

HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING

# BEYOND BLUE FORWARD TO GREEN

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ESG HIGHLIGHTS 2022



- [CEO MESSAGE](#)

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**HDKSOE ESG HIGHLIGHTS 2022**

<b>Reporting Period</b>	From January 1 through December 2022 (Some of the data extend to the period from the first half of 2023)
<b>Disclosure Principle</b>	Permanent disclosure of the Integrated Report on the website ( <a href="http://www.hdksoe.co.kr">http://www.hdksoe.co.kr</a> )
<b>Inquiries about the Report Details</b>	HDKSOE ESG Strategy Team E. ksoe.esg@hd.com Please refer to the 2022 Integrated Report



HDKSOE Integrated report website

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# BEYOND BLUE FORWARD TO GREEN

HDKSOE aims to build a sustainable future, beginning with the ocean.

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CEO MESSAGE ▶

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# CEO MESSAGE

## New innovations and challenges for a green future, wherever HDKSOE sets foot on, a road is created



Sam. H. Ka,  
CEO



Ki-sun Chung,  
CEO

### Dear Esteemed Stakeholders,

This year heralds the beginning of a new 50-year era for HDKSOE. Building up the accomplishments of the past decades, we will endeavor to lay the foundation for the next 50 years. The future envisioned by HDKSOE is a world where we contribute new value and everyone prospers together. To realize this future, we will focus on limitless possibilities and untapped potentials from the ocean, an area in which we boasts of our unparalleled expertise and we steadfastly and progressively strive towards such vision through innovation and challenges.

Despite the challenges we faced, we exceeded our annual order target by winning contracts for building new 196 ships. In addition to outstanding orders, our enhanced productivity and the development of high-value ships will serve as the foundation for a rebound this year and solidify our position as a leading player in the shipbuilding industry.

In line with our dedication to sustainability, we have established our ambitious 2050 Net-Zero Roadmap. This roadmap outlines our commitments to becoming the "Global No. 1 Net-Zero Shipbuilder" by leading the way in reducing greenhouse gas emissions in our shipyard operations and heightening our awareness of the global responsibility to address climate change. Amid the growing importance of emission reporting across the value chain, we have initiated cooperative efforts to standardize the measurement and calculation methodology for carbon footprints within our industry. We are actively working with other Korean shipyards and global classification societies to establish common frameworks that will ensure transparency and accountability for reporting Scope 3 emissions.

### First, We will Start by Exploring Various Environmentally Friendly Technologies as Part of Our Innovation Efforts.

Our focus lies on sustainable alternatives such as LNG, methanol, ammonia, hydrogen, and other green options. By embracing these future-ready technologies, we aim to drastically reduce the environmental impact of our ships and contribute to a cleaner and healthier planet.

### Second, We are Implementing ESG Key Performance Indicators Across the Organization to Enhance ESG Management.

To ensure that sustainability remains at the core of our operations, we have established ESG Key Performance Indicators(KPIs) for each organization and managerial position. We believe that ESG KPIs serve as essential tools for aligning our activities with ESG goals and internalizing our core values throughout our organization. By incorporating ESG actions into our performance evaluation, we can demonstrate responsible business practices, engage our employees and foster a culture of sustainability.

### Third, We will Create an Organizational Culture that Fosters Talent, Benefits, and Supports Work-life Balance.

We firmly believe that our greatest asset is our people. We've developed the capabilities to address the rapidly changing technology paradigm. We are committed to driving talent-driven innovation by strengthening our capacity to respond to this dynamic landscape. Our ongoing commitment is to foster a robust and vibrant organizational culture, empowering our employees to perform at their best.

In this dynamic and challenging business landscape, we acknowledge the presence of both risks and opportunities that lie ahead. We also understand the importance of effectively navigating these dynamics and taking a proactive approach to shape our future. On our path towards a green future, we kindly request for the continuous support and patronage of all our stakeholders.

Thank you

# COMPANY OVERVIEW

HDKSOE is an intermediate holding company in the shipbuilding sector of HD Hyundai and plays an advisory role in guiding the group's development direction and growth strategy.

