

# Be a Forerunner

through Digital, Speed and People

Be a Forerunner through Digital, Speed and People



# About this Report

Our new sustainability slogan, ‘Be a Forerunner’, expresses our willingness to forge ahead with agility in an ever-shifting market. Our most challenging task, however, is much grander than simply pursuing our own interests. To ‘Be a Forerunner’ engulfs a much wider concept; it involves spanning our reach out into the spheres of our stakeholders and the impact we have on their businesses. Our mission is to find the common value we can offer to society and the world.

As expressed in this report’s cover image, an athlete symbolizing TaeKwang’s people foresees the world ahead through the lens of telescope. Reflecting ‘digital’ and ‘speed’ on each respective lens, the telescope describes how the forerunner prepares for future market demands. Digital allows us to make use of precise data to optimize our resources, while speed equips us to sufficiently align and manage our production capacity and operations. Above all, the skills and diversity of our people underpin everything we achieve throughout our business. With this underlying message, our 2019 report shares TaeKwang’s best business cases on digital, speed and people.

**Reporting Period**  
January 2019 - December 2019

**Reporting Boundary**  
Our headquarters in Korea, and offshore factories in Vietnam, Indonesia and China

**Reporting Cycle**  
Annual reporting

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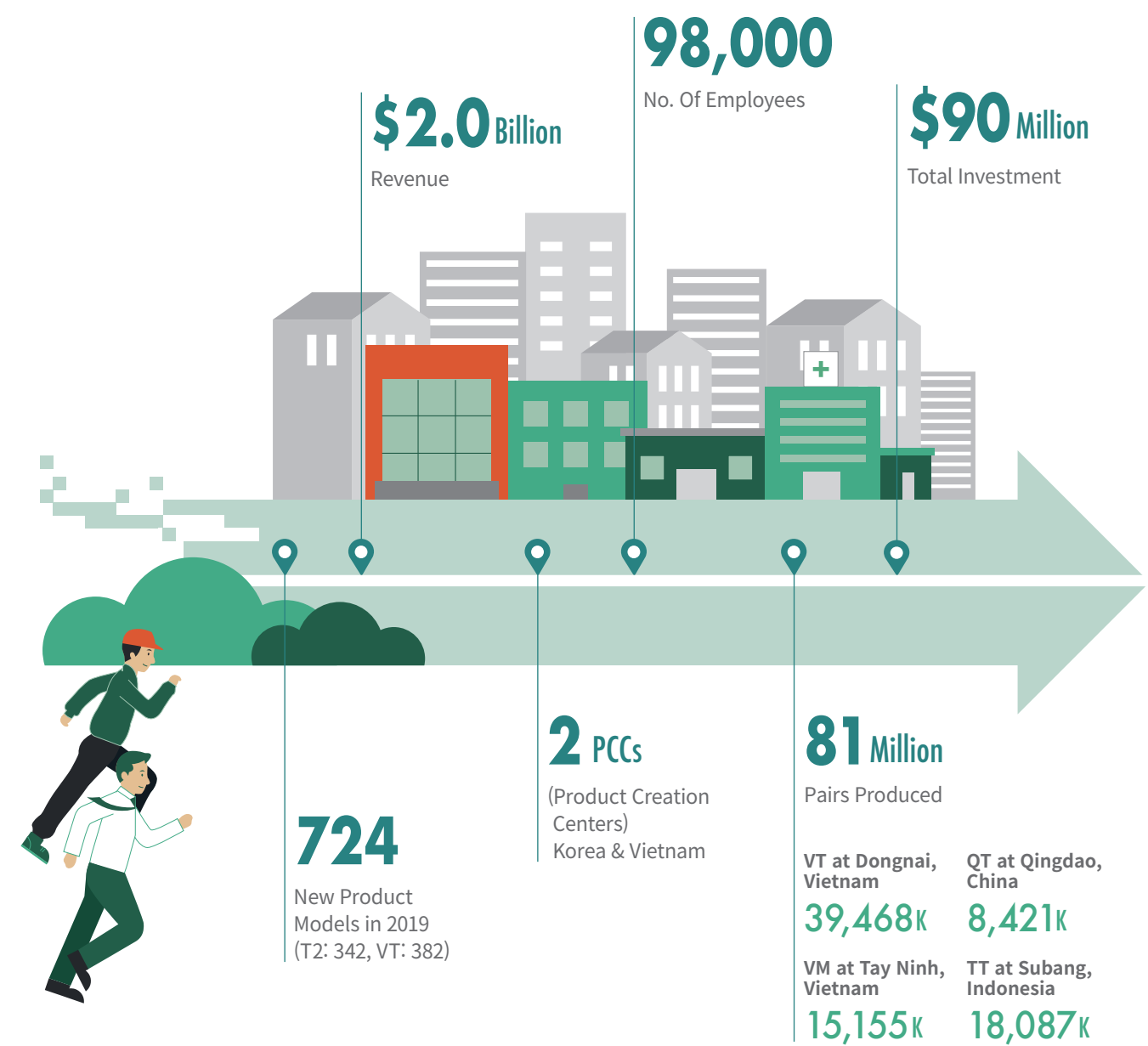
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# Our Present and Future

## TaeKwang at present

For last 49 years, TaeKwang has grown into a leading footwear development and manufacturing company with continual growth in revenue, workforce and production capacity. In midst of our business growth, we ensure to manage a range of sustainability issues spanning the environment, our workforce, ethical concerns and our community.



## Key performance indicators on sustainability

Category	Unit	2016	2017	2018	2019
Environment 2020					
Energy consumption	kWh/p	4.2	4.0	4.0	4.4
Solid waste	g/p	208.56	205	210	212
Landfill	-	0	0	0	0
Solid waste recycling rate	%	64	54	54	56
Water consumption	l/p	26.02	22.4	20.8	21.4
Wastewater recycling rate	%	43.9	32.9	37.4	39.2
Compliance with ZDHC MRSL <sup>1)</sup>	%	-	-	-	100
Workforce of the Future					
Turnover rate	%	1.28	1.46	1.65	1.80
Recordable Incident Rate (RIR) <sup>2)</sup>		0.63	0.40	0.30	0.20
Days Away, Restricted, Transferred (DART) <sup>3)</sup>		0.20	0.12	0.12	0.08
Fatality		1	0	0	0
Stronger Community					
Lovely Hands Fund	USD	73,668	67,509	43,028	80,325
	no. of beneficiaries	32	24	16	34
Golden Heart Fund	USD	53,560	19,305	34,725	91,219
	no. of beneficiaries	23	7	13	24
Jeongsan Scholarship Foundation	USD	305,000	204,000	145,000	183,000
	no. of beneficiaries	104	79	64	75
Student scholarship (Indonesia)	USD	17,967	22,896	29,585	28,839
	no. of beneficiaries	33	33	63	70
Mocbai-Gyeongnam Medical Association	USD	3,200	5,961	8,628	7,000
	no. of beneficiaries	1,500	1,605	1,400	1,000

