide integrated SCM (Supply Chain Management) solutions, which include purchase, procurement, customs, logistics, and transportation
- Look for potential partners with strategic strengths and secure strategic transaction channels with them
- Expand the revenue base through the development of high-potential business areas

Strength

- Secured global networks in focal points abroad

Progress & Achievements

Major items

1. Large LCD: the JIT (Just In Time) supply and inventory system management to global focal points
2. Mobile parts: the supply of high value-added components, including LCD, camera modules, and AP, to LG affiliates
3. Equipment/material: sourcing of core equipment and material for Chinese or Japanese-produced displays

Opportunities and Risks

- **[Opportunities]** Advancement into new markets prompted by the expansion of IT firms in emerging economies, such as China and India
- **[Risks]** Intensified competition within the industry due to rapid technological development and deterioration of component market conditions prompted by price competition



▲ Yantai HUB warehouse, China



▲ Nanjing HUB Warehouse, China

Business Overview

Vendor Management Inventory (VMI) Service

LGI operates the VMI business in the electronics and automotive component sectors. VMI is a function-oriented service whereby the supplier establishes warehouses near the purchaser's manufacturing facilities to manage safety stocks and provide components according to the JIT (Just In Time) system.



Growth Strategy

- Expand the component supply business by targeting existing manufacturing sites and the group's foreign manufacturing branches
- Develop a business targeting domestic automobile component manufacturers

Strength

- Competitiveness and efficiency in business management (risk management, buying power, SCM organizing)

Achievements

<HUB* Warehouses>

Warehouse	Location	Surface Area	Major Items
Yantai HUB	China	1,400(m ²)	Imported materials for mobile phones and small-sized LCDs
Nanjing HUB	China	4,509(m ²)	Imported materials for TVs and medium-sized LCDs
Guangzhou HUB	China	3,724(m ²)	Imported materials for large-sized LCDs
Paju LGD HUB	Korea	1,300(m ²)	Imported materials for large-sized LCDs
Gumi LGD HUB	Korea	1,000(m ²)	Imported materials for small- to medium-sized LCDs
Gumi HUB	Korea	4,800(m ²)	LCD Module & Cell
Haiphong HUB	Vietnam	5,000(m ²)	Imported materials for large-sized OLEDs and automotive electronic components
Mumbai HUB	India	3,500(m ²)	Imported materials for TVs

* VMI Service for Inventory storage

Opportunities and Risks

- **[Opportunities]** Expansion of the VMI services propelled by growth of automotive business and market
- **[Risks]** Deterioration of market conditions in the automotive component business and intensified price competition prompted by rapid technological developments



▲ Automotive design and material supply

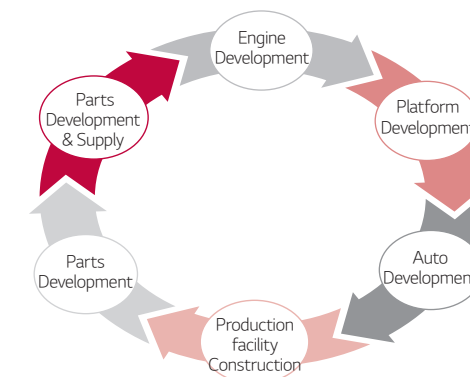


▲ Development of high-performance engine and supply of automotive components

Business Overview

Development of Tech Services, Components, and Equipment Business

LGI provides automobile-related services, including tech services, automotive components, and equipment, to automobile manufacturers in emerging markets, such as Russia, India, China, and Central America. Furthermore, by advancing the electric vehicle (EV), automotive parts, and manufacturing equipment businesses and by localizing the production of core manufactured parts, LGI seeks to broaden investment opportunities and access



Growth Strategy

- Enhance growth potentials by expanding the scope of business with a focus on EV, engine and driving automotive components, and manufacturing facilities
- Secure the global business infrastructure through country-specific localization

Strength

- Integrated solutions ranging from automobile development to manufacturing
- Top-notch project planning capacities incorporating investment and technology

Achievements

- Driving components supplied to UAZ, establishment of manufacturing facilities for AutoVAZ, engine development for GAZ, Russia
- Driving components supplied to Changan Automobile, China
- Electronic device components and automotive steel sheets supplied to TATA, India

Opportunities and Risks

- **[Opportunities]** Increased demand for business cooperation based on global networks now emerging as automotive companies expand into overseas markets
- **[Risks]** Risks inherent in order-based industries that arise from business fluctuations in front industries



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Corporate Governance

Stocks and Shareholders

As of December 2017, LGI's total number of shares issued was 38,760,000. The largest shareholder is LG Corp, which owns 24.7% of the stocks, amounting to 9,517,336 stocks. The company holds general shareholders' meetings annually to solicit opinions from shareholders and incorporate them into its decision making processes. Furthermore, LGI announces important management-related information on its website and the Data Analysis, Retrieval and Transfer System (DART) of the Financial Supervisory Service to provide its stakeholders with relevant information in a timely manner.

<LGI Stocks and Shareholders>

(As of 2017.12.31)

Shareholders	Number of shares
Institutional investors	11,670,768 shares
Largest shareholders, etc.*	10,291,741 shares
Foreigner	5,682,079 shares
Individuals, etc.	11,115,412 shares
Total	38,760,000 shares

*Including the largest shareholder LG Corp, affiliated persons, and treasury shares, etc

Board of Directors

LGI's Board of Directors consists of 2 executive directors including the CEO, 1 director, and 4 non-executive directors and is chaired by the director. The majority of the board is comprised of non-executive directors to guarantee its neutrality and objectivity.

<Board of Directors>

(As of March 2018)

Position	Name	Major Backgrounds
Executive directors	Song Chi-ho	President & CEO, LGI
	Park Yong-hwan	CFO, LGI
	Ha Hyeon-hoe	Vice Chairman, LG Corp
Director	Jeong Un-o	Professor, Business Administration Department at Seoul National University
Non-executive directors	Kim Dong-uk	Former CEO, Hyundai Engineering
	Lee Won-woo	Professor, Graduate Law School at Seoul National University
	Huh Eun-nyeong	Professor, Energy System Engineering Department at Seoul National University

Board attendance rate

97.5%

The Board Operation

The Board of Directors, as the entity which makes decisions on corporate management, is entitled to set corporate goals, evaluate work and financial performance, and distribute profit. Unless specified otherwise by law, a Board decision requires a majority presence and majority vote by members present at the meeting. Proxy votes and votes by directors with partial interests are strictly prohibited. In 2017, the Board held 7 board meetings and reviewed 26 agendas (19 resolutions and 7 reports). Excluding one case, non-executive directors were present at every board meeting.

Appointment and Compensation

LGI's non-executive directors are selected in accordance with relevant regulations and appointed at the general shareholders' meeting after the review of the Candidate Recommendation Committee. Its four non-executive directors are established experts in the fields of finance, law, and resource development. During their 3-year terms, they help ensure rational decision making on major corporate issues and take charge of monitoring business operations. The level of compensation for executive directors is primarily determined by base salary and the company's performance within the limits set at the shareholders' meeting. Based on performance evaluation, the management reserves the final authority to determine the appropriate salary level.

Board Subcommittees

The Audit Committee

LGI established the Audit Committee within the Board of Directors to conduct internal monitoring and reinforce the transparency of accounting information. The Audit committee entirely consists of non-executive directors who do not share a vested interest with major shareholders and their affiliated parties. In 2017, the committee has organized 5 meetings and reviewed 12 agendas (4 resolutions and 8 reports) including the assessment of an internal accounting management system and internal monitoring mechanisms.

Non-Executive Director Committee

LGI operates the Non-executive Director Candidate Recommendation Committee consisting of a director and non-executive directors to ensure impartiality and independence in the appointment procedure of non-executive directors. In 2017, the committee was convened once to authorize the appointment of the Committee's chairman and recommend non-executive director candidates.

Risk Management

Capitalizing on interdepartmental cooperation beginning with the planning stage, LGI has constructed a preemptive risk management system addressing 8 major risks that could potentially affect business operations.

<8 Major Risks>

Risk Type	Details
Non-Performance Risk	• Profit loss due to the incapacity of contracted parties, guarantors, and intermediaries to fulfill contract terms
Price Risk	• Profit loss due to the fluctuation in product prices
Financial Risk	• Profit loss due to the fluctuation in exchange and interest rates
Logistics Risk	• Increase in unexpected costs in transport, storage, and cargo handling stages
Dead Stock Risk	• Accumulation of "dead stocks" due to a drastic decrease in demand and product versatility, constraints in retail location, or changes in customer trends
Loss of Legal Claims Risks	• Profit loss due to the loss of legal claims caused by unfair contract terms, verbal contracts, ambiguous or contentious contractual responsibilities and rights, and illegal contracts
Environmental Risk	• Profit loss due to social and economic constraints
Payment Risk	• Profit loss due to a delay or default in payment of sales and investment profits

Risk Self-Assessment System

LGI is enhancing the comprehensive risk management awareness of employees by hosting the biannual R&R (Risk & Return) Forum and reinforcing its preemptive risk management system. The forum, hosted by the Operation Department and the Ethics Bureau, serves as a venue to share successful and unsuccessful cases of risk management and to discuss follow-up plans for business losses and prevent their recurrence. Through these efforts, LGI is constantly strengthening its integrated risk management capacity.

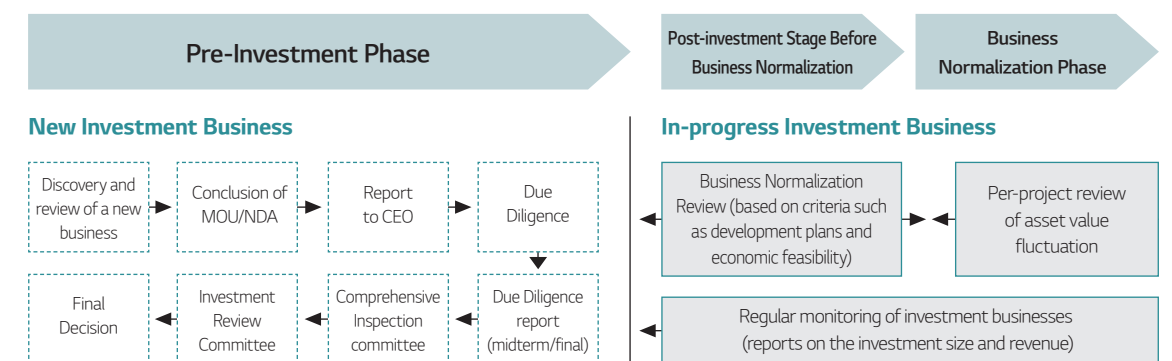
Foreign Exchange Risk Management

LGI prohibits acts of speculation that profit from exchange rate fluctuations through a hedge* against exchange rate risk. To manage exchange-rate risk exposure within the company, LGI operates a system that identifies and reports incidences of exchange rate risk exposure in the transaction stage. Furthermore, it also operates rigorous management activities to minimize risk exposure emerging in the transaction stage, in accordance with the hedge standard for each transaction type. As part of the internal control measures, the CFO is regularly briefed on exchange-rate risk exposures and foreign-exchange losses within the company on a monthly basis.

