



Business Partner

Win-Win Partnership Based on Mutual Trust and Cooperation

Based on the company's philosophy of Jeong-Do management, LG Electronics places the highest importance on the establishment of a fair trade system with its business partners. Through a mutual growth program that emphasizes communication, LG Electronics is promoting its partners to strengthen competitiveness. At the same time, LG Electronics has developed its CSR program to help suppliers foster environmental and social risk management capabilities so that they can well balance their growth.



I sincerely appreciate LGE's efforts in supporting and nurturing its suppliers. LGE not only sets its goal to become the world's best electronics manufacturer, but the company also aims to provide financial and ESH management supports for supplier's business operation and CSR activities. All of these help suppliers attain global competitiveness and achieve growth together. Having a long-term partnership with LGE, I am impressed that the company has built up a comprehensive communication mechanism which encourages suppliers to express opinions and possible improvement, such as Supplier Portal Site and annual Suppliers' Satisfaction Survey, thus facilitating win-win partnership. In addition to this, LGE's CSR strategy is truly visionary, particularly in terms of its constant researches and the introduction of greener products, as well as its continuous work in developing green innovations which are also what AUO advocates and puts stress on. In 2008, AUO unveiled "Green Solution", practicing innovations, procurement, production, logistics, service, and recycling in an environmental friendly manner, and in 2010, we furthermore declared to reduce product carbon footprint by 30% by 2012, aiming to provide greener service and product to our customers. Based on the similar vision, I believe LGE and AUO would be consistently dedicated on developing low-carbon society and act faster on the road to sustainability as we committed.



LJ Chen
President of AU Optronics Corp.



Business Partners for Win-Win Growth

LG Electronics' USD 35.9 billion global purchasing total demonstrates well the importance of supplier competence for the company. For this reason, we must make our best efforts to support our partners with diverse programs to ensure win-win growth.

OUR APPROACH

• Enhancing competence through Win-Win Growth

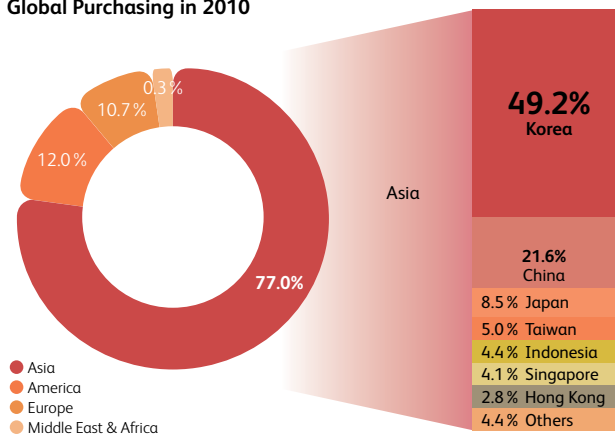
- Promoting stable business through financial support
- Strengthening managerial capability through non-financial support
- Enhancing communication with business partners

OUR PERFORMANCE

Global Procurement Organizations • In LGE's procurement organizations, a number of purchasing personnel was adjusted according to the importance of each region, and an overall reduction of 15% was made. Based on data recorded at the end of 2010, 1,694 personnel were working in the world's major purchasing regions (Korea, Russia, Poland, Italy, India, Vietnam, Indonesia, Thailand, Taiwan, Japan, China, U.S., Mexico and Brazil).

Global Purchasing Amount • As of 2010, LGE spent a total of USD 35.9 billion on direct and indirect material costs. Direct material costs occupied around 80% of the total amount, and 77% of the direct material cost was spent in Asia.