\*Data coverage: T2, VT, QT, VM, TT

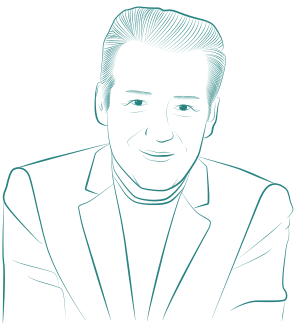
1) Manufacturing Restricted Substances List (MRSL) developed by Zero Discharge of Hazardous Chemicals (ZDHC) Foundation

2) RIR: Total number of recorded injuries / (Total hours worked x 200,000); excludes minor injuries that require only first aid treatment

3) DART: Total number of lost days / (Total hours worked x 200,000)

# CEO Dialogue on TaeKwang’s Future

For our dialogue interview with our CEO, JM Kim, we drew up five questions concerning our plans and views on the most recent issues on economic, environmental and social topics, which we believe are key to the future growth of our company.



**Q. What differentiated strategy is TaeKwang making to maintain its competitiveness in the future footwear industry?**

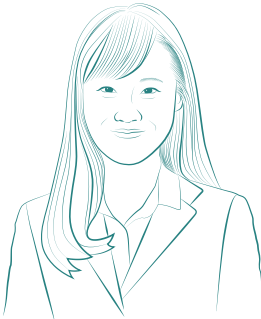
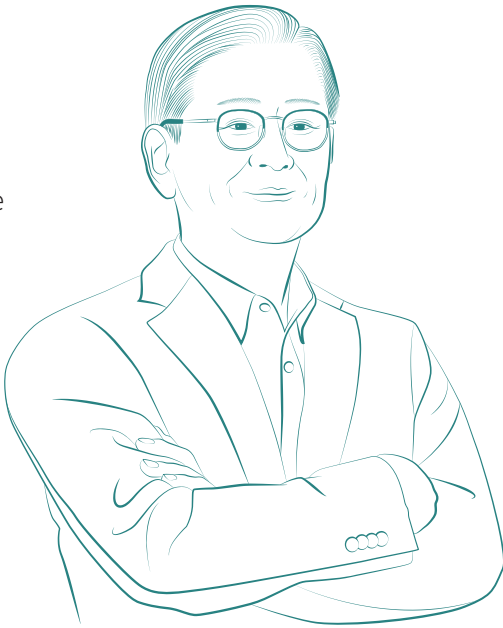
**A.** Our company’s competitiveness starts with Innovation. Over the past 50 years, the core competitive advantage of our company has always been our ability to create innovative engineering solutions for our footwear partner and business. We have an amazing organization of people and technical talent that are challenged daily to deliver creative solutions and solve problems that improve efficiency and ensure product excellence. Recognizing innovation as one of the foremost priorities, our management is committed to reinforcing our innovation capabilities that could differentiate us from our competitors now and well into the future.

**Q. As consumers become more environmentally aware, demand for eco-friendly products in the footwear industry will rise. What efforts is TaeKwang making to reduce its environmental impact over the entire production process?**

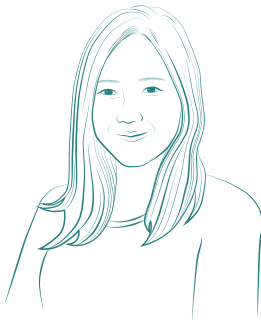
**A.** As public interest in environmental protection continues to grow, we realize that waste management is an important risk factor that can affect the success of our company. Therefore, we try to select more eco-friendly materials from the development stage and seek to minimize waste generation by optimizing patterns and tooling designs. In addition, we try to reuse generated waste as much as possible, and we achieve 'zero waste landfill' through heat recovery.

**Q. As the impact of climate change worsens, what does Taekwang as a responsible corporate citizen, plan to do about introducing renewable energy?**

**A.** Factors that were once not considered crucially severe in the past have now become major risk factors for companies today. One of these factors, inevitably, is climate change. As climate change becomes an ever-increasing issue that



needs to be addressed at the corporate and government levels, we at Taekwang recognize it as an urgent matter in our company as well. To this end, we fully understand the need to transform the energy sources used in our production plants to tackle this problem. As a first step, we have signed a renewable energy power purchase agreement (PPA) with government agencies and installed solar panels at our plant in Vina, Vietnam, this April. By 2025, we plan to expand the installation of solar panels to our factories in Moc Bai and Can Tho in Vietnam and to Subang in Indonesia.

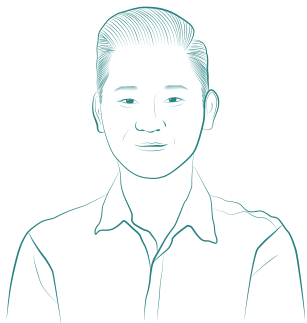


**Q. As Taekwang is undergoing a transition towards new leadership, what countermeasures should the company prepare to ensure that the next generation continues to grow?**

**A.** For the past 50 years, we have achieved seemingly endless growth. The first generation grew within a dynamic cultural framework that pursued the core values of 'being the best', being 'creative', pursuing 'innovation', and 'mutual trust'. In addition to the foundation of this culture, we must now prepare for the future of TaeKwang by transferring the knowledge and expertise of our company to second generation leaders. It is essential to create an environment where new hires can strengthen their capabilities and grow continuously within the organization. As a first step to this end, we are deploying appropriate personnel for each department, and providing them training programs to advance their successful career development in the footwear industry.

**Q. The newly hired millennial employees often put a greater emphasis on working within a flexible and free corporate culture high on their wish list when searching for a good job. How does Taekwang tailor their efforts to help young talent successfully adapt to the company and pursue a satisfying career?**

**A.** Since our young employees are the key leaders of Taekwang’s future, we consider the change of our management direction to adapt to the way the younger generation pursues a career, a massive and important task. First and foremost, communication is key. We need to know how our employees are feeling in their workplace, and we're focusing on creating and making available an internal, easily accessible communication channel. This kind of tool will prepare us to take action and reflect on the feedback from the opinions received by management to enhance the trust and satisfaction of our employees.