*Transactions that fix exchange rates in order to avert potential price fluctuations and exchange rate risks.

Investment Risk Management

LGI operates the Investment Deliberation Committee and its preliminary committee, which are composed of the business division and support division, to address risks occurring throughout the entire business operation. The preliminary committee aims to create company-wide consensus on full-scale investments through qualitative evaluations of fitness, capacity, and partner suitability, and quantitative evaluations of the minimum required rate of return and payback period. Afterwards, the Investment Deliberation Committee is convened, with the presence of external experts from different sectors, to make a final decision on the investment.



Partner Risk Management

LGI's selection of partners is preceded by a step-by-step monitoring process, from bidding to follow-up management, and is in accordance with its rigorous requirements for partners. In the final stage, LGI uses a detailed checklist to evaluate potential partners. Furthermore, LGI's operating investment corporations are compelled to apply the same standards throughout the whole process of selecting and evaluating partners for subcontracting, leasing, and purchasing. Partners of the operating investment corporations conduct reviews on environment, safety, and health on a regular basis.

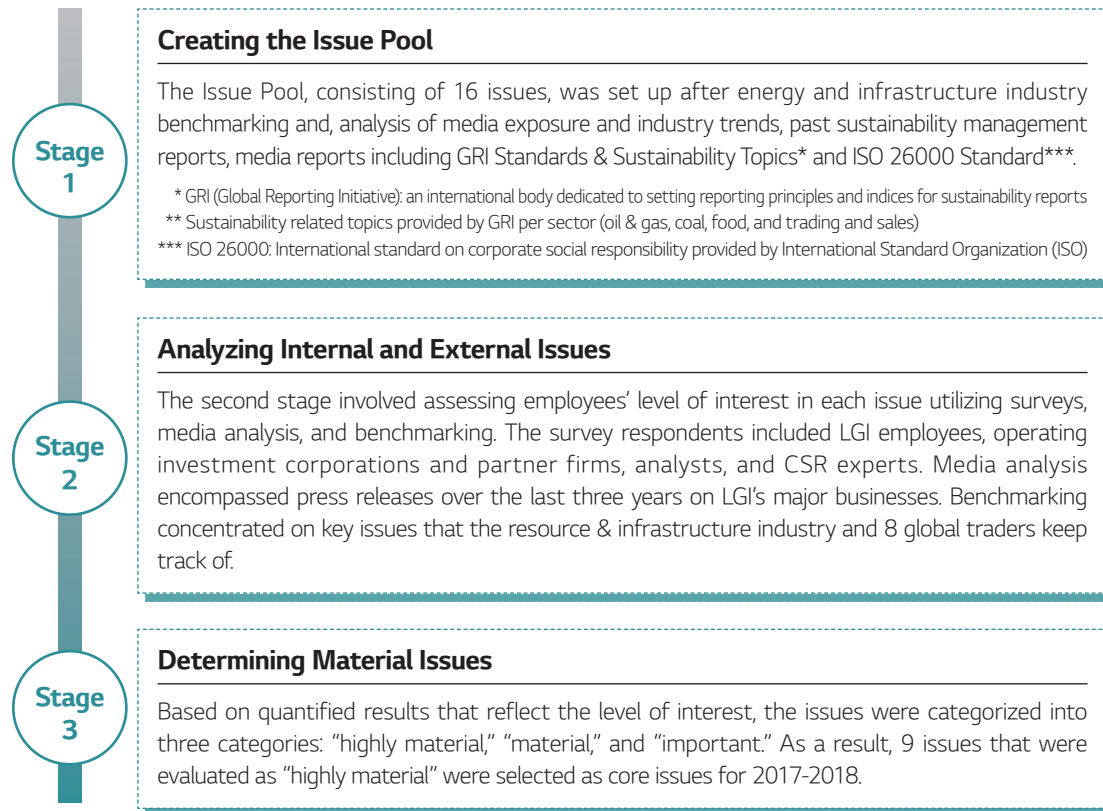
<Checklist for selecting partners>

Jeong-Do Management	Compliance
<ul style="list-style-type: none"> • Involvement of partial interests among shareholders and board of the holding • Exclusion of borrowed-name shareholders • History regarding bribery cases • Consent on the compulsory specification of Jeong-Do Management compliance clauses in contract terms • The Supplier's own code of ethics 	<ul style="list-style-type: none"> • Legal permit for business operations • The Supplier's history of violating local law • Presence of the Supplier's subcontractor • Involvement of child or forced labor
Environment · Safety	Reasonable Pricing
<ul style="list-style-type: none"> • History of incidents and accidents during last five years • History of warnings issued by federal or local governments for environmental violations during last five years 	<ul style="list-style-type: none"> • Price comparison with subcontract prices in nearby mines and farms • Assessment of the Supplier's margin based on its other established businesses • Assessment of the Supplier's margin compared to other supply processes mine waste, coal transport, and transportation by water, etc

Materiality Analysis and Communication with Stakeholders

1. Materiality Evaluation Process

Taking into account the concerns of internal and external stakeholders in a comprehensive manner, LGI conducted a materiality evaluation process incorporating international standard analysis, energy and infrastructure industry benchmarks, media analysis, and stakeholder surveys.



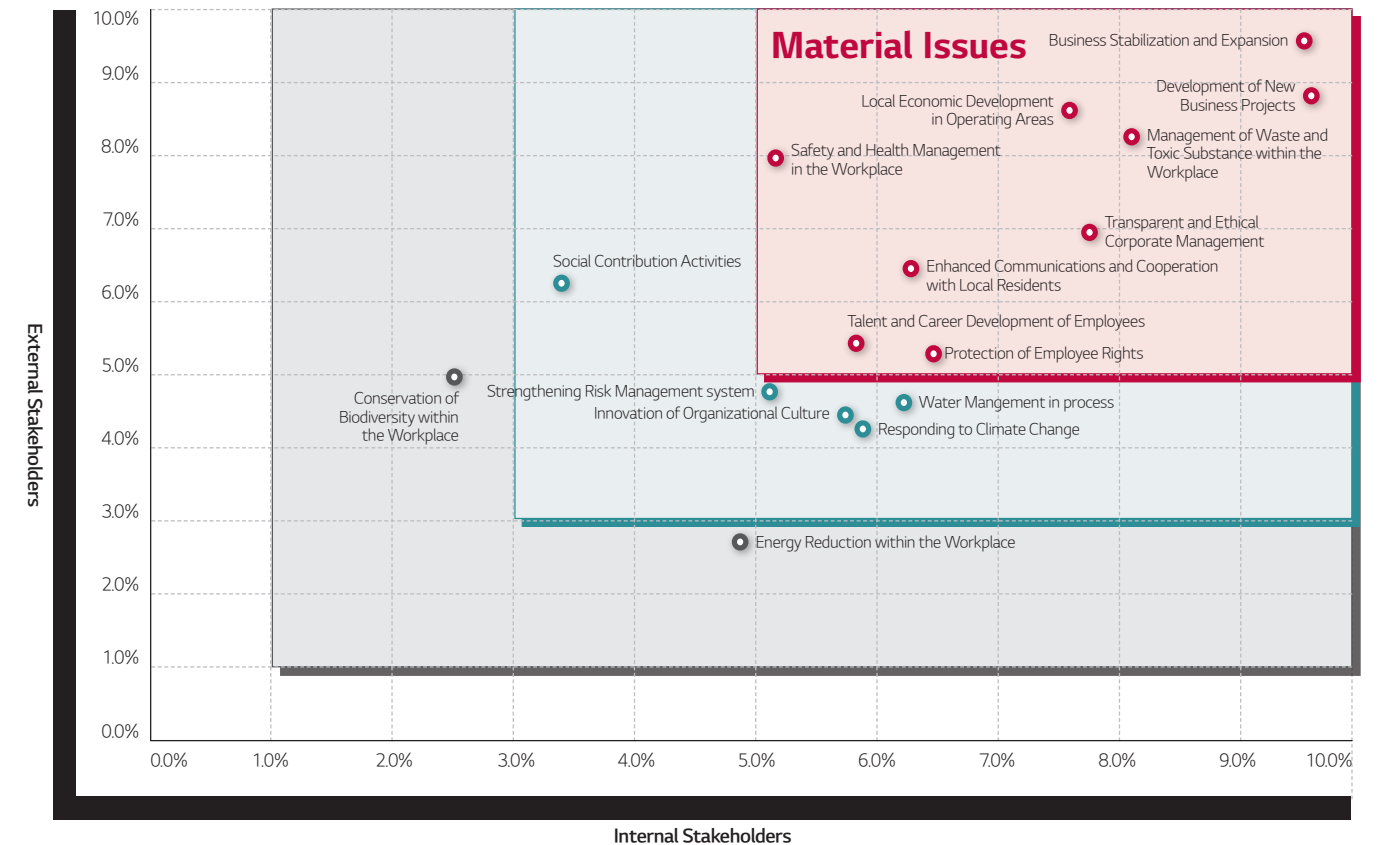
Communications with Stakeholders

LGI strives to assess the needs of diverse stakeholders and incorporate them into its management.

	Shareholders & Investors	Customers	Partners	Employees	Local communities
Target	• Shareholders & Investors	• Firms, governments, and financial institutions home and broad	• Partners of LGI and its operating investment corporations	• Domestic and foreign employees including global staff	• Seo-bu Social Welfare Center • Residents of regions where the operating investment corporations are based
Communication channels	• Business reports • General shareholders' meetings • Regular company presentations	• Website • Call center	• Task sharing sessions • Periodic evaluations and workshops	• Talks with CEO • Future Boards • Employee surveys • Discussions	• Website • Employee / global volunteer programs • Public hearings with local residents

2. Materiality Evaluation Result

9 material issues were selected based on the level of interest shown by various stakeholders. This report classifies the 9 material issues into 5 different categories and addresses proper responses and means for improvement for each issue.



<2017-2018 Materiality Evaluation Results>

Material Issues	Major Content	Page
Business Stabilization and Expansion	1. Sustainable Business Competitiveness	30
Development of New Business Projects / Technology Development and Investment		
Transparent and Ethical Corporate Management	2. Jeong-Do Management	34
Management of Waste and Toxic Substance within the Workplace	3. EHSS(Environmental, Health & Safety, Social) Management	38
Safety and Health Management in the Workplace		
Protection of Employee Rights	4. Organizational Culture: "A Great Workplace"	44
Talent and Career Development of Employees		
Local Economic Development in Operating Areas	5. Creating Value in Local Communities	52
Enhanced Communication and Cooperation with Local Residents		

Sustainability Material Issues

1. Sustainable Business Competitiveness	30
2. Jeong-Do Management	34
3. EHSS(Environmental, Health & Safety, Social) Management	38
4. Organizational Culture: "A Great Workpalce"	44
5. Creating Value in Local Communities	52



1. Sustainable Business Competitiveness

Background Economic development and industrialization in Asia and the Middle East has created an increased demand for infrastructure, energy, and industrial facilities. This development, accordingly, has prompted large-scale corporate investments concentrated on emerging economies such as in Myanmar and Oman. LGI is securing a stable profit structure through the expansion of resource development and infrastructure businesses in high-potential areas.