CEO MESSAGE

**COMPANY OVERVIEW** ▶

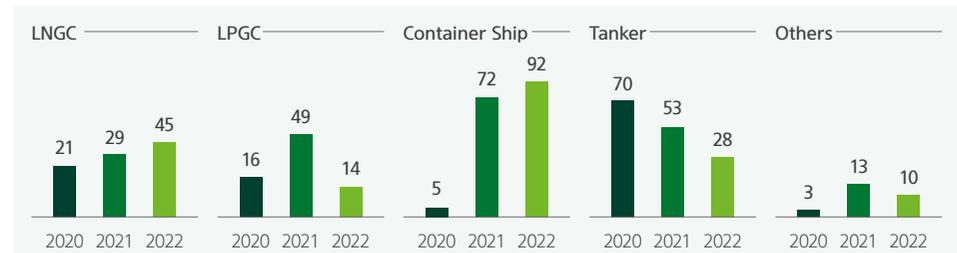
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2022 HDKSOE FOCUS AREA

Company Profile		(Consolidated basis as of Dec. 2022)
Company Name	HD Korea Shipbuilding & Offshore Engineering	
Head Office	477, Bundangsuseo-ro, Bundang-gu, Seongnam-si, Gyeonggi-do, South Korea	
Establishment	December 28, 1973	
CEO	Sam H. Ka, Ki-sun Chung	
Employees	890	
Total Revenue	173,020 (KRW 100 million)	

Shipbuilding Orders<sup>1</sup> Unit: No. of ships



Classification	2020		2021		2022	
	No. of Ships	Amount(Unit: USD 100 million)	No. of Ships	Amount(Unit: USD 100 million)	No. of Ships	Amount(Unit: USD 100 million)
Shipbuilding	115		216		189	
LNGC	21		29		45	
LPGC	16		49		14	
Container Ship	5	97.9	72	201.5	92	228.9 <sup>2</sup>
Tanker	70		53		28	
Others	3		13		10	
Naval & Special Ship	1	3.8	3	10.4	7	11.9
Offshore / Plant	-	3.1	3	18.2	-	0.2
Engines & Machines	-	9.0	-	20.7	-	33.6
<b>Total</b>	<b>116</b>	<b>113.8</b>	<b>222</b>	<b>250.8</b>	<b>196</b>	<b>274.7</b>

1. Combined no. of orders received by HHI, HMD and HSHI  
 2. Including HSHI's industrial facility performance

## Major Achievement

Achieve a Turnaround in Shipbuilding Business

[Target] 164USD 100 million, [Performance] 240USD 100 million  
 (Compared to target 146.2%)

Operating Profit Began to Turnaround Starting in Q3 2022.

Operating profit 1,888KRW 100 million

Leading Eco-friendly Technology through Collaboration with Global Companies

- Collaborating with shells : Fuel cell development & demonstration business
- Collaborating with Palantir : Establishing a smart shipyard
- Investment in TerraPower : Secure next-generation nuclear energy technology

## 2023 Major Plan

Implementing ESG KPIs in the Shipbuilding and Offshore Sector

Digital Transformation

Establishing a Supply Chain ESG Management System

Advancing Key Initiatives to Address Climate Change

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## Environmental

### Eco-friendly Technology

HDKSOE HHI HMD HSHI

Acquired AIP for Ammonia Fueled/Ammonia Carrier  
(60,000/40,000m<sup>3</sup> class)



Acquired AIP for Liquefied Carbon Dioxide Carrier  
(74,000m<sup>3</sup> and 40,000/30,000m<sup>3</sup> class)



### Digital Transformation

HDKSOE

Achieved by Autonomously Crossing the Ocean on a Large Merchant Ship  
(Avikus)



Acquired AIP for the Engine Automation System (HiCBM) and the Integrated Safety Control System (HiCAMS)



## Social

### Health & Safety

HHI

Development of the Industry's First Safety Big Data Platform



HHI HMD

Expansion of Occupational Safety Education for Foreign Workers



### Supply Chain ESG Management

HHI

Conducted ESG Consulting for a Total of 35 Companies



HHI HMD HSHI

Rewarded 68 Suppliers through Evaluation



### Labor-management Relations

HDKSOE HHI HMD HSHI

Labor-management Council is Held Four Times a Year



### Human Rights Management

HDKSOE HHI HMD HSHI

Acquired Family-friendly Corporation Certification



## Governance

### Corporate Governance

HDKSOE HHI HMD

Operation of the Compliance Officer System



HDKSOE HHI HMD HSHI

Appointment of Female Directors



HDKSOE HHI HMD HSHI

Practical Operation of the ESG Committee Reflecting Non-financial Risks in Management



ESG Committee convened a total of three meetings

HDKSOE HHI HMD HSHI

Acquisition of Anti-bribery Management System Certification - ISO 37001



# ESG MANAGEMENT SYSTEM

To strengthen ESG-centered management, HDKSOE has organized governance around the ESG Committee to deliberate and implement strategic directions and plans. In addition, we are actively working towards becoming a sustainable company through technological innovation, exemplified by our ESG slogan 'Beyond Blue Forward to Green'.