The year 2021 marks our company's 50th anniversary. If we were to consider 100 years as the standard benchmark for longevity, we are now in the final stage of the first half. By looking back on the past 50 years, we will continue to explore and implement ways to maintain our strengths, adapt to changing environments, and continue to grow.

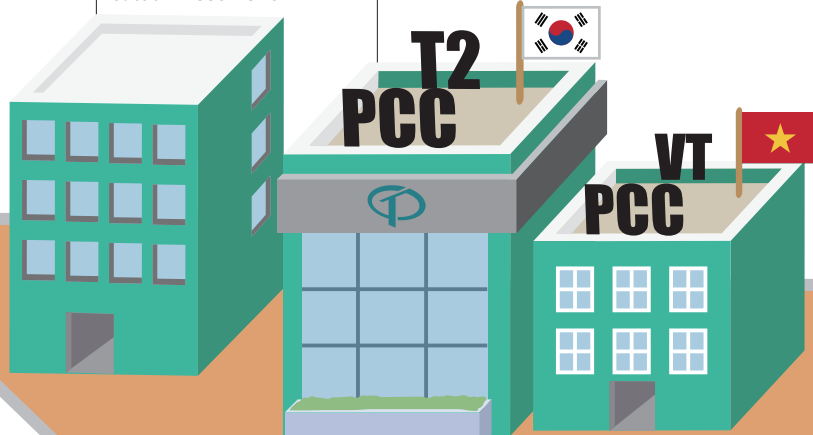
# Rapid, but Sustainable

As our business has expanded in line with market and customer demand, we scaled up our manufacturing capacity as well as our investment in workforce and technologies in 2019. To pursue business in a sustainable way, we strive to bring values to our stakeholders including customer, employees, suppliers and local communities throughout our business activities.

## 1 PRODUCT DEVELOPMENT

\$90 Million  
total investment

724  
new product models



2,500  
candidates assessed  
with AI interview

\$488k  
investment on  
employee training

AI System

R&D TALENT MANAGEMENT



SUPPLIER COLLABORATION

889 tons

supplier take-back for reuse

## 2 OFFSHORE FACTORY PRODUCTION

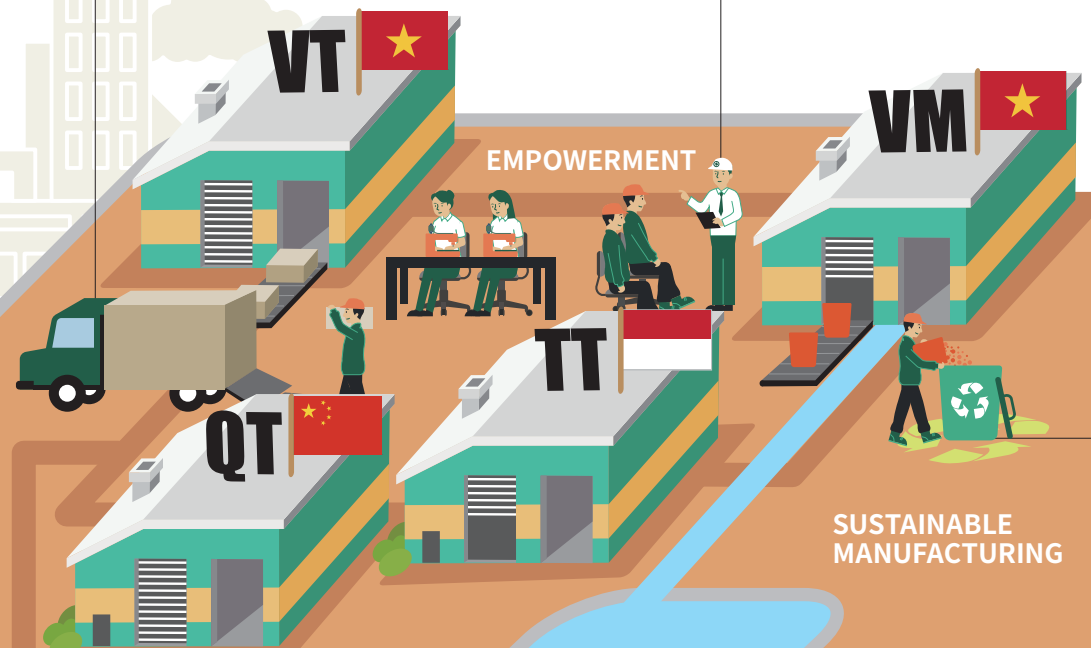
LOCAL HIRE

11%  
increase of  
workforce (YoY)

11%  
increase in  
pairs produced (YoY)

0  
fatality

4%  
increase in employee  
satisfaction rate



EMPOWERMENT

ENGAGEMENT

ZERO  
landfill

56%  
waste  
recycling rate

SUSTAINABLE  
MANUFACTURING



Digital  
management system

100%  
compliance with  
ZDHC MRSL

39.2%  
wastewater  
recycling rate

## 3 COMMUNITY CONTRIBUTION

\$212k  
scholarship (Korea, Indonesia)