Our Response In 2017, LGI strengthened its competitive position in the resource and infrastructure industry and expanded its business portfolio, including operating new investment-type businesses. LGI initiated a full-fledged expansion in the resource sector with commercial production at the GAM coal mine in Indonesia, which was acquired by LGI in 2012. Furthermore, it added CPO(Crude Palm Oil) mills to increase the volume of palm oil production. As for the infrastructure sector, the cement plant in Myanmar and two infrastructure facilities in China and Oman, in which LGI has investment stakes, started commercial production.

Evaluation & Plan In 2017, LGI was able to meet its pre-established financial goals thanks to several contributing factors, including an increase in coal prices and the production volume of the Indonesia GAM coal mine, as well as an increase in palm oil prices and sales volume. The company plans to strengthen its revenue base by achieving greater efficiency in the operation of existing investment businesses, such as coal and palm oil, and accelerating its investments in new resources such as green minerals. In the infrastructure sector, LGI will carry forward new investment-type businesses and capital acquisitions.

Reinforcing Business Competitiveness

LGI thoroughly analyzes the prospects of the resource and infrastructure industries to ensure sustainable business operation, establishing mid- to long-term plans based on these analyses. In 2017, LGI worked to strengthen its resource portfolio and improve the profit structure of infrastructure businesses. In the future, it will further strive to strengthen its competitive position by securing stable profits from existing businesses and accelerating new investments.

Resource Business: Prospects

A downturn in the price of resources, which started in the first half of 2017, has led to an extended price adjustment phase. Recently, however, an increase in the price of coal and oil signals the start of a recovery phase. From a mid- to long-term perspective, it is expected that resources will be in a stable demand due to the global economic recovery and the economic development of emerging economies centered around China.

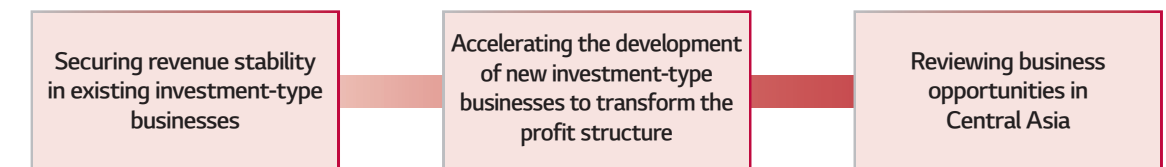
<Resources Business: Mid- to Long-term Strategies>



Infrastructure Business: Prospects

The prospect is strong that the infrastructure business will continue to grow as infrastructure investments expand and the global economy is bolstered by emerging economies. Furthermore, the economic development of Southeast Asia will create business opportunities in the infrastructure industry and steadily increase demand for energy and petroleum products.

<Infrastructure Business: Mid- to Long-term Strategies>



Financial Performance

(Unit: million KRW)

	Year	Sales	Operating Profit
Resource Business	2015	3,325,788	-88,596
	2016	1,756,457	27,472
	2017	1,049,556	78,399
Infrastructure Business	2015	8,382,799	116,465
	2016	7,247,671	72,203
	2017	8,230,462	58,629

Resources Business

Improving operational efficiency of investment businesses and strengthening revenue base



Commercial production at GAM coal mine in Indonesia

LGI has successfully completed the development of the GAM coal mine located in the eastern Kalimantan province of Indonesia, starting production in 2017. Since securing the management rights through the acquisition of a 60% stake, LGI has provided land compensation, obtained licensing, and built infrastructure. The GAM produced 4 million tons of coal in 2017 and is expected to produce 14 million tons by 2023. LGI has positioned itself as a major coal provider, operating two coal mines in Indonesia, the other being the MPP mine.



Expansion of palm oil production in Indonesia

The PAM operating investment corporation, located in the western Kalimantan province of Indonesia, has reached its highest performance level since its acquisition in 2009. Currently, the CPO(Crude Palm Oil) Mill is capable of processing 60 tons of palm fruit per hour. Factory-produced palm oil is marketed to local processing plants in Indonesia, such as Wilmar, Salim, and Sinar Mas, to generate stable revenues.

Acceleration of new capacity-based investments

LGI is expanding and accelerating investments in coal and palm oil to reinforce its resource business portfolio. In 2018, the construction of additional production facilities at the CPO Mill will be completed, increasing the production volume of palm oil from 80,000 to 130,000 tons per year. Currently, the potential acquisition of two additional palm plantations in Indonesia is under review.

Review of new business opportunities

Green minerals refer to minerals that serve as core materials for secondary cells, such as lithium, nickel, and cobalt. With the burgeoning electric vehicle market and the development of green energy sources, green minerals are considered an area with excellent business prospects. Accordingly, having recently secured business opportunities for cobalt exploration in Australia, LGI is accelerating future growth by expanding the scope of resource development projects, encompassing the coal industry and green minerals industry.

Infra & Industrial Business

Securing revenue stability of investment businesses



Commercial production at the Myanmar cement plant

The cement plant in Myanmar, which LGI has invested in and developed since 2015, embarked on full-scale commercial production in 2017. The cement plant, in which LGI holds a 51% stake of a local joint venture, has the capacity to produce up to 470,000 tons annually, and all the cement produced is marketed for domestic use. In conjunction with the Myanmar government's policy of encouraging foreign investment, the prospects for the local construction industry is promising. The demand for construction materials promoted by infrastructure investments is expected to increase. With this cement plant as a foothold, LGI will seek new business opportunities in infrastructure and resource development.



Commercial operation of the Wuwei Thermal Power Plant in China

Electricity generation commenced at the Wuwei Thermal Power Plant, which was constructed through co-financing with GEPIC Energy Development. The hourly generation capacity of the plant is 700MW, and it produces around 6 million MWh worth of electricity and heating, enough to supply a city of 0.5 million residents for one year.



Commercial operation of the Musandam IPP Plant in Oman

The Musandam IPP Plant, a 120MW level plant jointly developed by LGI and the state-owned Oman Oil Company(OOC), launched commercial production. LGI acquired 30% of the plant's shares and has participated in the entire process ranging from financing and construction to management. Furthermore, the company has secured a stable revenue source by concluding a 15-year electricity purchase agreement with the Oman Public Authority for Electricity and Water(PAEW). The prospect is strong that the demand for energy sector projects, including oil refining, will continue to increase in conjunction with the Oman government's industry diversification policy and emphasis on infrastructure development for public welfare.

Development of new investment-type businesses

Tapping into its extensive experience and regional expertise, LGI continues to seek business opportunities in new investment-type businesses, with the focus on development projects in the Middle East and Southeast Asia. Furthermore, by reinforcing its partnerships with strategic partners in Oman and Turkmenistan, the company is seeking to secure sales rights on products, which will further strengthen its revenue base.

2. Jeong-Do Management

Background Ethical management is the most essential management principle for a corporation. Misconduct can undermine mutual trust and cooperation with interested parties and cause major losses. Accordingly, LGI has established "Jeong-Do Management" as its guiding principle to ensure ethically sound behavior and judgment to generate sustainable achievements.

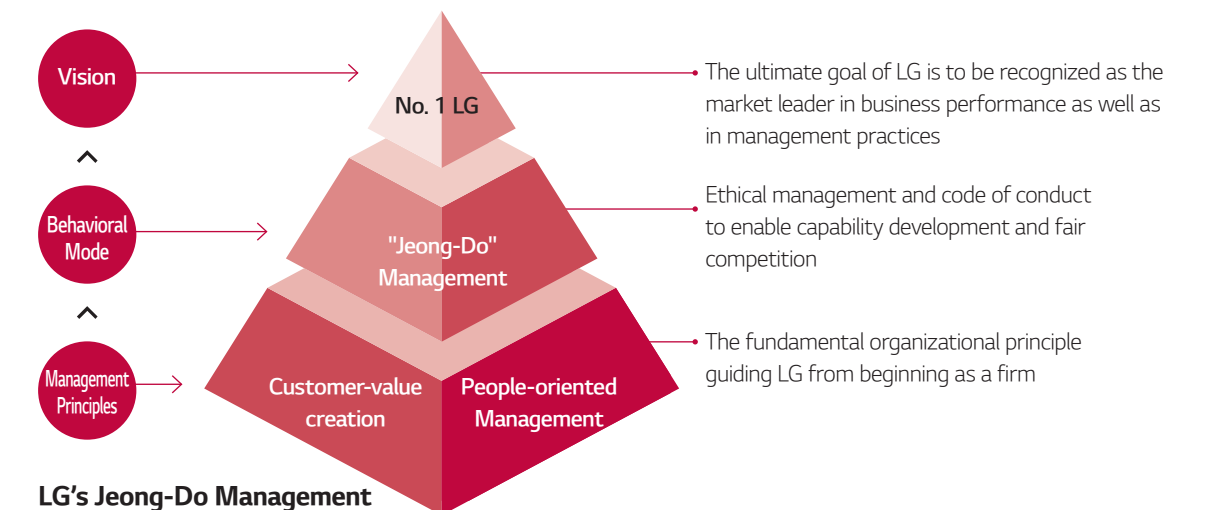
Our Response To enhance employees' understanding of Jeong-Do Management, LGI has organized various awareness activities, including Jeong-Do Management training programs and Compliance Day, held the 17th of each month. Furthermore, it has recently adopted the "One Point Ethics Care" program, which provides guidelines for ethical management. The company has also held an internal auction in which non-returnable gifts from interested parties are bid on, and the proceeds are donated to UNICEF.

Evaluation & Plan In line with the principles of Jeong-Do Management, LGI preemptively eradicates potential compliance-related risk factors, refines employees' work ethics, and promotes an organizational culture that firmly adheres to rules and principles. The company will remain steadfast in its efforts to help every employee internalize the principle of Jeong-Do Management.

Jeong-Do Management System

LG Way

LG Way is the group's unique management philosophy created to guide the thinking and behavior of every LG employee. Simply put, LG Way is the call to becoming a premier company hence the essence of its strategic vision is embodied in No.1 LG. At its foundation is the management principles of Customer-Value Creation and People-Oriented Management, which are in turn implemented according to the high ethical standards of behavior delineated by Jeong-Do Management.



LG's Jeong-Do Management

Jeong-Do Management encompasses more than ethical management; it also means cultivating competencies that produce concrete outcomes, enabling the company to excel competitively.