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## HD Hyundai ESG Vision



## Organization Chart of ESG Management



## 2023 Strategic Direction by ESG Area

Goal for 2023: Building a Company-wide ESG Operating System			
<b>Response to climate change</b> <ul style="list-style-type: none"> <li>· Disclosure of stakeholders through external declaration of carbon neutrality and implementation of detailed strategies</li> <li>· Calculation standardization project of scope 3 in shipbuilding industry</li> <li>· Ship Life Cycle Assessment</li> </ul>		<b>Establishment of supply chain ESG management system</b> <ul style="list-style-type: none"> <li>· Establishment of supplier ESG management policy</li> <li>· Establishment of ESG evaluation system for supplier companies</li> <li>· Conducted ESG evaluation of supplier companies</li> <li>· Establishment of supplier ESG management and due diligence plan</li> </ul>	
<b>Establishment of ESG data management system</b> <ul style="list-style-type: none"> <li>· Standardization of ESG data for HDKSOE and its shipbuilding subsidiaries</li> <li>· Development of an ESG data management platform</li> </ul>		<b>ESG activities and collaboration/support plans</b> <ul style="list-style-type: none"> <li>· ESG internship for college students for the second time</li> <li>· Implementation of ESG value-linked social contribution activities</li> <li>· Acquisition of certification as 'a good company to work for'</li> <li>· Support for establishment of ESG management system for subsidiaries</li> </ul>	

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## 2022 HDKSOE FOCUS AREA

# Eco-friendly Technology

### Total Solution Provider

HDKSOE is dedicated to the development of cutting-edge future technologies to establish themselves as a sustainable company. "From LNG and methanol DF-powered ships to eco-friendly carbon-free fuel-powered vessels like ammonia and hydrogen, we will continue to lead the market as a 'Total Solution Provider' by offering a diverse portfolio of eco-friendly ships that can cater to the evolving market demands.

### HDKSOE's Eco-friendly Ships Portfolio

#### LNG DF Ship



#### Expected effects

- Savings compared to bunker C oil

SOx **99%**,  
NOx **90%**,  
CO<sub>2</sub> **30%**

#### Methanol DF Vessel



#### Expected effects

- Savings compared to conventional ships

SOx **99%**,  
NOx **80%**,  
GHG **25%**

#### Performance

- In April 2023, Successfully launched the world's first methanol DF container ship.

HMD

#### Ammonia-fueled Ships



#### Target

- Developing an ammonia fueled HIMSSEN DF engine, with the goal of commercializing these technologies by 2025. HHI
- Developing an ammonia carrier that can also function as a hydrogen carrier HHI
- Enhance reliability by a double leakage prevention system HHI

#### Performance

- In April 2023, we developed the 'Ammonia-FSRU' and received Approval in Principle from Lloyd's Register.

#### Electricity-powered Ships



#### Performance

- Electric propulsion solution for ships, marking the first such accomplishment in Korea HMD
- CO<sub>2</sub> emissions by compared to conventional marine diesel engines **40% reduce**
- fuel efficiency can be improved by **6%**

#### Hydrogen Carriers & Hydrogen-powered Ships



#### Target

- Development hydrogen carriers by establishing a hydrogen value chain HDKSOE HHI HSHI HMD

#### Performance

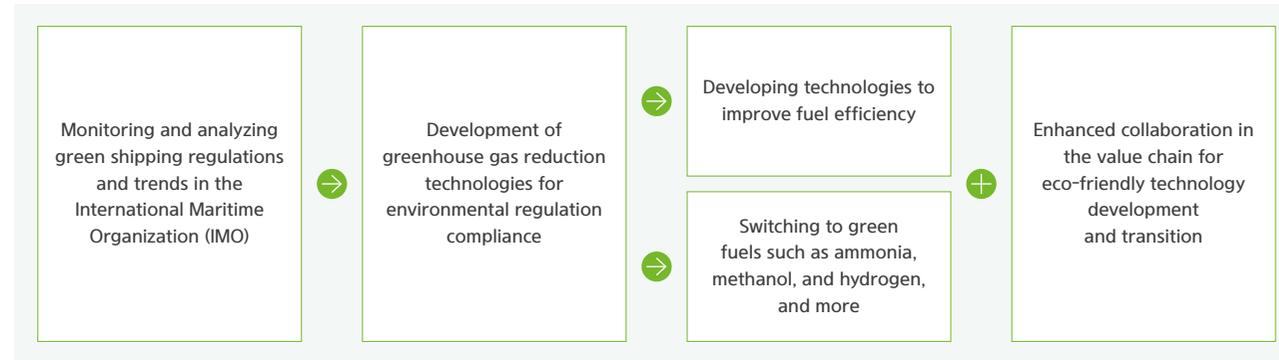
- In December 2022, Completed the performance validation of the 1.5 MW LNG-hydrogen blends for the HIMSSEN engine, which were developed in-house