STUDENT  
SCHOLARSHIP

EMPLOYEE WELFARE

In-house  
Hospital  
for employees and community

Up to  
500  
children of our workforce in  
VINA kindergarten

PRODUCT  
INNOVATION



R&D TALENT  
MANAGEMENT



SUPPLIER  
COLLABORATION



LOCAL HIRE



EMPOWERMENT



ENGAGEMENT



SUSTAINABLE  
MANUFACTURING



STUDENT  
SCHOLARSHIP



EMPLOYEE  
WELFARE

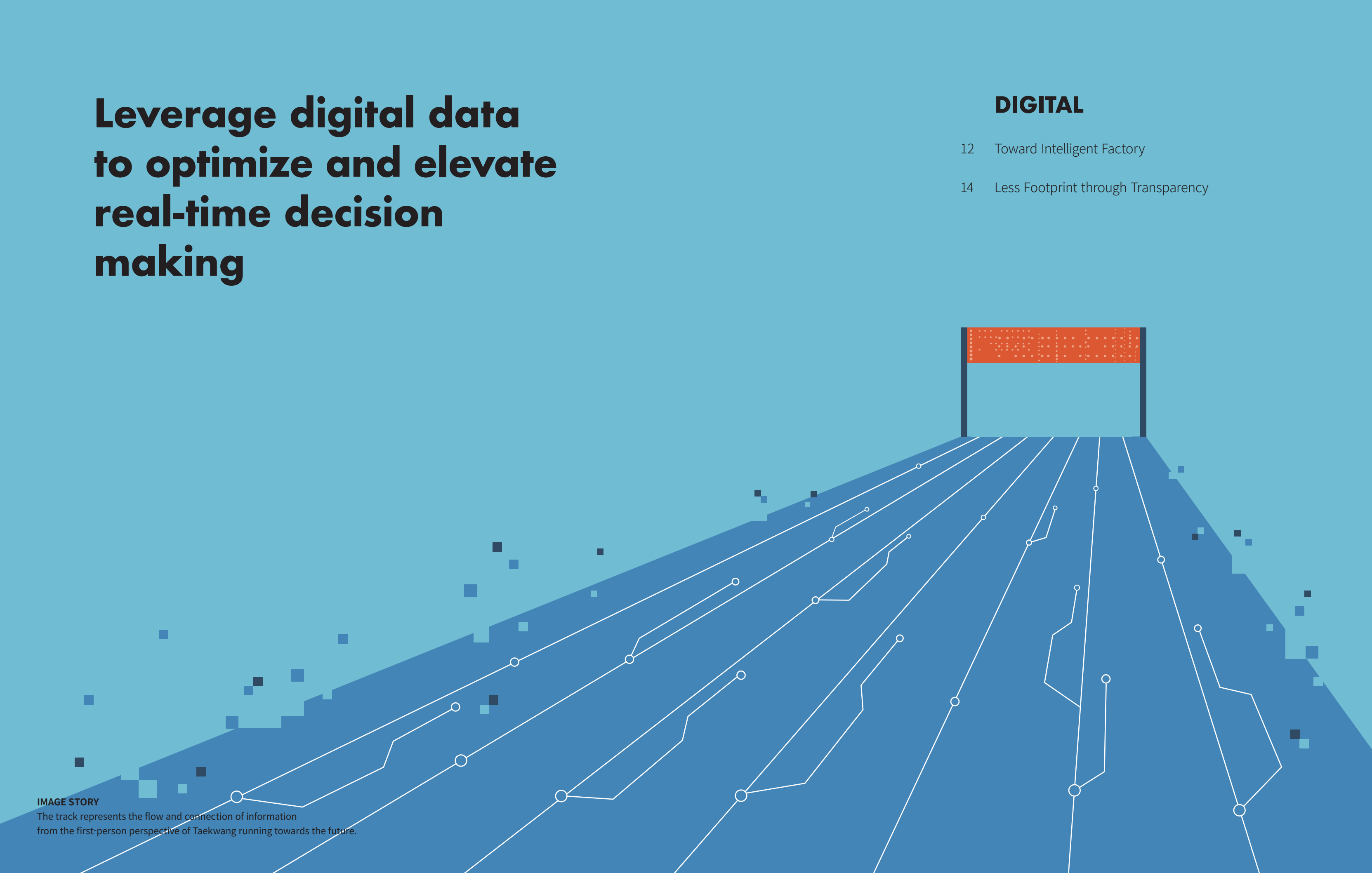


# Leverage digital data to optimize and elevate real-time decision making

## DIGITAL

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**IMAGE STORY**  
The track represents the flow and connection of information  
from the first-person perspective of Taekwang running towards the future.





# Toward Intelligent Factory



*“The establishment of an information system that can link and integrate all these processes quickly within a system is the competitiveness of our organization.”*

## Ensure complete visibility with digital data transparency

In manufacturing products, we must always be prepared to align our production capacity with demand changes in the global footwear market. Especially when there is an increase in the market demands, our entire manufacturing process, including our equipment, materials and workforce, must all be synchronized to work flawlessly as one team.

Before, with the absence of a real-time data-sharing platform, our production took a hit with unexpected changes in plans such as customer order alterations. Data regarding materials and other resources needed throughout the complex manufacturing process remained scattered, isolated and obscured.

To address this, TaeKwang has evolved its own Manufacturing Execution System (MES). This digital production management system monitors inventory and all steps of the assembly process in real-time, enabling quick, reactive and systematic decisions to problems as they arise.

- Transforming qualitative experiences into measurable quantitative data
- Database management of available resources (molds, equipment, materials)
- Quick data-based planning & production capacity analysis
- Real-time machine/inventory monitoring & problem identification throughout entire production process
- Preemptive problem-solving

## With all our production processes synchronized, we can preempt risks and optimize efficiency

MES has already proven to be a success based on the numbers from our VT factory in Vietnam. With an embedded warning system, MES can reduce product defects and increase efficiency. Once implemented at all our sites, MES will be at the heart of optimizing our resources, increasing quality, and maximizing production productivity.

### Key Performance

Production productivity

**3~5%▲**

Production set match rate

**97.2%▲**

# Less Footprint through Transparency



*“To keep stability of manufacturing our products, we need an integrated monitoring system that automatically controls and manages all our production and utility facilities.”*

## From real-time monitoring and automated controls, risks are averted while productivity is boosted

To keep pace with market demands, Taekwang adjusts the size and production capacity of its factories, which is apt to be beneficial for overall energy use. To proactively manage facilities and energy flows with efficiency and cope with climate change, we have built our own Total Monitoring System (TMS). It is an integrated system that covers the functions of our existing energy monitoring, as well as the management of the press machine and utility power system.

With TMS available both online and by way of mobile phones, we are able to monitor the status of our facilities at any of the factory plants with just a glance. Through real-time monitoring and automated control of the facilities, TMS enables us to perform a variety of functions:

- Inspect the energy flow and conditions of the facilities across each plant with greater accuracy
- Predict abnormal signals, voltage balances and maintenance times of the operating facilities.
- Automatically take control of the facilities upon detecting a risk
- Analyze the work productivity through accumulated data

The series of these functions can optimize energy use and increase plant stability, minimizing unplanned downtime and improving productivity.

We will continue to expand TMS not only into the outsole/phylon press machines and utility power system, but also into stockfit and assembly conveyors, which would eventually cover our entire manufacturing process.