<Three major principles of Jeong-Do Management>

Integrity	Work transparently according to principles and standards
Fair Transaction	Provide equal opportunities and fair treatment in every transactional relationship
Fair Competition	Improve capabilities with which one can fairly win the competition

Dedicated Organizations

As organizational bodies directly under the supervision of the CEO, the following organizations are dedicated to practicing Jeong-Do Management.

<Organizational chart for Jeong-Do Management>

Final decision-making body	Ethics Committee	<ul style="list-style-type: none"> Final decision-making body concerning issues related to Jeong-Do management and ethical compliance Establishment of operational directions and activities for sound organizational culture
	Ethics Bureau	<ul style="list-style-type: none"> Operation of risk management system Report investigations
Jeong-Do Management Division	Corporate Audit Team	<ul style="list-style-type: none"> Regular diagnosis of business departments, overseas subsidiaries, and offices Diagnosis of special missions and reports Review and enhancement of work processes and systems

Reporting System

LGI utilizes diverse channels, like the online complaint system and facsimile, to gather reports on corruption and misconduct, which include unreasonable requests by employees or unfair work practices.

*Online website for reporting: <http://ethics.lg.co.kr>

Bolstering Jeong-Do Management Training

Online training for employees

Online training sessions, which are based on the timely analysis of relevant Jeong-Do Management issues, are provided for all employees domestically and abroad. In 2017, Jeong-Do Management training was centered around 4 relevant keywords.

<Jeong-Do Management keywords in 2017>



In-person training for each rank and task group

LGI conducts specialized training programs tailored to each rank and task group, with the aim of maximizing the impact of education and immersing employees in Jeong-Do Management values. In 2017, the turn-out rate for domestic training programs was 96%, and most employees, apart from those on long-term business trips, completed the training.

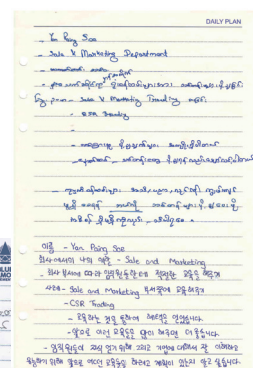
<In-person training programs for each rank>

Position	Education	Frequency
Head of Team	<ul style="list-style-type: none"> • Training on promoting ethical leadership 	<ul style="list-style-type: none"> • Right after appointment Once a year afterwards
Employees dispatched abroad	<ul style="list-style-type: none"> • Jeong-Do Management training upon being dispatched abroad and returning to the head office • Obligatory visits to the Ethics Bureau during business trips to the head office and Remind training 	<ul style="list-style-type: none"> • Upon arriving abroad • Continuing training sessions during overseas posting • One-to-one counseling and education upon return to the head office
Team members	<ul style="list-style-type: none"> • Team unit training 	<ul style="list-style-type: none"> • Once a year
New employees	<ul style="list-style-type: none"> • Basic Jeong-Do Management training 	<ul style="list-style-type: none"> • Throughout the year
Global staff	<ul style="list-style-type: none"> • Ripple-effect training through employees posted abroad (textbooks provided in English, Indonesian, and Chinese) 	<ul style="list-style-type: none"> • Once a year

Jeong-Do Management Training for overseas subsidiaries



▲ Jeong-Do Management Training at the cement plant in Myanmar



◀ Jeong-Do Management commitment to practice letter

the Cement Plant in Myanmar

In 2017, employees of the newly launched cement plant participated in the Jeong-Do Management training. 112 employees that play key roles in the plant, including administration, procurement, and management, participated in the training. Participants were given an overview of Jeong-Do Management, including actual cases of Jeong-Do Management and legal education, and were asked to reflect on their commitment to the three major principles of Jeong-Do Management.

Establishing the Culture of Jeong-Do Management

Jeong-Do Management Notification



Jeong-Do Management Pledge

At the beginning of each year, all LG employees are obliged to submit their pledge to practice Jeong-Do Management. The pledge entails six principles that must be complied with, such as abiding by fair trade law and eradicating corrupt and unlawful activities.

Jeong-Do Management Notification

Content related to Jeong-Do Management is sent via email once a week to the head and foreign offices and once a month to global staff. Jeong-Do Management alerts consist of questions that have been posed by employees, enabling employees to voluntarily practice the Jeong-Do Management principles they learned during the training sessions.

One-Point Ethics Care

In 2018, LGI adopted the "One-Point Ethics Care" program. The program provides definitive standards and guidelines to prevent confusion or ethical conflicts that might arise from social issues and cultural changes. Furthermore, the program identifies potential compliance risks and provides employees with relevant regulations and guidelines.

Compliance Day on every 17th

On the 17th of each month, messages that reflect Jeong-Do Management values are displayed on the Internet Portal Website to raise awareness about compliance among employees.

Jeong-Do Management Events

Various events, such as the Jeong-Do Management puzzle contest, are organized to raise awareness of ethical management. Recently, a surprise ethics education event was organized for all employees, and the Ethics Bureau annually organizes a delivery of gifts with Jeong-Do Management messages.

Jeong-Do Management Survey

The Jeong-Do Management Survey is conducted with all LG employees and examines the awareness level in each rank and task group to enhance the practice of Jeong-Do Management and reinforce its values.

Jeong-Do Sharing Auction

LGI holds the rigorous principle that money and gifts from interested parties should be returned or reported through gift receipt reports. Furthermore, the company organizes an internal auction to dispose of non-returnable gifts that were reported to the Ethics Bureau. In 2017, the proceeds from the auctions of the previous three years were donated to UNICEF.

3. EHSS (Environmental, Health & Safety, Social) Management

Background With the intensification of global environmental issues and stiffening environmental and security regulations, EHSS management activities are inextricably linked to company's sustainability. LGI is expanding EHSS management activities to better understand in advance the environmental and safety regulations of a host country and the impact of its business operations on local communities, which enabling proactive responses.

Our Response LGI examines and manages the environmental and social impacts of each of our operating investment corporations*. It continues to strengthen the management of sites through EHSS checklists, which are developed based on the host country's legal requirements, global standards, and characteristics of each operating investment corporation.

*Operating Investment corporations: Major investment corporations in which LGI possesses the decision-making authority, including management
(Indonesia: MPP, GAM, PAM / Myanmar: Cement plant / China: Tianjin steel processing center, Guangzhou steel processing center / Vietnam: Haiphong steel processing center)

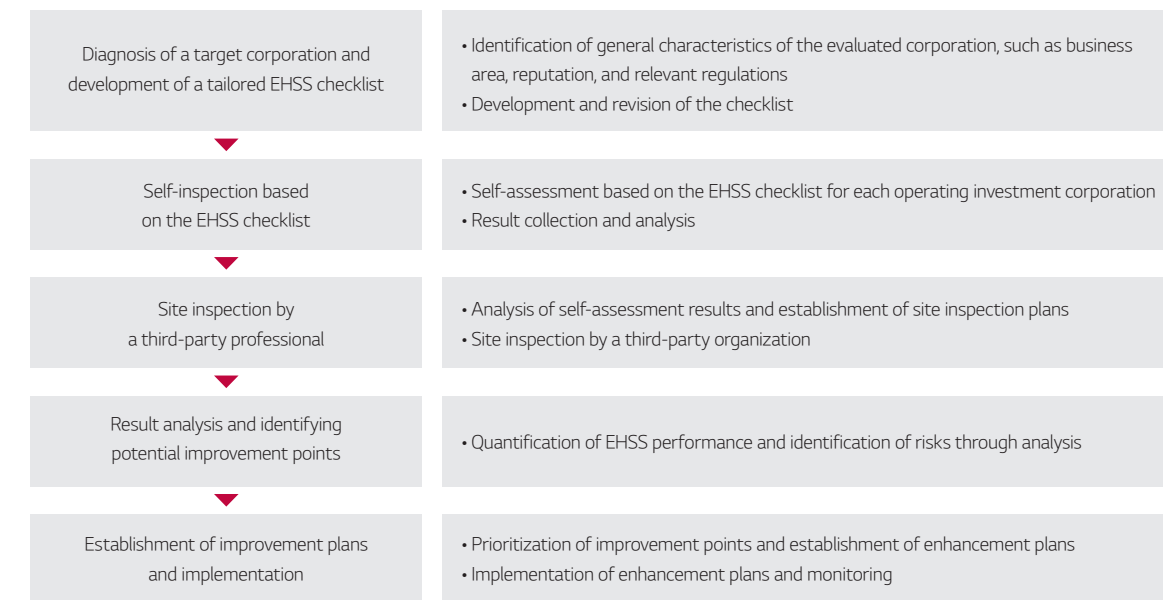
Evaluation & Plan 10% of the performance evaluation for the head and managerial positions of operating investment corporation reflects the results of EHSS site inspections, which enables preemptive risk management. The evaluation takes into account inspection results by professional third-party inspectors, the achievement of major EHSS goals, and the history of accidents.

EHSS Management System

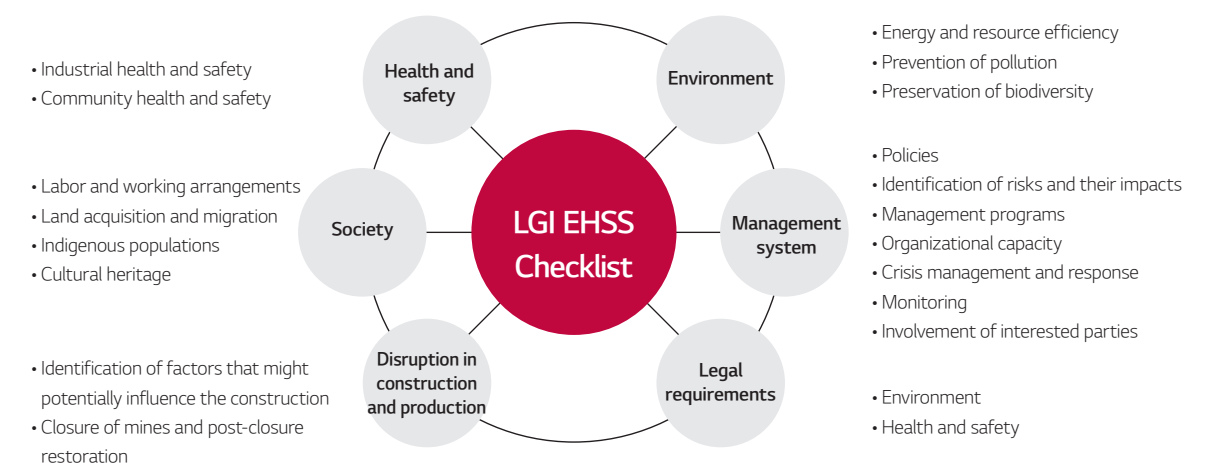
EHSS Operating System

LGI has developed EHSS checklists with around 200 points, tailored to each operating investment corporation based on local legal requirements and global environmental and safety standards. The EHSS checklists undergo regular revisions on an annual basis. Based on these checklists, LGI conducts bi-annual site inspections to identify risks that each operating investment corporation faces and reinforce risk management compliance. Furthermore, in the second half of the year, EHSS reviews are carried out in the presence of specialized third-party organizations. Based on the results, major EHSS goals are established for each corporation, and they are reviewed quarterly.