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## 2022 HDKSOE FOCUS AREA Eco-friendly Technology

### Our Approach

Financial Impact ●●●○○ Social & Environmental Impact ●●●○○



### Risk

- A growing demand for the expedited development of eco-friendly ship technologies in response to the increasingly stringent carbon emission reduction targets set within the shipping sector
- A high demand for GHG reduction measures within the shipping and shipbuilding industry

### Opportunity

- Increasing orders for gas and eco-friendly products due to carbon emission regulations and increased orders for eco-friendly ships

### Roadmap for Eco-friendly Technology Development

Category	Tech List	Focus Goals and Directions	Driving roadmap
Future ships	Ammonia propulsion	Securing the technological advantage of ammonia propulsion vessel	(Short-term) Develop ultra-large ammonia carrier, FSRU, and bunkering vessel (Short-term) Develop ammonia fuel supply/cargo handling system
	Hydrogen carrier	Advance into new hydrogen business by developing core hydrogen technology	(Short-term) Commercialize small liquefied hydrogen carrier (Mid-term) Develop a large liquefied hydrogen storage tank
	Fuel cell propulsion	Preoccupation with next-generation marine power generation/propulsion systems	(Short-term) Develop fuel cell propulsion system for small & mid-sized ships (Long-term) Develop fuel cell propulsion system for large-sized ships
	Electricity propulsion	Leading the ship propulsion solution market by developing a next-generation eco-friendly/high-efficiency proprietary electric propulsion system	(Short and Mid-term) Commercialize hybrid electric propulsion system (4, 15, 30MW in order) (Long-term) 50MW class hybrid electric propulsion system
Eco-friendly technology	Reduction of GHG in ships	Commercialization of newbuilding/ retrofit business through the development of independent eco-friendly technologies	(Short-term) Develop and demonstrate an independent model of CO <sub>2</sub> capture/processing/storage system for ships (Short-term) Develop and demonstrate methane slip reduction device (Short-term) Demonstrate and commercialize independent wind assisted propulsion system model

Short-term ('23-'24) Mid-term ('25-'27) Long-term ('28-'30)

### Eco-friendly Technology Performance

**Launched the World's First Eco-friendly Container Ship Powered by Methanol (April 2023)**

1

**Developed Hi-eGAS<sup>1</sup> and Obtained Approval in Principle**

2

**Joint development of Ammonia-FSRU<sup>2</sup>**

3

**LNG · Hydrogen Hybrid Engine Development**

4

1. Hi-eGAS(Hyundai High Efficient Gas Supply System): Cutting-edge LNG fuel supply system  
 2. Ammonia-FSRU (Floating Storage Re-gasification Unit): A vessel designed to store and regasify liquefied ammonia, transported from production areas, into a gaseous state for supply to onshore customers.

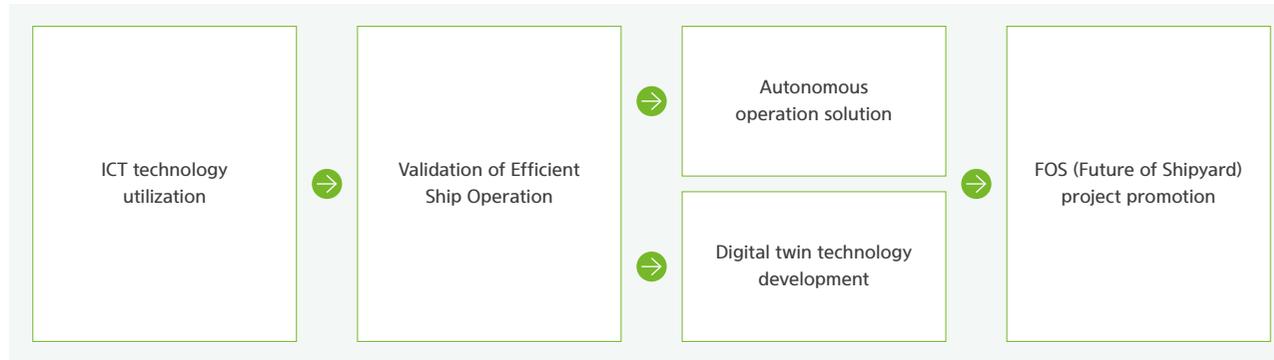
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## 2022 HDKSOE FOCUS AREA