## In manufacturing products, we discover ways to reduce our carbon emissions

### Key Performance

Average daily production of Phylon

**7,545** pieces  
( YoY 2.91% ▲ )

Downtime in phylon production

**1,935** hours  
( YoY 46.74% ▼ )

Carbon emission reduction

**1,039** ton CO<sub>2</sub>e  
( 2,298,968 kWh )

(from VM factory in Mocbai, Vietnam)





#### IMAGE STORY

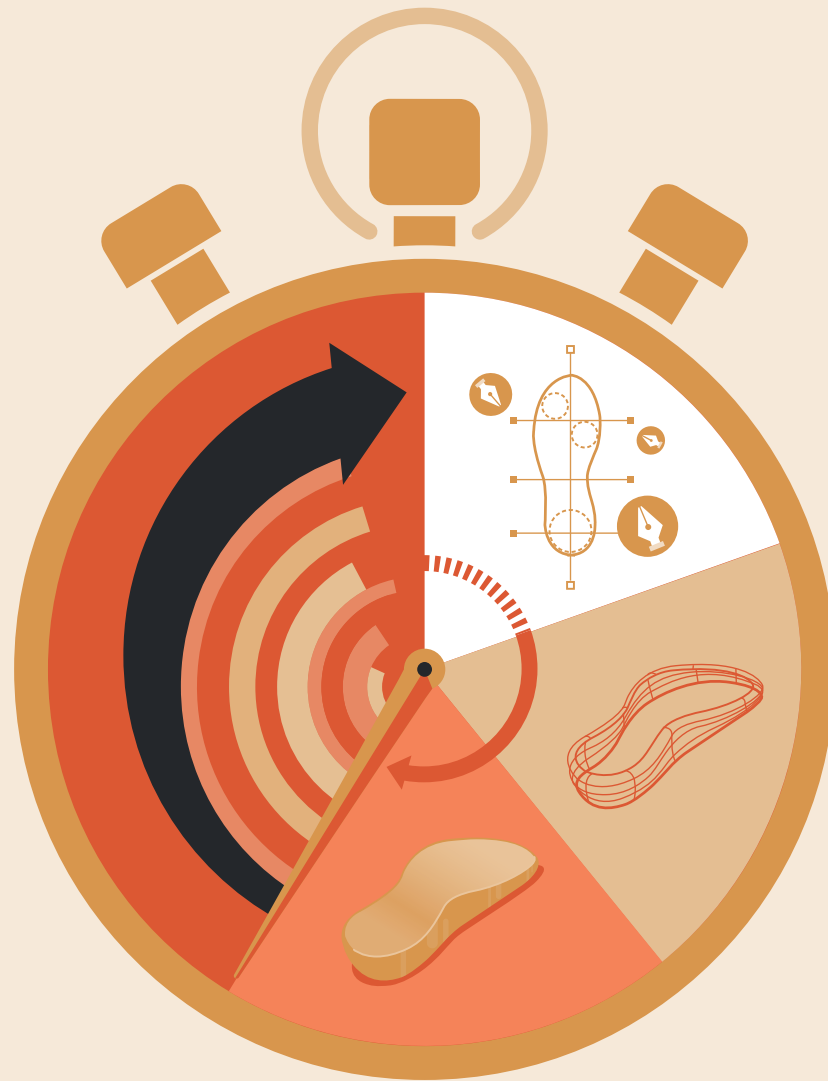
The clock image expresses speed saved from the transition of our analog process into digitized process.

# The art of simplifying the process, remaining agile and responsive to emerging challenges

## SPEED

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# Improved Products and Delivery Times



*“As market demands soar, designing various models and quantities for sample production in the shortest period of time is key to securing our market dominance.”*

## We endeavor to be number 1 in delivering the finest products to the market

At TaeKwang, we continually brace ourselves to be agile and gain an edge on the competition by introducing innovative products and fulfilling customer requirements.

Although we have digitized much of our manufacturing process, there still remains a great deal of manual work in our sample development process as it requires craftsmanship and expertise of our technicians and engineers.

We have therefore put much effort into digitizing the personal experiences and skills of our engineers, which ultimately speeds up our product development through building up the database. In 2019, we focused on digitizing two main processes in our sample development, modeling and patterns, which dramatically reduced our overall lead times in product development.

Having developed the Integrated Shoe Design System (ISDS) for over 10 years, our Tooling Engineer Team has successfully implemented and expanded the system into Section Auto Drawing, Footbed Surface ER Grading, Machining and Design in the modeling process. Our Pattern Engineering Team has also reinforced pattern bank contents and standardized technical processes in pattern engineering.

We can apply the ISDS to 60% of our developing models; and once we approve its effectiveness, we will recruit a programming staff for the expansion of the ISDS while securing a variety of rapid tooling(RT) technologies.