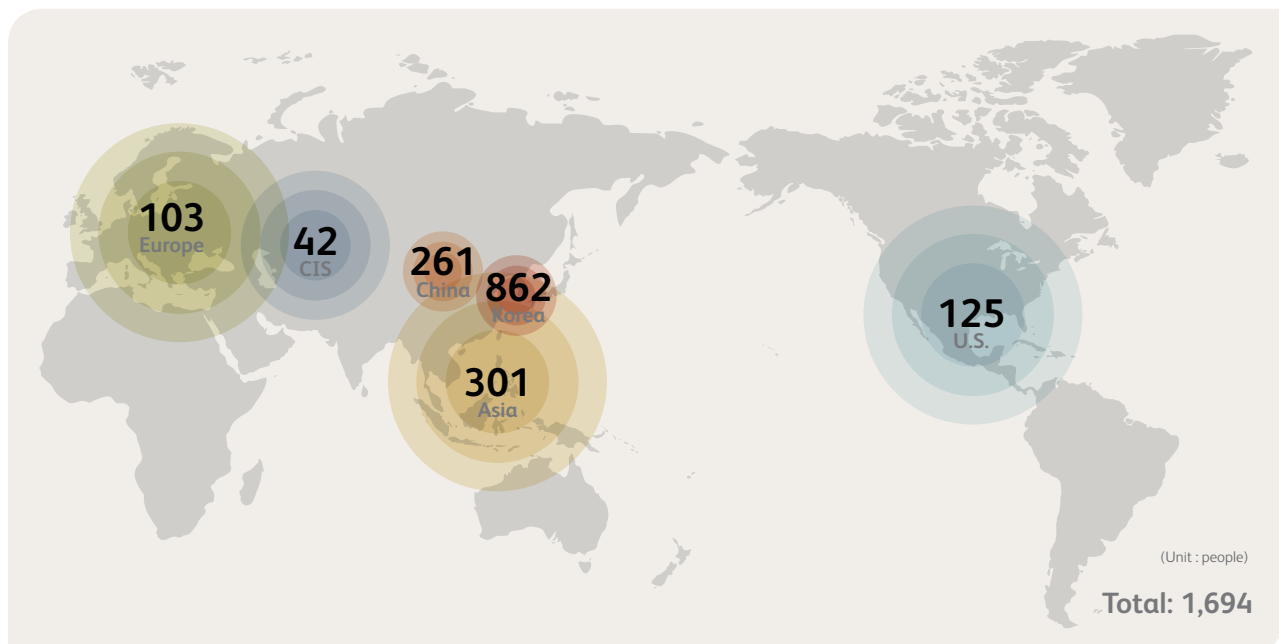
Global Purchasing in 2010



ENHANCING COMPETENCE THROUGH WIN-WIN GROWTH

LGE continues its efforts towards win-win growth with suppliers to secure global competence. The efforts are driven by "Win-Win Growth" and "Supplier Quality Engineering" organizations. Currently, we are carrying out projects under four categories: education, funds, management innovation, and partner communication, each pursuing technology innovation, core competency development, management innovation, and quality/productivity improvement. All these tasks are performed in parallel with a survey to get suppliers' feedback on our approach and make necessary changes to maximize efficiency.

Purchasing Personnel Distribution of LG Electronics



The relationships with suppliers are established in accordance with LGE's fair trade principle. LGE seeks win-win growth opportunities from a long term perspective by guaranteeing equal opportunities, and respecting relevant regulations in fair and transparent manner. LGE's fair trade activities are described in more detail on page 74.

Support Program for Suppliers



PROMOTING MANAGERIAL STABILITY THROUGH FINANCIAL SUPPORT

SUPPORTING FINANCIAL STABILITY

LGE supports its suppliers' financial stability through various types of financing programs and continuous improvement in payment terms.

Green Partnership • In December 2010, LGE promised to provide financial support of KRW 40 billion for 5 years to suppliers selected at

the Small and Medium Enterprise Technology Fair. Prior to this event, during the agreement for win-win cooperation and fair trade with suppliers in September 2010, we announced a program to support outstanding suppliers in their new growth engine projects, including the research and development in solar energy and water processing.

Financing for Quality and Productivity Improvement • LGE proposed an enterprise-wide project to conduct a program to fund suppliers' quality enhancement and productivity improvement activities (e.g molding equipment improvement) (2010: KRW 33 billion, 2011 : KRW 37 billion).

Improvement of Cash Payment Terms • Since September 2010, LGE has improved its process to increase cash payment rates for sub-contractors to 100% to improve the suppliers' financial status.

Launch of Win-Win Cooperation Funds • LGE subsidizes the Win-Win Cooperation Funds to support the working capital needs of suppliers, and offers the lowest interest rate among the competitors (based on data from the Industrial Bank of Korea). To further support suppliers as molding companies forming the basis of the manufacturing industry, we established the Root Industry Performance Bond program to provide deposits as a form of special financing. Additionally, we continue to offer zero-interest funds and network loans to provide ongoing supports for the suppliers' financial stability.