# Digital Transformation

### Our Approach

Financial Impact ●●●○○ Social & Environmental Impact ●●●○○



### Risk

- Reorganization of the economic structure centering on high-tech manufacturing and service industries
- Increased inefficiency due to weather risk and complex requirements

### Opportunity

- Enhancement of efficiency and productivity by introducing ICT technologies
- Leading the industry with proactive and continuous advancement in shipbuilding technologies

### Digital Transformation Plan

Smart Yard		Smart Ship	
<p><b>Digital Twin Yard</b></p> <p>· Maximizing productivity through AI based smart and optimal operation of production resources</p>	<p><b>Intelligent Automation</b></p> <p>· Building a Best-in-class shipyard through the development and expansion of an intelligent production automation system</p>	<p><b>Autonomous Navigation</b></p> <p>· Leading the autonomous ship market and technology through commercialization of autonomous ship solutions</p>	<p><b>Digital Twin Ship</b></p> <p>· Digitally replicating ships in cyberspace to replace actual ship commissioning, training crews and promoting new life cycle asset management services</p>

### 2030 SMART SHIPYARD(Future of Shipyard)

- 1 Visible & Understandable**  
 2021-2023
  - Glanceable and Controllable
  - Connected design / production
- 2 Connected & Optimized**  
 2024-2026
  - Smart Work Management
  - Less resource waste
  - Safe workplace for all
- 3 Autonomous**  
 2027-2030
  - Trouble-free operation
  - Automation

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## 2022 HDKSOE FOCUS AREA

# Health & Safety

### Our Approach

Financial Impact ●●●●● Social & Environmental Impact ●●●●●

<b>Acquiring and Maintaining the Safety and Health Management System (ISO 45001) Certification</b> Establishment of a comprehensive and systematic safety and health management system	<b>Strengthening Safety and Health Capabilities</b> Conducting statutory safety and health education and education by class	<b>Monitoring Compliance with Relevant Laws and Preventing Safety Accidents</b> Conducting regular compliance assessments and risk assessments	<b>Conducting On-site Close Safety and Health Management</b> Expanding manpower and improving expertise in each company's safety and health organization
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### Risk

- Process delay due to safety accidents
- Executive management vacancy owing to Serious Accident Punishment Act
- Expanding the scope of management responsibility due to strengthened laws and regulations

### Opportunity

- Establishment of a self-discipline prevention system according to the announcement of the roadmap for reducing serious accidents
- Participation of workers in risk assessment at all work stages
- Improving safety mindset across the entire value chain

### Safety & Health Risk Identification/Improvement

Implementing risk observation system <sup>1</sup>	Conducting regular and ad-hoc risk assessments	Operating emergency crisis management manual
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1. This system focuses on capturing nearmiss accidents, unsafe behaviors, and hazardous conditions, enabling the establishment of an autonomous safety management system across field departments.

### Response System for Risk Reduction in the Event of Fatality

<b>Initial Response</b>	<ul style="list-style-type: none"> <li>• Rescue</li> <li>• Preventive measures for additional incidents (cut off gas, electricity, etc.)</li> </ul>
<b>Response in Full swing</b>	<ul style="list-style-type: none"> <li>• Assignment of role in handling incidents</li> <li>• Secondary control (classification of dangerous areas)</li> </ul>
<b>Investigation</b>	<ul style="list-style-type: none"> <li>• On-site preservation (attachment of signs: accident investigation, stop work)</li> <li>• Take measures to prevent secondary accidents after approval by the head of the safety department</li> </ul>
<b>Lifting the Restrictions</b>	<ul style="list-style-type: none"> <li>• After the incident investigation, if control measures are not necessary, lift the restriction after approval from the head of the safety department</li> </ul>

### 2022 Safety Management Goal & Achievement

Establishment of a comprehensive/ systematic safety, health and environment management system		
<b>1. System Establishment/ Implementation</b> International standard certification / Comply with related local laws and regulations	<b>2. Proactive Accident Prevention</b> Incident ZERO / Advanced risk assessment / Autonomous safety management	<b>3. Healthy Work Environment</b> Reinforcing laboratory chemical management / Employee health care