## Tackling the most lengthy processes speeds up our entire product development

### Key Performance

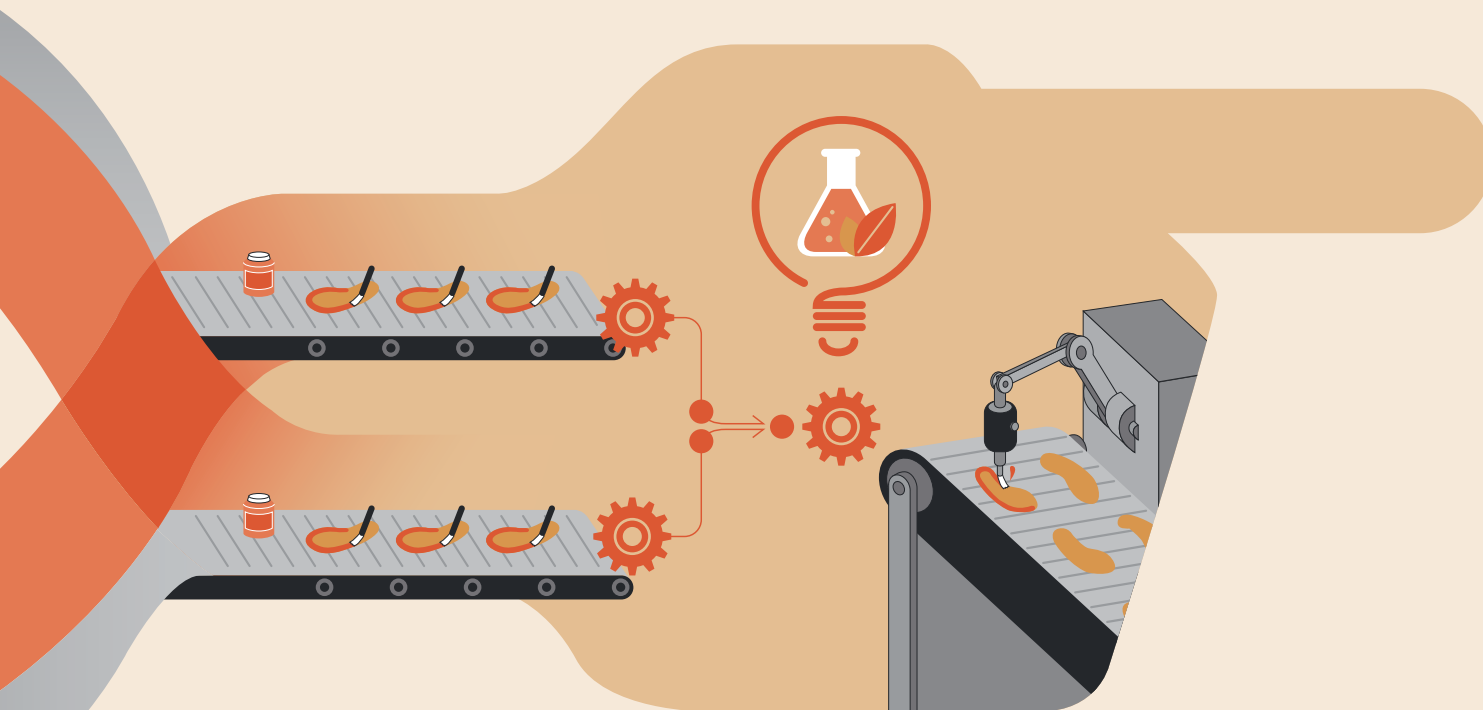
Work efficiency

**33.2% ▲**  
( in tooling )

Average lead time

**66% ▼**  
( in tooling )

# Perfecting Processes for Greater Results



*“We strive to collaborate with suppliers for material innovation beyond customer’s expectation.”*

## Fixing what’s not broken is how we speed up our process

At TaeKwang, we are never fully satisfied with our processes. We are constantly on the lookout for how we can continue to innovate our manufacturing by examining and assessing each step for further improvement. Pushing to continually advance the levels of our quality and speed of our product development enables us to enhance our processes and optimize input resources.

Process innovation is crucial for our productivity levels to stay aligned with our business goals. In 2019, we tackled a step in the stock fitting process that had remained the same for decades.

The high-solidity single-side adhesive (SSA) was developed which allowed us to skip the cementing application step in the stock fitting process, cutting down the usage of adhesion from two steps to one. Applying the SSA to five product models and 4.4 million pairs in 2019, we streamlined our production lines and experienced positive impacts as below.

- Minimized our input resources
- Saved energy consumed in the drying chamber
- Improved layout and secured space in the production plants
- Reduced use of chemical

In 2020, we will be expanding our use of the SSA to 10 million pairs and applying it to new models in the earliest stages of development, internalizing our innovation across the manufacturing of all our models. Furthermore, we are planning to incorporate the SSA into Auto Cement Outsole (ACO) to transition from manual work to automation.

## We are committed to process innovation as a priority

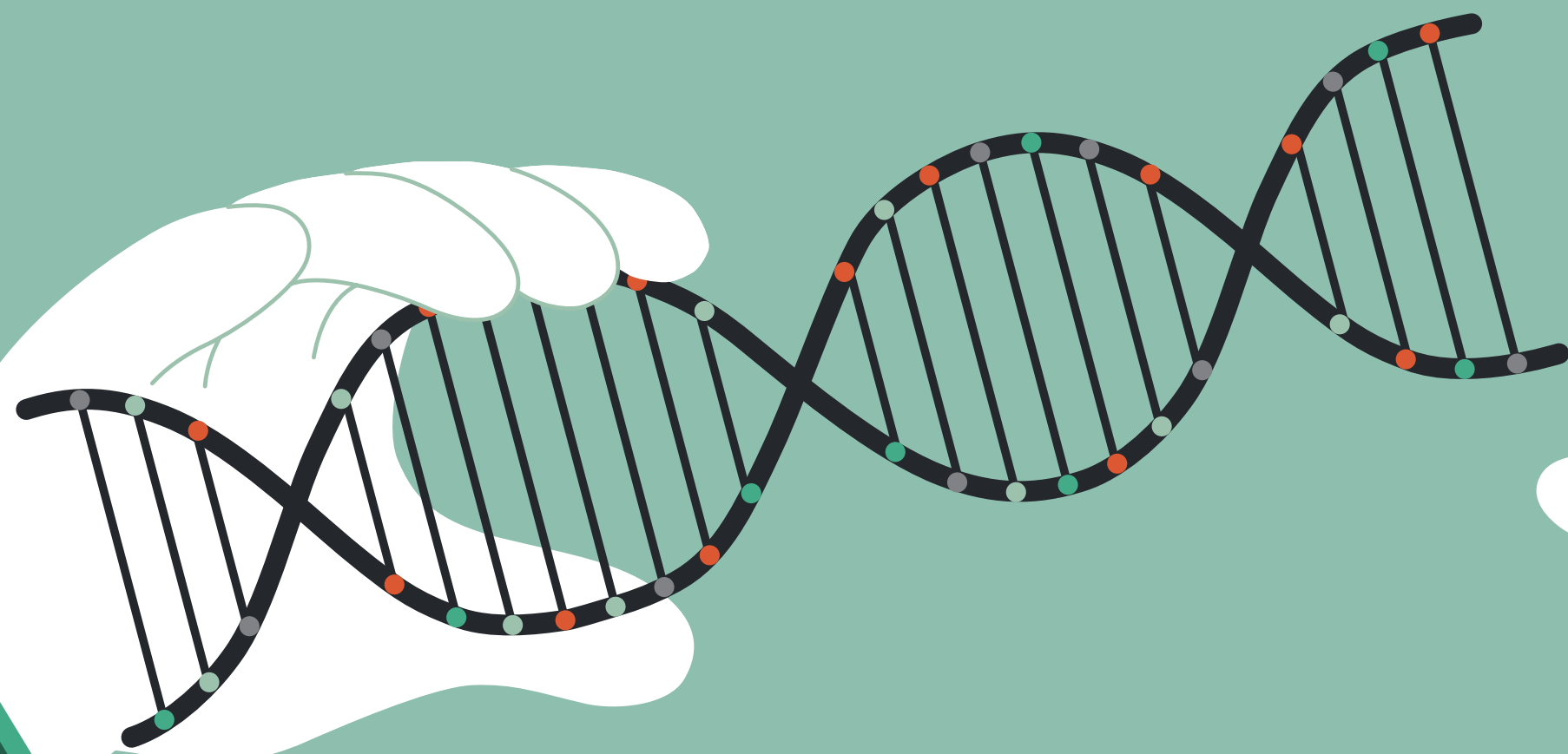
### Key Performance

Cost saving in stock fitting process **\$318,668**

Avg. production time in stock fitting process **18.6% ▼**

Reduction in chemical use **11,198kg ▼**

# Empower future talents with TaeKwang's DNA to win our next race



## PEOPLE

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**IMAGE STORY**  
The action of baton touch symbolizes Taekwang's current employee passing on Taekwang's DNA to a new employee.