EHSS Review Process





LGI Checklist Areas of Inspection



EHSS Management Status of Operating Investment Corporations

1. Coal Mines in Indonesia (MPP, GAM)

LGI's participation in the development of the MPP mine began in 2007 and commercial production began in 2009. LGI's investment in the GAM mine dates to 2012 and commercial production started in 2017. From the outset of a project, LGI continually examines whether it is in accordance with local environmental regulations and social norms.

Major risks	Response
<ul style="list-style-type: none"> Accidents between trucks on the hauling road <ul style="list-style-type: none"> length of the transportation road GAM: appx. 40km / MPP: appx. 15km Safety-related accidents during high-risk operations such as welding and scaffolding work Air pollution including dust scattering 	<ul style="list-style-type: none"> Installing signs at curves and cross roads, arranging irregular patrols for speeding, implementing safety training for drivers Reinforcing site inspections and requiring personal protective gear Furnishing sprinklers and watering truck
 <p>▲ Preventing accidents on the transportation road</p>	 <p>▲ Sprinklers to prevent dust scattering</p>

2. Palm Plantation and CPO Mill in Indonesia (PAM)

The PAM collects FFB(Fresh Fruit Bunch) from the palm plantation and extracts palm oil at the CPO Mill, most of which is marketed to the domestic Indonesian market. In 2016, the plant acquired the ISPO* certification that is required by the Indonesian government and has maintained the certification through annual reviews.

*ISPO (Indonesian Sustainable Palm Oil): the Indonesian system that allows environment-friendly palm business development and sustainable palm oil production.

Major risk	Response
<ul style="list-style-type: none"> Slash-and-burn farming by indigenous populations and unforeseen fires Chemical substances including pesticides Wastewater discharged from the CPO Mill Risks of child labor involved 	<ul style="list-style-type: none"> Establishing a preemptive information gathering system and fire drills Conducting regular water quality checks and follow-up management measures Mandating the attachment of MSDS (Material Safety Data Sheet), personal protective gear, and safety training Operating anti-child labor training programs, frequent site patrols, and nurseries within the plant
 <p>▲ Fire prevention education and drills</p>	 <p>▲ Baby care center within the plantation</p>

▶ 3. EHSS(Environmental, Health & Safety, Social) Management

3. The Cement Plant in Myanmar

The cement plant owns a manufacturing factory and limestone mine. After completing the development phase, the plant commenced cement production in 2017. LGI established a high level of EHSS management from the early stages by operating both EHSS training sessions and management programs for local employees.

Major risks	Responses
<ul style="list-style-type: none"> Maintenance of hauling road and production facilities Safety of electric facilities Air pollution including dust scattering Water quality for residential purposes 	<ul style="list-style-type: none"> Designating dates for organization/cleaning and undertaking frequent site inspections Carrying out site inspections on grounded power outlets Running water truck and regular diagnosis of air quality and management Installing purifying facilities and management of filters
 <p>▲ Facilities for water quality and purification</p>	 <p>▲ Safety management within the mine</p>

4. Steel Processing Centers in Tianjin, Guangzhou, Haiphong

Steel processing centers are processing factories that produce steel coils in accordance with client orders. Safety management programs in steel processing centers revolve around safety regulations in the facilities and equipment used to lift heavy loads.

Major risks	Responses
<ul style="list-style-type: none"> Management of loaded steel coils Safety regulation of cranes Forklift accidents Fire protection 	<ul style="list-style-type: none"> Installing standardized stoppers and carrying out check-ups to prevent overturning Mandating compulsory certification for crane operators and maintenance of safety parts Implementing training and monitoring for forklifts Installing security signs and maintaining fire extinguishers and sprinkler system
 <p>▲ Steel coil load management</p>	 <p>▲ Crane safety check</p>

Environmental Impact Management in the Headquarter

LGI strives to minimize environmental impacts by creating an environmentally-friendly work environment and eliciting the active participation of employees in energy and resource conservation.

Creating Eco-Friendly Work Environments

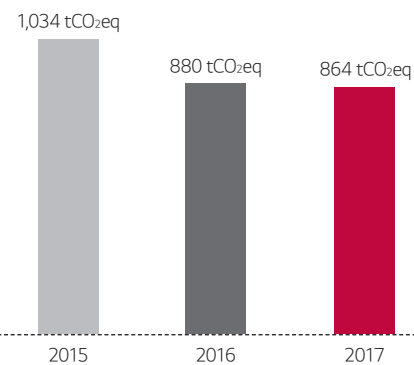
To save energy and reduce GHG emissions, LGI operates 18 hybrid vehicles and one electric vehicle, out of its 32 office vehicles. In the first half of 2017, the company implemented a 6:10pm lights-out policy for the entire head office to reduce energy consumption and encourage employees to stick to regular work hours.

Efforts to Reduce Energy and Resource Consumption

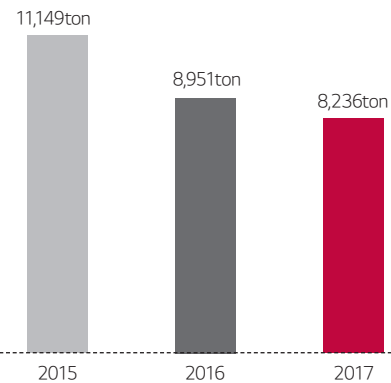
LGI has led company-wide efforts to reduce energy and resource consumption. Since renovations in 2011, all lights have been replaced with high-efficiency and environment-friendly LED lights. Flat LED lights are recycled to be used in floor sign lights in the elevators. Furthermore, it has ramped up its energy conservation efforts by utilizing 24-hour running cold water as a cooling source for air conditioners in the atrium.

Energy Conservation Achievements

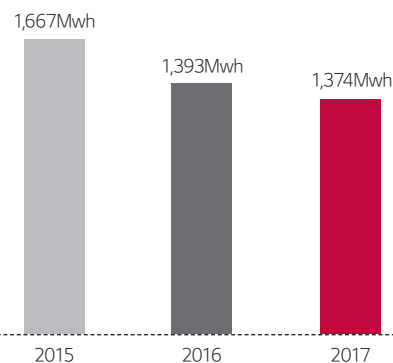
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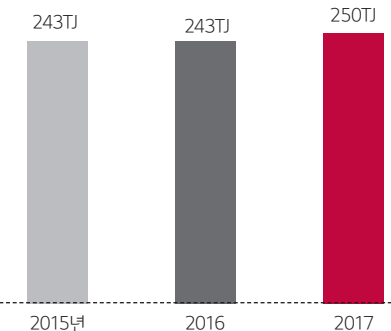
<Water Usage>



<Electricity Usage>



<Energy Usage>



CSR Expert Interview



▲ Prof. Yang In-Mok, Department of Environment & Energy Engineering, Sungshin University

EHSS Management System and LGI's Sustainability Management

Operating the EHSS Management System since 2013, LGI is at the forefront in promoting environmental and social values. Prof. Yang In-Mok, who participated in the creation of the EHSS Management System, here shares his insights on EHSS-related issues that LGI should manage and improve on in order to become a sustainable global business.

As new light is shed on the value of the environment and the importance of human rights, newly created standards and regulations pose different forms of risks to businesses. LGI has established and operates the EHSS Management System to address complex social and environmental issues. You could say that preemptive efforts to avert risks and bolster business achievements are underway. The presences of such risks and their management have become a crucial aspect of corporate values. Accordingly, I would like to offer three opinions in the hope that LGI will evolve into a global leader.

Firstly, environmental issues present both risks and challenges. When addressed efficiently, risks can lead to new opportunities. My second point is regarding the systematic analysis of issues, which comprehensively evaluates them. Understanding the issue's nature, structure, and potential to become a risk maximizes the efficiency of the ensuing response. Lastly, I would like to insist upon the importance of genuine communication. Every issue and risk stems from the expectations and demands of different stakeholders. Communication builds trust and enables reasonable management.

Furthermore, sustainable management is interlinked with corporate values at the level of socially responsible investment. Pension funds, which are one of the biggest driving forces in the stock market, show that the paradigm underlying corporate values is shifting through socially responsible investments. Currently, more than 60% of European pension funds and 30% of American pension funds are operated in accordance with socially responsible investment standards. The world's largest, Japan's Government Pension Investment Fund (GPIF), and second largest, Norway's Government Pension Fund Global, are playing a leading role. Ranked third by size, Korea's National Pension Service (NPS) is also preparing to expand its socially responsible investments.

I hope that LGI will establish itself as a global leader and, at the same time, contribute to social sustainability by creating social and environmental opportunities through the EHSS Management System and maximizing the efficiency of risk management.

4. Organizational Culture: "A Great Workplace"

Background Recruiting talent and establishing an environment where members can fulfill their potential is the most essential step in safeguarding corporate competitiveness. The proactiveness, creativity, and passion of employees can come into full bloom only when they are content with both their work and private lives. To this end, LGI, with the Organizational Culture Task Force (Organizational Culture TFT), is striving to create a conducive work environment for all employees at home and abroad.

Our Response To create a great workplace, LGI conducts "A Happy Home Makes Excellence At Work"* and "Leaps and Bounds Through Work"** organizational culture programs. Furthermore, it holds compulsory training programs for each employee position and has an assistance program for incoming employees. LGI is continuing its commitment to promoting human rights and communication through diverse activities.

* A Happy Home Makes Excellence At Work" embodies the message that LGI and employees grow together through smart work and being committed to happy households

** "Leaps and Bounds Through Work" embodies the message of personal progress through achievements at work

Evaluation & Plan In 2017, LGI launched the "A Happy Home Makes Excellence at Work" program on a full-scale. In 2018, it adopted a new program, "Leaps and Bounds Through Work," aiming for "A Great Workplace" where employees can strike the proper balance between work and life. LGI will continue its commitment to creating a positive work environment for everyone by forming a consensus among employees on our vision.

LGI's Vision of Organizational Culture

LGI seeks to achieve its vision of "Global Business Challenger" by creating a great workplace through programs exemplifying "Leaps and Bounds Through Work" and "A Happy Home Makes Excellence at Work."



A Happy Home Makes Excellence At Work*

*The slogan symbolizes the message that LGI and its employees grow together as they perform smart work and are committed to happy households

Retention rate after maternity leave (%)

Year 2015 **100%**

Year 2016 **100%**

Year 2017 **100%**

Rate of employees who worked more than 1 year after maternity leave(%)

Year 2015 **43%**

Year 2016 **56%**

Year 2017 **66%**

Striking the right balance between work and life

Flexible hours arrangement system

LGI operates a flexible hours arrangement system, in which employees with infants can adjust their working hours to 15-30 hours per week.

"With Your Family" programs

In 2017, employees were provided with tickets to a number of leisure activities, including LG Twins Baseball Club games, soccer matches, and the Gonjiam Hwadam botanic garden. Furthermore, the company shares childcare-related information for working couples and distributes family newsletters on a regular basis. It also supports gifts for employees' children on special occasions such as when they begin school and take their college entrance exam.