- Acquisition of ISO 45001 certification
- Achievement of LTI free (zero-incident)
- Completed establishment of research/test risk assessment system
- Safety training completion: 100%

### 2023 Safety Goal

<b>HDKSOE</b>	<b>HHI</b>
ZERO Serious Accident	ZERO Serious Accident
No-disease Worksite	Accident Rate 0.175   Achieved
<b>HMD</b>	<b>HSHI</b>
ZERO Serious Accident	ZERO Serious Accident
Accident Rate 0.133   Achieved	No-disease Worksite

### Health & Safety Key Performance

Conducting Risk Assessment Twice a Year 1	Developing a Safety Accident Prediction Model Based on Big Data 2
Implementing Safety and Health Training Programs that are Tailored to Foreign Workers 3	

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## 2022 HDKSOE FOCUS AREA

# Supply Chain ESG Management

### Our Approach

Financial Impact ●●●●○ Social & Environmental Impact ●●●○○



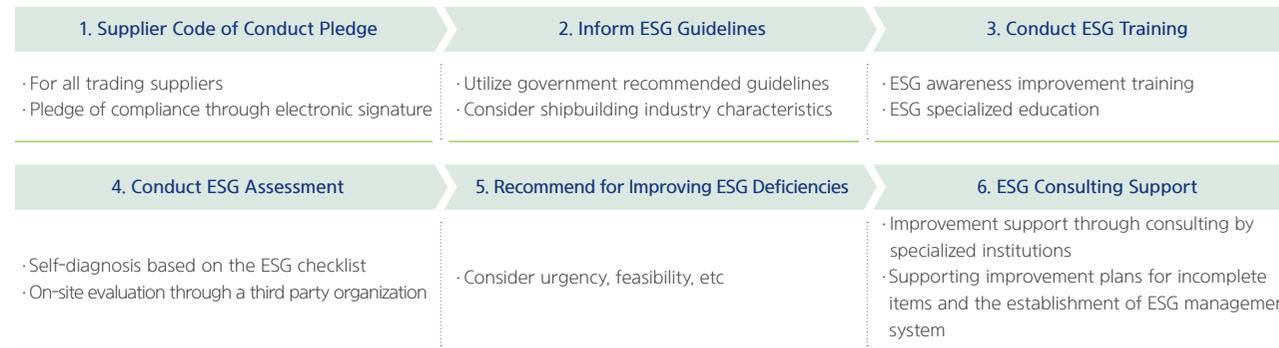
### Risk

- Legal risks arising from strengthened laws such as the Fair Trade Act and the Supply Chain Due Diligence Act
- Occurrence of negative issues in the supply chain during the shipbuilding processes, such as rising prices of raw materials for steel

### Opportunity

- Preemptive response to supply chain risks by establishing a supplier ESG risk diagnosis system
- Strengthen market competitiveness by proactively responding to global regulations such as the Supply Chain Due Diligence Act

### Supply Chain Management Process



### Supply Chain Management Goals for 2023

Establishment of Supply Chain ESG Management System and Information Disclosure	• Advance supply chain ESG policy	• Suppliers ESG Capacity Enhancement Consulting Goals in 2023
	• Establish the supply chain's sustainability risk management system	- HHI : 40
	• Establish ESG evaluation system for the suppliers	- HMD : 20 - HSHI : 20

### Supply Chain Management Key Performance

- Strengthening ESG management for suppliers**
  - Development of ESG indicators specialized for the shipbuilding industry
  - Conducting ESG training for 394 suppliers
  - Providing ESG capacity building consulting for 35 small and mid-sized suppliers
- Expanding supply chain support system**
  - Operation for Co-Prosperity fund
  - Operation of school loan support system for children of suppliers
  - Strengthening supply chain communication and reward of excellent suppliers