STRENGTHENING MANAGERIAL CAPABILITY THROUGH NON-FINANCIAL SUPPORT

PRODUCTION LEVELING ACTIVITIES THROUGH MANAGEMENT CONSULTING

Management Consulting and Business Advisory Council • In addition to the financial support, LGE operates a business advisory

ACTIVITIES OF THE COMMISSION OF WIN-WIN GROWTH FOR LARGE AND SMALL COMPANIES

The Commission of Win-Win Growth for Large and Small companies is a civil organization founded on December 13, 2010, aimed at identifying and discussing social conflicts between large enterprises and small/medium enterprises and providing a pivotal role in reaching an agreement on a neutral ground. The commission comprises of 9 members for the large company, 9 members for the small/medium company, and 6 members for the public sector. Currently, Woody Nam, the Business Innovation office Leader of LGE is appointed as the member of the commission. The commission is planning to introduce the "win-win index" based on the large companies' win-win growth activities to conduct the evaluation of each business category.

Supporting program for financial stability

Green Partnership	Financial/Government Agency Connection
<ul style="list-style-type: none"> New core technology investment - Yearly 8 billion, a total support of 40 billion from 2011 to 2015 	<ul style="list-style-type: none"> Network loan support - KRW 133.7 billion (228 suppliers) in 2009 - KRW 110 billion (220 suppliers) in 2010 Win-Win cooperation funds - LGE KRW 50 billion + KRW 75 billion joint financing
Cash Payment	Direct Financing
<ul style="list-style-type: none"> 100% of subcontractors' payment in cash 	<ul style="list-style-type: none"> Accumulated funding from 2004 to 2010 No-Interest financing financing KRW 19.6 billion from 2009 to 2010 KRW 10 billion funding in 2011 (planned)



council consisting of retired procurement managers to strengthen the suppliers' managerial capabilities. The business advisory council is dispatched on the supplier's premises and operates a program to improve supplier's production levels upon request. Also, an on-site consulting activity from the Factory Innovator(FI), organized by LGE employees, is provided in parallel to improve the productivity. LGE aims to achieve its production leveling goal through management consulting and plans to increase the number of supporting staff by 50% by 2012.

Establishment of the Supplier Quality Engineering(SQE) group • LGE carries out a specialized program to support suppliers through quality specialists trained within the procurement group to secure the quality of the components and enhance technical supports.

Vocational Training Consortium • LGE operates diverse consortium with the collaboration of in-house and the regional training centers to enhance the suppliers' competence. In 2010, a total of 2,298 employees have completed the training courses, which is 50% more than 2009.

ENHANCING COMMUNICATION WITH SUPPLIERS

Supplier Grievance Process • To further enhance communication with suppliers, LGE operates the Supplier Grievance Process site(<http://ethics.lg.co.kr>) in each of its affiliates to understand supplier opinions.

2010 Global Suppliers' Day • Following 2009, LGE has once again organized its "2010 Global Suppliers' Day" in Seoul with the participation of the top 300 global suppliers' CEOs and 600 personnel by procurement teams in the headquarter and companies. During the

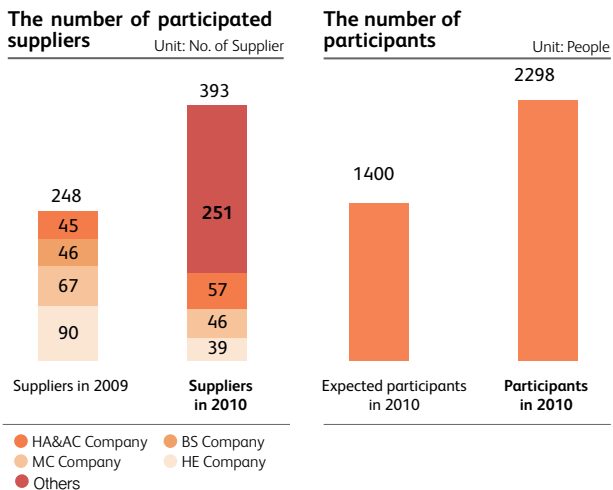
event, the Global Outstanding Supplier Award was given to the winner of each company. The Green Award, newly established in 2010, was also awarded to respective winners. In addition to this, a charity auction of goods donated by LGE was held, raising a total of KRW 60 million to support for Good Neighbors.