# Corner the Market on Talent



*“We will continue to enhance our workforce to embody  
Taekwang’s key attributes:  
Creative, Globally-minded, and Professional.”*

## The right people and training can build upon our legacy in the footwear market

Our workforce and their skills are the key assets that promise our sustainable growth. During this time of preparation for the next decade, we cannot emphasize enough the importance of maintaining our core competence that has played as a driving force for Taekwang’s growth for the past 50 years.

From the many years of developing and retaining our workforce, we have accumulated our unique “Taekwang DNA” that defines our talent attributes. In 2019, we introduced an AI interview system to analyze factors such as the potential job competence and performance potential of candidates applying to our company in an unbiased and accurate manner that fall in line with the tenants of our core corporate identity. Findings from the AI system are considered in the final recruitment process.

For recruited candidates, we provide training courses including the ‘Shoe Academy’ and ‘PM School’ apart from basic education so as to cultivate knowledge and expertise in the footwear industry. In particular, we operate the Shoe Academy twice a year and cover a total of eight topics, aiming to instill a comprehensive understanding of the entire shoe development process.

### Topics covered in Shoe Academy

Pattern	Chemical
Tooling	Quality management
Material	Lean/IE
Modernization	Innovation

## Our workforce ensures our product excellence and sustainable growth

Since shoe manufacturing requires craftsmanship (as in the sewing process), we ensure that our new workforce attains Taekwang’s core skills and techniques that have been passed along over the last 50 years. To this end, we are planning to open the ‘Stitching Master School,’ a 6-month training program on stitching skills. In the future, we will continue to foster a competitive workforce that can pass on our legacy seamlessly to the new workforce.

### Key Performance

No. of candidates  
assessed with AI  
interview

**2,500**

No. of participants  
who completed  
Shoe Academy

**555**

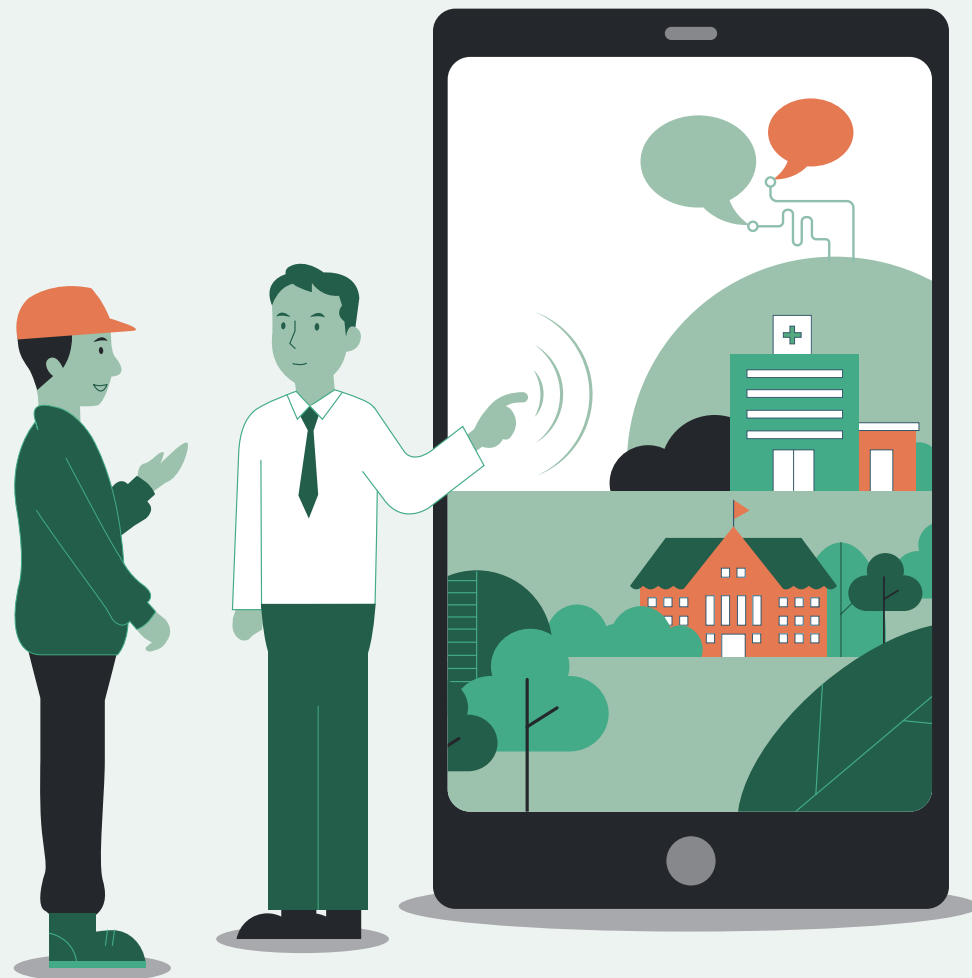
( from 2016 ~ 2019 )

Total investment in  
Employee Training

**\$ 488k**

( in 2019 )

# Trusted to Listen



*“We empower our workforce to bring up any suggestions, needs or areas for improvement because we believe they are one of the key enablers to bring innovation to our workplace.”*

## With the belief that our people's satisfaction is a driving force for sustainable growth, we receive input across multiple channels and take measures for improvements

It is never easy to collect opinions across multiple channels when there are more than 98,000 employees. Inconveniences or suggestions collected, however, reflect our employee's needs and satisfaction, and therefore provide grounds for our leadership to make informed decisions on employee issues. We are certain that any changes and improvements made following the input of our employees will strengthen the engagement and satisfaction of our workers.

Among numerous suggestions received, the request for us to establish an in-house kindergarten at the Vina factory was considered reasonable, for the fact that 84% of the workforce in the factory were women with a median age of 35 while 50% were migrant workers.