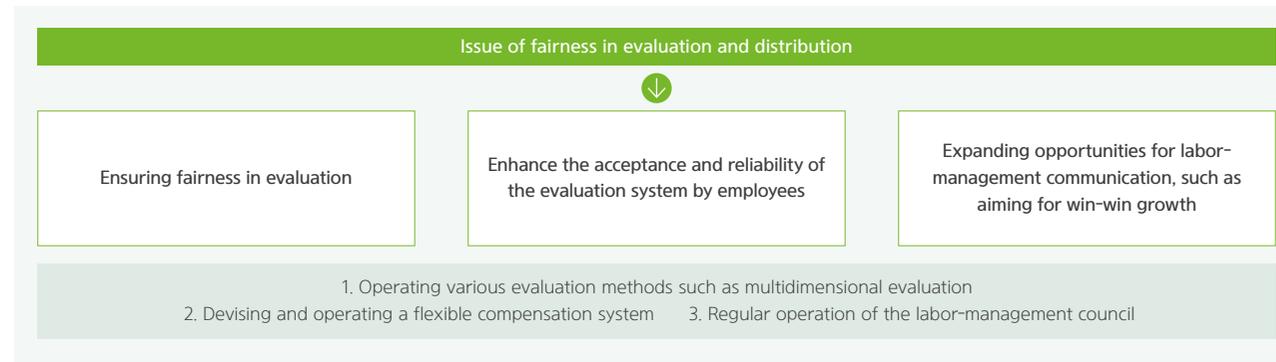
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## 2022 HDKSOE FOCUS AREA

# Labor-management Relations

### Our Approach

Financial Impact ●●●●○ Social & Environmental Impact ●●●●○



### Risk

- Reduced productivity due to disputes
- Loss of trust in ship owners due to labor-management risk

### Opportunity

- Productivity improvement by strengthening mutual cooperation
- Workers' understanding of overall management and improvement of management by expanding opportunities to participate in decision-making
- Improvement of ability to jointly respond to changes in the corporate environment

### Operation of Labor-management Council

<p><b>Addressing grievances of employees and improving working conditions</b></p> <p>No. of Meetings    Number of Items to be Discussed/Items to be Solved</p> <p style="font-size: 2em; font-weight: bold;">4                      17/17</p>	<p><b>Agenda</b></p> <p>Performance-based pay for 2022 and basic pay for 2023, Whether Collective Agreements were applied to affiliates, Employee housing support system, Retirement pension system, Summer vacation period adjustment, Wage compensation for those subject to maternity protection, Selective work system, Computerization of annual salary contracts, etc.</p>
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### Labor-management Relations Key Performance

**Conduct Regular Meetings with Employees**

Promoting communication through meetings with the CEO and new employees of MZ generation

### Goal of Labor-management Communication Activities

"Establishment of labor-management culture for common development and co-existence based on trust and respect between labor and management"		
Compliance with labor policy	Conducting training	Upholding freedom of collective bargaining
Based on the 'Violence and Harassment Convention (No. 190) and Recommendation (No. 206) of ILO, the company is implementing measures to prevent and address workplace harassment.	The company provides guidance and training to all employees to promote awareness and understanding of these measures.	The company ensures the freedom of association and collective bargaining for its employees.

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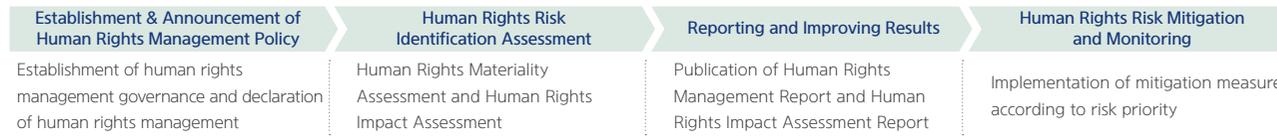
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# Human Rights Management