Family Day

LGI encourages employees to leave the office on time and seek the right balance between work and life. For instance, the company has implemented "Family Day" twice a month, on which employees leave the office at five o'clock.

Life Care Program

LGI has organized three special-themed seminars on financial planning and healthcare based on employee inquiries regarding their age-related issues.

<2017 Life Care Program>

	Title	Number of Participants
1	Financial planning for working professionals: an inclusive overview of financial products	112
2	Bringing positive vibes for a healthy work life	56
3	Looking 10 years ahead: real estate management strategy	125



▲ Life Care Program



▲ Family Day Notification

Leaps and Bounds Through Work*

* The slogan embodies the message of personal progress through achievements at work

Maximizing the joy of work

To engage and motivate employees, LGI strives to maximize the enthusiasm of employees in the workplace. The company has established three major motivating factors and runs specialized systems that align with them.

<Employee motivation programs>

Motivating factors	Directions
Proactive performance	<ul style="list-style-type: none"> Involving a person in charge of a project from the planning stages to instill a sense of responsibility
Support and encouragement	<ul style="list-style-type: none"> Encouraging employees to suggest and adopt novel and unconventional ideas Promoting an organizational culture of interdepartmental cooperation among cooperating departments
Acknowledgement and compliments	<ul style="list-style-type: none"> Openly acknowledging and complimenting achievements Acknowledging worthwhile failures Promoting a culture of compliment among colleagues

Maximizing the value of work

A company should continually stress the importance of the work and the progress that has been made to enable employees to find purpose in their work. To this end, LGI has organized the "Leaps and Bounds Through Work" workshop, which helps team leaders and members find purpose in their tasks. Through this program, employees have opportunities to share ideas and clarify the roles and core competencies that are required of each position.

<Maximizing the value of work>

Motivating factors	Directions
Sense of importance	<ul style="list-style-type: none"> Aligning the corporate vision with the goals of individual tasks Articulating the task's meaning and values in task instructions and feedbacks
Sense of progress	<ul style="list-style-type: none"> Encouraging and supporting employee participation in internal and external training session Giving greater responsibilities to employees based on their progress and achievements



▲ 'Leaps and Bounds Through Work' workshop



Nurturing global talent

Expansion of compulsory training for each position*

Every LGI employee participates in compulsory training programs for each position. In accordance with the role- and competence-based human resources system implemented in 2017, the programs emphasize the expected roles and core competencies of each position.

*The previous 5-tier rank system was simplified to the capacity- and achievement-oriented system of 4-tier rank system of "Senior Project Manager (S.PM), Project Manager (PM), Assistant Manager, Staff"

<Compulsory trainings by position>

	Expected Role	Training Focus
Senior Project Manager	Entrepreneur / expert	• Driving force to enhance performance
Project Manager	Early-stage Entrepreneur and expert	• Providing perspective and skills to make projects result in concrete outcomes
Assistant Manager	Mid-career professional	• Advanced project planning and development
Staff	Entry-level professional	• Entry-level project planning and development



▲ 2017 Compulsory training for each position



Overseas Training for employees

Every year, for the better understanding of overseas subsidiaries, employees are provided with opportunities for training abroad. In 2017, 13 employees in two groups visited coal mines and the palm plantation in Indonesia.



▲ 2017 New employee training at overseas business sites



Training hours per person

30% Increased ↑

<Overview of employee training>

	2015	2016	2017
Training hours per person	54	72	94

Training programs for employees to be dispatched abroad

For the efficient implementation of projects and leadership, employees who will be dispatched abroad are trained on relevant institutional and legal frameworks. Furthermore, networking sessions with their predecessors and language programs in English and local languages are provided to facilitate their ability to adapt and perform in new environments.

New Employee Caring Programs

Within their first year of joining the company, LGI employees are provided with assistance programs to help them orient themselves in a new organization. After one year, they are given opportunities for training abroad at overseas subsidiaries, first-hand experiences which enhance their understanding of the production and sales processes.

<New Employee Caring Program Contents>

When	Topics	Contents
Right after joining the company	• Mindset for adaptive performance	• Developing mutual intimacy • Helping employees find their own strength
Three months after the start date	• The first newcomer assistance program	• Self-assessment on adaptive performance • Sharing know-hows on how to adapt to the new work environment
One year after the start date	• The second newcomer assistance program • Trainings at overseas business sites	• Formulating a sound perspective on work • Managing stress at work • First-hand experiences in production and sales venues.

Counselling Service

An in-house professional counsellor is readily available to provide counselling services for personal issues, including workplace stress management, interpersonal relationships, and family issues.

<Major counselling programs>

Program Title	Major Details
Psychology Cafe For Families / Finding Your Child's Strength	• Personality and characteristic tests and family-oriented programs through drawing tests
AutoGen Training	• Relaxation training for achieving a state of comfort (improves stress and relieves insomnia)
Newcomer Caring Program	• Orientation programs for new employees (mutual understanding at work, predicting and managing stress at work, finding purpose and values at work, personality type tests, etc.)
Keeping A Gratitude Journal	• Understanding the psychology of happiness and writing a gratitude journal
Measuring your stress	• Check-up on the autonomic nervous system through HRV analysis and diagnosis of major stress factors
Childcare online newsletters for working couples and support groups	• Childcare information for working couples three times a week through email
Team-building and workshop assistance	• Maximizing the impact of communication, stress management, and "compliment showers" • Mutual understanding, stress management, improving communication and interpersonal relations, maintaining optimism

Respect for Human Rights and Promoting Communications

Percentage of females in management positions(%)

Year 2015 **6.6%**
Year 2016 **8.4%**
Year 2017 **8.7%**

Harassment prevention training completion rate(%)

Year 2015 **97%**
Year 2016 **99%**
Year 2017 **100%**

Respecting human rights

LGI has been an outspoken advocate of human rights and diversity through its commitment to ethical standards and human resource principles. Not only does LGI strictly forbid any sort of discrimination by gender, religion, region of origin, or disability, it grants permanent positions to all employees, excluding cases of temporary employment for fixed-term projects. Furthermore, it prohibits child labor and forced labor at overseas subsidiaries and rigorously abides by relevant regulations. Every year, to improve diversity within the organization, LGI appoints an increasing number of women to management positions. Along with these efforts, LGI runs education programs to eradicate sexual harassment in the workplace. Also, to ensure fair performance evaluations and compensation, it evaluates employees utilizing a compensation system based on absolute standards.

Promoting communications in the workplace

Future Board system

The "Future Board," a consultative body which serves as a two-way communication channel between board members and employees, is designed to better prepare for the future. Since its establishment in 2016, the board has consisted of 17 employees representing each division and a senior management group consisting of the head of divisions, the head of Management Planning division, the head of HR division, CEO

Creating consensus through the i-Round program

The i-Round program is a quarterly event in which employees gather to share management principles and insights through lectures given by invited speakers. In 2017, there was a series of programs that introduced the different overseas subsidiaries and lectures on the 4th Industrial Revolution by external experts.



▲ Future Board Meeting



▲ i-Round CEO Message

Employee Interview



▲ Choi Seung Kyu S.PM, Legal Services Team1

Pursuing Happiness Through "A Happy Home Makes Excellence At Work" Programs

In 2017, LGI offered several organizational culture activities to realize the vision of "A Happy Home Makes Excellence At Work," which seeks to achieve balance between work and private life. Here, Choi Seung Kyu, a project manager who serves on the Future Board, shares his views of the programs.

Q1 What are your duties in your team and roles as a member of the Future Board?

I'm working for the Legal Services Division and in charge of legal consultation, risk analysis, and contract reviews for investment projects. I am also part of the Future Board, which serves as a communication channel between the management and employees to support "A Happy Home Makes Excellence at Work" programs. Especially, the Future Board establishes program schemes and implements diverse programs such as Family Days, promoting the use of paid leaves, rewards for long-term employees, and flexible working hour arrangements for childcare. Also, it is enhancing "A Happy Home Makes Excellence at Work" programs through the active feedback from and interactions with relevant departments.

Q2 How do you think the "A Happy Home Makes Excellence at Work" programs changed the organizational culture at LGI?

I believe the "sandwich leave policy," among other programs, has made the largest contribution to enhancing the quality of life for employees. Employees can make their annual holiday plans ahead of time, at the beginning of the year, to maximize their efficiency at work by balancing work and life. Furthermore, both executives and managers now have more leeway in using their days off. We decided to move the departure time of the outbound commuter buses from 7 pm to 6:20 pm, which promotes a culture of leaving the office on time. Before the implementation of "A Happy Home Makes Excellence at Work," using paid leave and caring for one's family used to feel overwhelming; however, nowadays, many employees feel free to use spare time for family activities.

Q3 What do you think are major points that could be improved to create a conducive work environment? What are your expectations?

Both the "Leaps and Bounds Through Work" and "A Happy Home Makes Excellence At Work" have contributed to a positive work environment. Especially, "One-stop" discussions and obligatory feedback sessions have improved employees' understanding of business projects and tasks through direct communication with the management. My hope is to realize our vision of creating a great workplace for everyone, taking advantage of the momentum currently in place.

5. Creating Value in Local Communities

Background The mutual prosperity of a company and local communities is a prerequisite for sustainable business activity. As the scope of corporate responsibility has expanded into social issues, there is an increasing demand by stakeholders for corporate efforts to develop communities. To this end, LGI continually communicates with local communities at home and abroad and participates in diverse social contribution activities.

Our Response In 2017, domestic employees participated in social contribution activities to assist individuals with developmental disabilities and handicapped youths at Seobu Welfare Center for persons with Disabilities. In Indonesia and Myanmar, where its operating investment corporations are located, LGI fosters projects to improve living environments and establish infrastructure for economic development based on detailed analysis of local cultures and social issues. It further strives to establish shared values with local communities.

Evaluation & Plan In 2017, LGI employees actively participated in a volunteer program created through an agreement with Seobu Welfare Center for persons with Disabilities. At overseas subsidiaries, various social contribution activities are undertaken to address local issues and vitalize local economies by creating jobs and training facilities. LGI will continue to develop programs that have concrete impacts on local economies, while taking into account the concerns of these communities.

Employee social
contribution activity
program satisfaction
ratings

4.7/5

Social Contribution Activities

Reinforcing the management system for Social Contribution activities

Community Service Hours Guarantee System

LGI's Community Service Hours Guarantee system is a system whereby up to 8 hours of community service done on working days are recognized as working hours. The system allows employees to participate in Social Contribution activities on a voluntary basis. In 2017, LGI carried out various community service programs in liaison with Seobu Welfare Center for persons with Disabilities, including professional training and cultural programs, to promote social inclusion of handicapped youths.