Following the establishment of the kindergarten, we found an increase in employees' satisfaction along with a decrease in the turnover rate and absenteeism. Such a change, we believe, was a strong driving force behind the high productivity and continual growth of Vina factory.

Aiming to effectively manage the input of our employees, we conduct a standardized survey called Engagement and Wellbeing (EWB) with a third-party on an annual basis.

- Randomly select anonymous questionnaires
- Reinforce activities that are rated highly
- Conduct Focus Group Discussions to identify causes for the low-scored activities
- Manage employees' Engagement & Wellbeing rate through the third-party analysis and suggestions

## Witnessing real and lasting change made from two-way communication empowers our people to stand behind our company

Our employees have played a key role in our monumental growth. For a smoother engagement with our employees, we continue to encourage two-way communication by creating a mobile platform called 'Worker Tech' that covers five categories as below.

	HR Portal(GHCM)		Online training
	Employee survey		Real-time grievance channel
	Policy communication and announcement		

### Key Performance

Sexual harassment concerns

50% ▼

Engagement level of EWB survey

60% ▲

Employee satisfaction score

75 points  
( 4% increase YoY )



# Commitment to the Future

## Journeying towards the end of 2020

The year 2020 has finally come - a closing year for us to check on the progress we have made through the 2020 Target against the 2015-16 base years. Towards the end of 2020, we will continue our journey towards achieving the below targets, and our final performance will be published in our next sustainability report.



## Moving towards 2025

Each year, TaeKwang has achieved record-breaking growth as a forerunner in the footwear market; and at the close of 2019, our entire group of companies joined forces with growth plans for another leap forward. As we face the global pandemic that no one could have ever expected, we are obligated to make wise decisions and reconstruct plans to overcome the current situation in a sustainable way. In this moment, we at TaeKwang will once again prove our potential through being resilient while keeping our sustainability commitments as outlined below:

### Commitment 1. Realize a global corporate culture based on trust and cooperation

Ethical practice and operations are a foundational priority of our business. It is imperative that we have a corporate code of ethics, charter, and practical guidelines in place. Through operating grievance channels and ethics trainings, we will continue to raise awareness on ethical issues and take appropriate actions against reported issues.

### Commitment 2. Take proactive steps to combat climate change

We acknowledge that climate change poses a serious threat to the global community. At present, we are focusing on improving the energy efficiency of our manufacturing facilities and implementing solar photovoltaic panels. We will take our first strong step to sign a renewable energy PPA (Power Purchase Agreement) for installing solar panels, with capacity of 1.3MWp at VT2 in 2020. By 2025, we will expand solar panel installment up to 6.7MWp in other factories in Vietnam and Indonesia.

### Commitment 3. Transition to a more circular economy with less waste impact

We are aware that the waste generated from our manufacturing factories significantly impact the environment. Our first priority is to continue our zero-landfill policy on waste. To minimize waste, we will procure multi-use materials and reduce defective products through process innovation.

### Commitment 4. Avoid the use of hazardous chemicals in manufacturing products

For a cleaner planet, the apparel and footwear industries are working together to achieve a zero-discharge level of hazardous chemicals (ZDHC). We will continue to prohibit use of restricted substances, while minimizing the use of chemical substances. We will also increase our investment in properly treated reclaimed water.

### Commitment 5. Ensure the fundamental rights of our workforce

We believe that a winning corporate culture begins with respecting the human rights of its workforce. We will strictly enforce Zero Tolerance Principles that prohibit any infringement of human rights in the workplace, and we will operate effective communication channels and timely resolutions through Group Disciplinary Actions.

### Commitment 6. Create a safe workplace with zero fatalities

Regardless of circumstance, we must remain steadfast in protecting the safety of our workforce. We will continue to enforce basic health and safety requirements and encourage all our employees to engage in a sound culture of safety. To improve the safety awareness, we will reinforce onsite trainings at our offshore factories.

# In Support of the UN Global Compact

As a member of the UN Global Compact since 2015, TaeKwang incorporates the Ten Principles of the UNGC in operating business to meet the fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption.

Category	Principles	TaeKwang's actions
Human Rights	1. Support and respect the protection of internationally proclaimed human rights	<ul style="list-style-type: none"> <li>• Enforce Zero Tolerance Principles</li> <li>• Reinforce TaeKwang Group Disciplinary Action</li> </ul>
	2. Make sure that they are not complicit in human rights abuses	<ul style="list-style-type: none"> <li>• Conduct education on anti-sexual harassment</li> <li>• Operate Mutual Trust &amp; Respect training and Cross-Culture Education</li> </ul>
Labor	3. Uphold the freedom of association and the effective recognition of the right to collective bargaining	<ul style="list-style-type: none"> <li>• Issues assessed by the Grievance Resolution and Labor Management Committees</li> </ul>
	4. The elimination of all forms of forced and compulsory labor	<ul style="list-style-type: none"> <li>• Conduct annual third-party audits on our labor compliance</li> <li>• Enforce Zero Tolerance Principles</li> </ul>
	5. The effective abolition of child labor	<ul style="list-style-type: none"> <li>• No employees under 18 years of age</li> <li>• Conducts annual third-party audits on our labor compliance</li> <li>• Enforces Zero Tolerance Principles</li> </ul>
	6. The elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"> <li>• Introduce AI Interview system in the recruiting process</li> <li>• Develop local leadership</li> <li>• Build up women leadership capability</li> </ul>
Environment	7. Support a precautionary approach to environmental challenges	<ul style="list-style-type: none"> <li>• Track performance on waste, water and energy using the internal sustainability data management program</li> <li>• Management of environmental pollutants and hazardous substances</li> <li>• Compliance with environmental laws</li> </ul>
	8. Undertake initiatives to promote greater environmental responsibility	<ul style="list-style-type: none"> <li>• Encourage employees' participation through environmental Kaizen activities and other engagement campaigns</li> </ul>
	9. Encourage the development and diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> <li>• Implement innovative technology in the manufacturing process</li> <li>• Manufacture Eco-friendly products</li> </ul>
Anti-corruption	10. Work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> <li>• Conduct education on Code of Ethics</li> <li>• Enforce the Grievance System</li> <li>• Operate the anonymous reporting channels to report on ethics violations</li> </ul>



COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

**This report can be viewed and downloaded on TaeKwang's website.**  
**For any inquiry regarding our report, please contact to:**

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