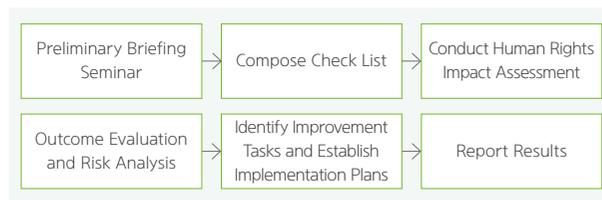
### Our Approach



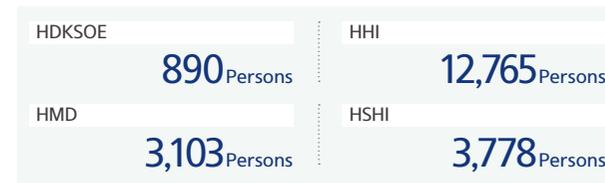
### Human Rights Management Process



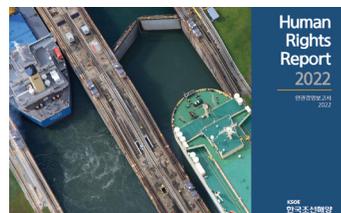
### Human Rights Impact Assessment



### Scope of Human Rights Impact Assessment for HDKSOE and Shipbuilding Subsidiaries



### Publication of Human Rights Management Report



HDKSOE Human Rights Management Report



HMD Human Rights Management Report

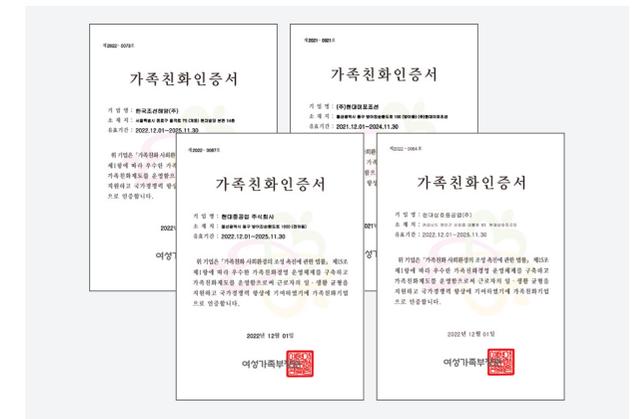
### Risk

- Strengthened Legal Regulations Due to Increased Awareness of Human Rights Violations
- Growing Demands for Human Rights Assessments by International Organizations within Business Operations

### Opportunity

- Enhancing Employee Efficiency Through the Establishment of a Workplace that Upholds Human Rights
- Increasing Corporate Competitiveness Through Diverse Talent Acquisition and Inclusivity

### Ministry of Gender Equality and Family Issued Family-friendly Corporation Certificate



### Grievance Handling System



- CEO MESSAGE
- COMPANY OVERVIEW
- 2022 ESG HIGHLIGHTS
- ESG MANAGEMENT SYSTEM
- 2022 HDKSOE FOCUS AREA**
- Eco-friendly Technology
- Digital Transformation
- Health & Safety
- Supply Chain ESG Management
- Labor-management Relations
- Human Rights Management
- Corporate Governance

## 2022 HDKSOE FOCUS AREA

# Corporate Governance

### Our Approach

Financial Impact ●●●○○ Social & Environmental Impact ●●○○○

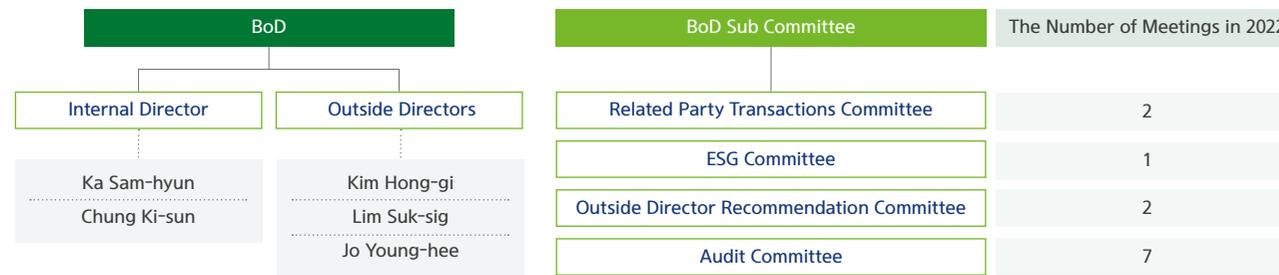


### Opportunity

- As corporate social responsibility is emphasized, discover business opportunities that can be applied to shipbuilding and offshore businesses based on transparent investment decisions.
- Increase in corporate value through shareholderfriendly policies

### HDKSOE BoD Sub Committee

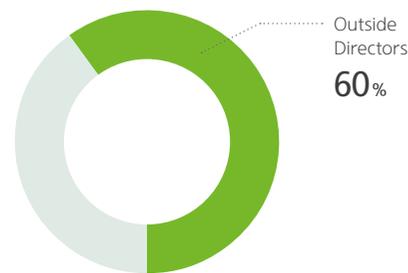
(As of March 31, 2023)



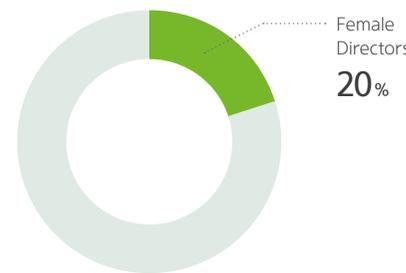
### Risk Management System



### Percentage of Outside Directors on the Board



### Percentage of Women on the Board



### Attendance Rate



### Integrated Risk Management

Enables the normalization of business operations through ISO 22301<sup>1</sup> Certification

- Minimizing social and environmental value and financial risk by managing the company's work paralysis due to physical risks.
- 1. A business management system for prevention, management, and recovery, helping organizations return to normal operations after a business-impacting incident