Matching Grant system

LGI runs the "Matching Grant system" whereby employees voluntarily donate a fixed amount from their salaries for donation each month and the company donates the matching amount. In 2017, 84 million KRW was collected through this system. LGI further collects information and convenes the Donation Review Committee to make donations based on the committee's evaluation.

Donation review committee

In cases of donations larger than 10 million KRW, the donation review committee is convened to examine details of the donation, including the requestor and requestee, donation process, and purpose of the donation. It also evaluates the transparency, procedural legitimacy, and legality of donations.



▲ Concluding the agreement with the Seobu Welfare Center for persons with Disabilities



▲ Career training volunteer for handicapped youths

Global social contribution

Strengthening communication channels with local communities

To better address issues within local communities, LGI and local communities collectively identify local needs and grievances and takes necessary steps to solve these problems.

Social contribution programs at overseas operating investment corporations

Overseas operating investment corporations actively engage in local communities through a variety of Social contribution activities. Taking into account the local environment and cultural characteristics, LGI seeks ways to productively co-exist with local residents, such as by undertaking repair projects of public facilities, supporting religious events, and offering assistance for startups.

<Social Contribution Programs by each operating investment corporation>

	Improving living environment	Respecting local cultures	Supporting economic base
Indonesia PAM	<ul style="list-style-type: none"> Maintenance and repair of roads Construction of bridges 	<ul style="list-style-type: none"> Construction of the church National Independence Day celebration event Support for the Dayak Tribe Festival 	-
Indonesia MPP	<ul style="list-style-type: none"> Disaster reliefs Environment campaigns Education programs for local residents 	<ul style="list-style-type: none"> Celebration of National Foundation Day events Support for traditional events and architecture 	<ul style="list-style-type: none"> Support for local economic infrastructures and assistance for economic independence of local economies
Indonesia GAM	<ul style="list-style-type: none"> Construction of the village hall Repair of buildings Maintenance of public facilities Medical support for local residents School bus for elementary and middle school students 	<ul style="list-style-type: none"> Traditional events (Galungan) National foundation Day events Youth day / Mother's Day events 	<ul style="list-style-type: none"> Creation of local jobs Providing fertilizer Training programs for sales business Assistance for the development of tourist attractions
Myanmar Cement Plant	<ul style="list-style-type: none"> Donation of cement for road repair works in Pyi Nyaung Support of repair work on the community center 	<ul style="list-style-type: none"> Support for local orphanages Repair of local school buildings Sponsorship of the Yangon Engineer Association 	<ul style="list-style-type: none"> Provision of salaries for teachers working near the plant



▲ Construction of the village hall, GAM



▲ Medical support for local residents, MPP

Staff Interview



▲ Kim Min Ho, the CSR representative of the GAM mine

Paving the Foundation for Economic Development in Indonesian Local Communities

To develop local communities and achieve mutual prosperity, LGI identifies economic, environmental, and social issues related to each operating investment corporation and supports several programs designed to address these issues. The GAM coal mine, which started production in 2017, has efficiently minimized negative environmental and social impacts and contributed to the development of the local economy by creating jobs and offering various social contributions programs. Below is the interview with Minh Kim, the CSR representative of the GAM operating investment corporation, Indonesia.

Q1 What are the major issues in the area of the GAM?

As the GAM spans three different administrative districts, we've hired locals to gather information in an efficient manner and to identify grievances and issues within the local community. The CSR representative visits the district office and village chiefs to diagnose the needs and grievances of each village. Through these communications, we have concluded that access to public services, such as electricity, water, and medical facilities, are the most urgent issue. Accordingly, in 2018, the GAM is supporting the construction of clean water facilities in Sempayau village, located near the harbor area. Furthermore, we have supported the construction of common power plant facilities and makeshift infirmaries. Besides sponsoring public service facilities, LGI is committed to paving the foundation for the sustainable development of local economies. One of those efforts includes the employee cafeteria, which has been operated by local residents since last year.

Q2 Could you explain the background behind the employee cafeteria that is run by locals?

During the construction of residences in the harbor area, the GAM initially planned to provide lunchboxes for employees until the completion of the project. However, due to the extended length of the construction, providing lunch became an issue for us. We then came up with the idea of mall food courts and started the employee cafeteria run by residents of major villages near the mine. Our first food court-style cafeteria, which engages local residents for the first time in the mining industry, has been praised by local government authorities for creating jobs for the local communities and revitalizing local economies, while improving the quality and variety of food choices for employees.



▼ GAM mine employee cafeteria

Q3 How does the GAM subsidiary contribute to local economies through social contribution activities?

Currently, 1,510 local residents are employed by the partner company within the GAM mine. Furthermore, the company hires on-site helpers, administrative assistants, and laborers and gives priority to local residents in employment, tapping into local labor forces that lack special expertise or skills. Furthermore, it has made diverse efforts to energize local economies, including donating food stands for local food vendors and supporting family-run handcraft businesses. In the future, our company aims to progress together with local communities.



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Financial Information*

Consolidated Financial Statements

(Unit: million KRW)

Item	2015	2016	2017
Assets	5,383,467	5,177,267	4,967,602
Current assets	3,074,135	2,671,937	2,554,250
Non-current assets	2,309,332	2,505,330	2,413,352
Liabilities	3,840,152	3,531,909	3,382,141
Current liabilities	2,589,073	2,098,320	2,130,330
Non-current liabilities	1,251,079	1,433,589	1,251,811
Equity	1,543,315	1,645,358	1,585,461
Capital stock	193,800	193,800	193,800
Capital surplus	101,672	100,849	100,931
Capital adjustment	(-1,579)	(-1,579)	(-1,579)
Accumulated and other comprehensive income	47,836	45,392	(-59,748)
Retained earnings	857,593	910,440	960,988
Controlling interests	1,199,322	1,248,902	1,194,392
Non-controlling interests	343,993	396,456	391,069
Total liabilities and equity	5,383,467	5,177,267	4,967,602

Consolidated Income Statements

(Unit: million KRW)

Item	2015	2016	2017
Sales	13,224,459	11,966,717	12,827,237
Cost of sales	12,710,715	11,220,847	12,076,656
Gross profit	513,744	745,870	750,581
Selling and administrative expenses	432,052	571,796	538,327
Operating Profit	81,692	174,074	212,254
Non-operating profit and loss	(-296,932)	(-40,894)	(-34,363)
Profit before tax	(-215,240)	133,180	177,891
Income tax expense	1,855	48,429	89,706
Net profit	(-217,095)	84,751	88,185
Equity attributable to owners of parent entity	(-235,443)	58,146	60,210
Non-controlling interests	18,348	26,605	27,975

*Please refer to p. 62-63 of the 2017 report for the list and status of subsidiaries included in the financial statements above.

Consolidated Cash Flow Statement

(Unit: million KRW)

Item	2015	2016	2017
I. Cash flows from operating activities	297,707	230,322	180,614
II. Cash flows from investing activities	(-277,642)	(-217,987)	(-10,204)
III. Cash flows from financing activities	27,629	(-237,718)	(-66,881)
IV. Net increase (decrease) in cash and cash equivalents	47,694	(-225,383)	103,529
V. Cash and cash equivalents at the beginning of the year	479,923	528,924	311,173
VI. Effect of exchange rate fluctuations on cash held	1,307	7,632	(-19,491)
VII. Cash and cash equivalents at the end of the year	528,924	311,173	395,211

Key Financial Ratios

	Item	2015	2016	2017
Stability - related indices	Current ratio	118.7%	127.3%	119.9%
	Debt-to-equity ratio	248.8%	214.7%	213.3%
	Debt ratio	113.9%	92.9%	88.7%
	Reliance on borrowings	32.7%	29.5%	28.3%
	Interest coverage ratio	1.7x	4.0x	4.0x
Profitability - related indices	Operating profit margin	0.6%	1.5%	1.7%
	Pre-tax profit margin	-1.6%	1.1%	1.4%
	Net profit margin	-1.6%	0.7%	0.7%
	Return on asset (ROA)	-4.0%	1.6%	1.8%
	Return on equity (ROE)	-14.1%	5.2%	5.6%

* K-IFRS Standards

Sustainability Management Performance

Economic Performances

Sales per business area

	2015	2016	2017
Resources Business	3,325,788	1,756,457	1,049,556
Infrastructure Business	8,382,799	7,247,671	8,230,462
Others	1,515,872	2,962,589	3,547,219
Total	13,224,459	11,966,717	12,827,237

(Unit: million KRW)

Operating Profit per business area

	2015	2016	2017
Resource Business	-88,596	27,472	78,399
Infrastructure Business	116,465	72,203	58,629
Others	53,823	74,399	75,226
Total	81,692	174,074	212,254

(Unit: million KRW)

Allocation of Economic Values and Resources

	2015	2016	2017	
Shareholder	Dividends	11,598	7,732	9,665
	Salaries	134,149	214,332	219,677
Management and employees	Severance pay	11,597	12,982	15,459
	Welfare benefits	30,384	48,004	49,421
	Total	176,130	275,318	284,557
Local communities	Donations	1,301	20,825	14,786
Government	Corporate Tax	1,855	48,429	89,707

(Unit: million KRW)

Environmental Performances

Energy Usage

	2015	2016	2017
Liquefied Natural Gas	3.19TJ	2.94TJ	3.26TJ
Electricity	1,667Mwh	1,393Mwh	1,374Mwh
Total usage	243TJ	243TJ	250TJ

Environmental Data

	2015	2016	2017
Total amount of direct and indirect greenhouse gas emission	1,034 tCO ₂ eq	880 tCO ₂ eq	864 tCO ₂ eq
Total amount of water usage	11,149 t	8,951 t	8,236 t
Total amount of waste	32 t	20 t	30 t
Total amount of recyclable waste	13 t	10 t	19 t

Social Performance

Employment Status

Data	2015	2016	2017	
Total number	546	516	481	
Male	429	403	370	
Female	117	113	111	
Employment-related data	Permanent contract	532	505	474
	Temporary contract	14	11	7
	Turnover rate	79%	6.9%	5.2%
	Newly employed	26	27	40
Diversity-related data	Entry level	12	22	30
	Mid-career	14	5	10
	Number of global staff	346	322	346
	Percentage of employees with disabilities	1.3%	1.3%	1.2%
Percentage of persons of national merit	2%	2.9%	2.3%	
Percentage of females in management positions*	6.6%	8.4%	8.7%	

* Females in management positions: female employees whose position is higher than manager in the office position and senior staff in the administrative position

Employee Training

Item	2015	2016	2017
Training hours per person	53.9	72	94
Training budget per person	2.5 million KRW	2.2 million KRW	2.3 million KRW

Harassment Prevention Training

Item	2015년	2016년	2017
Number of employees who completed the harassment prevention training	482	507	440
Rate of completion	97%	99%	100%

Parental Leave

Item	2015	2016	2017
Number of employees who worked more than one year after their parental leaves	3	5	4
Retention rate of employees who used parental leaves	100%	100%	100%
Percentage of employees who worked more than one year after their parental leaves	43%	56%	66%

Pension Support

Item	2015	2016	2017	
Operation Amount*	Defined Benefit Plan**	65 billion KRW	65 billion KRW	53 billion KRW
	Defined Contribution Plan**	140 million KRW	240 million KRW	290 million KRW
Number of subscribers	Defined Benefit Plan	640	543	491
	Defined Contribution Plan	16	16	13

* Accumulated amount as of year end ** DB (Defined Benefit Plan): Lump sum payment upon retirement *** DC (Defined Contribution Plan): Retirement payment in installment per year

Salaries, Severance Pay, And Welfare Benefits

Item	2015	2016	2017
Salaries	134,149	214,332	219,677
Severance Pay	11,597	12,982	15,459
Welfare Benefits	30,384	48,004	49,421
Total	176,130	275,318	284,577

(Unit: million KRW)

Occupational Safety and Health

Item	2015	2016	2017
Accident incident rate	0	0	1.3%
Accident at work	0	0	1*

* One ankle injury during athletic event

Third Party Assurance Statement

■ INTRODUCTION

The Korean Standards Association (“KSA”) was commissioned by LG International to perform a Third-party Assurance Engagement of ‘2017-2018 LG International Sustainability Report’ (the “Report”). KSA presents independent opinions to the result of feasibility of the data contained in this Report. LG International has sole responsibility for contents and performance contained in this Report.

■ INDEPENDENCE

As an independent assurance agency, KSA does not have any kind of commercial interest in businesses of LG International apart from undertaking a third-party assurance on the Report. We have no other contract with LG International that may undermine credibility and integrity as an independent assurance agency.

■ ASSURANCE STANDARDS AND LEVEL

This Assurance Engagement followed the AA1000AS (2008) assurance standards to provide Moderate Level assurance. We checked the three principles of inclusivity, materiality, and responsiveness in combination with information credibility of the Report. We also verified whether the Report content was created in accordance with the GRI standard.

■ ASSURANCE TYPE, SCOPE AND LIMITATIONS

We performed a Type 2 Assurance Engagement in accordance with AA1000AS. This implies that we verified the accuracy and quality of the statements made by LG International and the sustainability performance data included in this Report. The scope of verification is a period from Jan 1, 2017 to Dec 31, 2017, and depending on the content, includes some information for the first quarter of 2018. The scope of this Assurance Engagement primarily includes the systems and initiatives undertaken by LG International including its sustainable management policies, goals, projects, standards and performance during the reporting period defined in the Report. While the company's environmental and social data as well as financial data was verified, the scope of review concerning stakeholder engagement was limited to the materiality test process.

■ METHODOLOGY

The Assurers collected data, information, and evidence via following method.

- Written interview with sustainability managers in LG International
- Analysis and verification on Report draft data of LG International
- Crosscheck between financial performance data in the Report and the data in the Assurers' report on the Company's financial statements and disclosures
- Track and examine internal documents and basic data
- LG International in-person assurance

■ ASSURANCE RESULTS AND OPINIONS [On an assurance principle/process level]

The Assurers reviewed the draft version of this Report to present our opinions as an assurance provider. Modifications were made of the Report content if deemed necessary. Assurers were not aware of any significant errors or inappropriate descriptions in this Report during the Assurance Engagement. As such, we present our opinions of the 2017-2018 LG International Sustainability Report as follows.

□ Inclusivity

Did LG International include stakeholders in the process of strategically responding to sustainability?

The Assurers confirmed that LG International is aware of the importance of stakeholder engagement and is making efforts to establish a process for participation in sustainable management. In addition, The Assurers have identified key stakeholders such as shareholders, investors, customers, partners, employees, and local communities as its key stakeholders and has a communication channel for each stakeholder group.

□ Materiality

Have LG International included important information for the wise judgment of stakeholders in the report?

The Assurers believe that LG International has not omitted or excluded important information from stakeholders. We also confirmed that LG International has conducted materiality assessments as a major issue derived from internal and external environmental analysis and reported on the results.

□ Responsiveness

- Has LG International adequately responded to stakeholder needs and interests?

LG International has confirmed that it is making efforts to respond to the needs and interests of its stakeholders by reflecting opinions collected from stakeholders in the report. We also found no evidence that LG International's response to key stakeholder issues was reported inappropriately.

■ GRI STANDARDS STANDARD APPLICATION

The Assurers have verified that the Report was prepared in accordance with the Core Option of GRI Standards. Based on the data provided by LG

International, contents in relation to Universal Standards and Topic-specific Standards are confirmed facts.

□ Universal Standards

The Assurers have verified that the Report complied with the requirements of Core Option of GRI Standard and the following indices 102-1 to 102-13 (Organizational profile), 102-14 (Strategy), 102-16 (Ethics and integrity), 102-18 (Governance), 102-40 to 102-44 (Stakeholder engagement), 102-45 to 102-56 (Report practice), 103 (Management Approach).

□ Topic-specific Standards

The Assurers have verified that specified disclosure list on Material Aspect that was deduced disclosure list determination process, and the following indices.

- Economic: 201-1-3, 203-1-2, 205-2-3
- Environmental: 303-1, 305-1/2, 306-2
- Social: 401-2, 401-3, 403-3, 404-1, 404-2, 405-1, 408-1, 412-2, 413-1, 413-2, 414-2, 419-1

■ OPINIONS AND RECOMMENDATIONS [Performance/Issues]

The Assurers offer the following proposal to implement strategies in sustainability management in response to the issues with coherence at an organizational level in LG International

□ Economic performance

LG International is investing in people and businesses based on its resource and infrastructure businesses and is preparing for a new future with a vision to grow together the values of the world. In recent years, since global uncertainties such as interest rate fluctuations and changes in trade policies have increased, we recommend that LG International upgrade its infrastructure, logistics and resources businesses will continue to manage financial and non-financial risks and proactively respond to changes in the business environment in response to the volatility of the global economy.

□ Environmental performance

Among LG International's business areas, coal and oil resource development, thermal power plants, and cement plants are areas of great environmental risk, and their significance is increasing. LG International recognized the importance of non-financial impacts and confirmed that it is carrying out management activities through EHSS (Environmental, Health & Safety, Social). In the future, we recommend that you formulate related strategies and targets in accordance with the importance of global environmental risk, and prepare reports focusing on the results of implementation through implementation of implementation tasks. Mid- to long-term strategy formulation and goal management in environmental management are not only advantageous for continuous improvement of company performance, but also lead to improvement of communication with stakeholders through sustainability report. Furthermore, since environmental performance is required to be focused on field data, it is necessary to include overseas business sites in the organizational boundary.

□ Social performance

LG International faces various social and environmental risks in the global supply chain. LG International recognizes that the environmental, safety, health and social impacts associated with the business are directly linked to the sustainability of the company. The company understands the environmental and safety policies of the countries in which they operate and affects their communities in advance and actively responds to them. The EHSS checklist has been developed with 200 items on the basis of global environmental and safety management standards. We have confirmed that we are conducting risk identification and improvement activities for each company through an inspection twice a year. Since September 2015, the United Sustainable Development Goals (SDGs) have been adopted to help governments and businesses fulfill their sustainable development goals. Given that LG International's value chain is spreading all over the world, we look forward to managing future activities and achievements, as well as future plans, in conjunction with the UN Sustainable Development Goals (SDGs)

June 2018

Sang-Jin Lee, KSA Chairman & CEO

이 상진



Korean Standards Association (KSA), established as a special corporation in accordance with the Law for Industrial Standardization in 1962, is serving as a knowledge service provider who distributes and disseminates such services as industrial standardization, quality management, sustainability management, KS certification and ISO certification. KSA is committed to the sustainable development of Korean society as an ISO 26000 national secretary, certified GRI training partner, AA1000 assurance provider, KSI (Korea Sustainability Index) operator, UN CDM DOE (development operational entity), and assurance provider of the Korean government's greenhouse gas energy target management system

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	103-3	Evaluation of the management approach
Environmental Compliance	307-1	Non-compliance with environmental laws and regulations
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Employment		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
Employment	401-1	New employee hires and employee turnover
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees
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Occupational Health and Safety		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
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Training and Education		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
Training and Education	404-1	Average hours of training per year per employee
	404-2	"Programs for upgrading employee skills and transition assistance programs"
Diversity and Equal Opportunity		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees

Topics	Disclosures	Pages
Child Labor		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
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Child Labor	408-1	Operations and suppliers at significant risk for incidents of child labor
Forced or Compulsory Labor		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
Forced or Compulsory Labor	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor
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GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
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Human Rights Assessment	412-2	Employee training on human rights policies or procedures
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GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
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GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
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Socioeconomic Compliance		
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
	103-3	Evaluation of the management approach
Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area

Awards and Association Memberships

Awards

Awards	Host Organization	Year
Recognition for Development of Foreign Resources	Energy & Mineral Resources Development Association	2017
1st place in Trading, Korea Sustainability Index (KSI)	Korean Standards Association	2017
Deal of the Year (Financial Award for Excellent Project)	IJ Global (Project Finance & Infrastructure Journal)	2016
Minister Award of Trade, Industry, and Energy at the "Indonesia CSR Award"	Jointly hosted by the Embassy of Korea in Indonesia, KOTRA, Indonesia Investment Coordinating Board, and Small and Medium Business Administration of Indonesia	2015
Commendation for contribution to overseas resources development	Energy & Mineral Resources Development Association of Korea	2014
Prime Minister's Commendation on Annual Trade Day Korea	Korea International Trade Association	2013
Minister of Trade, Industry & Energy's Commendation on Annual Trade Day	Korea International Trade Association	2013
Minister of Trade, Industry & Energy's Commendation on Annual Trade Day	Korea International Trade Association	2012

Association Memberships

Name of Association	Major Roles
Korea-Oman Friendship Association	• Exchange information and strengthen ties among organizations and companies of Korea and Oman
Korea Chemical Management Association	• Completes required training for legal compliance and reports relevant data
Korea Customs Logistics Association	• Participated in the patent operation and acquisition for the Gumi Hub (public bonded warehouse)
Gumi Chamber of Commerce and Industry	• Joined in accordance with the membership requirement set by the sales tax standards of the Chambers of Commerce and Industry Act
Korean Chamber of Commerce and Industry	• Joined in accordance with the membership requirement set by the sales tax standards of the Chambers of Commerce and Industry Act
Korea International Trade Association	• Joined in accordance with the Foreign Trade Act
Korea Listed Companies Association	• Shares information on major company announcements and relevant issues
Korea Investor Relations Service	• Receives informative letters and participates in IR-related trainings and seminars • Provides administrative support for general meetings and result announcements
Korean Bar Association (Seoul)	• Engage in legal activities such as litigation and maintain the legal qualification and authorities including litigation and legal advice in different countries
Law Society of New South Wales	• Maintain the legal qualification and authorities
Law Society of New South Wales	• Maintain the legal qualification and authorities
Emergency Planning Association	• Participation as an Emergency Planning Agency resident company (military drills, etc.)