Suppliers' Satisfaction Survey • Each year, LGE conducts a satisfaction survey for its domestic and overseas suppliers. In 2010, LGE conducted the survey to the top 180 Korea and overseas companies, compared to 122 companies in 2009, and evaluated the overall satisfaction level of purchasing group and contact point. The result was somewhat lower than the previous year. The overall satisfaction level of procurement scored 73.4 out of 100 in 2008. The satisfaction level increased by 1.6 point in 2009, then decreased by 1.0 point in 2010, showing little difference in terms of time series analysis. Overall satisfaction level have gradually increased. Since 2008, with the "will to continue business" increasing approximately one point every year. LGE intends to conduct the suppliers' satisfaction surveys regularly and use them as base data to reinforce partnerships with suppliers.

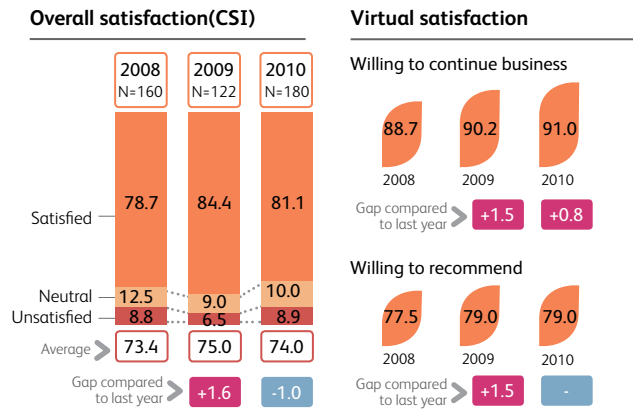
FUTURE DIRECTION

- Promote suppliers' financial stability through financial support
- Improve the suppliers' competence through non-financial support such as training and consulting
- Seek Win-Win Growth through fair trade

Training Program for suppliers



Suppliers' Satisfaction Survey results



- The satisfaction in the overall satisfaction represents the Top 3 rate in the scale of 7; the unsatisfied represents the Bottom 3 rate.
- The average of the overall satisfaction and the virtual satisfaction are represented with the value in the scale of 7 converted to the score of 100.
- A gap compared to last year is the year-on-year scale.

Promoting Supply Chain CSR

OUR APPROACH

Establishing supplier's CSR management system

- Systematizing activities through EICC code
- Establishment of Supplier Code of Conduct
- Measures to prevent the use of illegally mined raw materials

OUR PERFORMANCE

SYSTEMATIZING ACTIVITIES THROUGH EICC CODE

Based on Jeong-Do management, LGE fosters win-win growth by supporting its suppliers in building CSR management systems and helping them to succeed in global competition.

To provide a systematized support program, LGE joined Electronic Industry Citizenship Coalition(EICC), a CSR consultative group founded in 2004 with global electronic companies. LGE has since actively participated in EICC's regular meeting and its 6 working groups from 2010. In the future, we plan to conduct suppliers CSR risk management based on EICC Code, along with a training program to enhance supplier ability to conduct autonomous CSR risk management. Suppliers will be encouraged to conduct self-improvement programs to enhance their performance. We expect to improve and expand the overall supply chain's CSR throughout the activity.

Summary of LG Electronics' Supplier Code of Conduct

Labor and human rights	Non-discrimination/Humane treatment/ Freely chosen employment/Avoidance of child labor/ Working hours/Wages and benefits/Freedom of association
Health and safety	Occupational Safety/Industrial Hygiene/ Emergency preparedness/Occupational injury and illness/Sanitation, Food, and Housing/Physically demanding work/Maintaining machine safety
Environmental impact	Environmental permits and reporting/Hazardous substances/Solid waste and wastewater/Air emis- sions/Pollution prevention and resource reduction/ Product content restrictions
Ethics	Business integrity/Disclosure of information/ Protection of identity/Protection of intellectual property
Materials obtained from mining	Ensure raw materials distributed through the supply chain are legally mined
Management system	Company commitment/Management accountabil- ity and responsibility/Legal and Customer Require- ments/Risk assessment and management/ Improvement objectives/Training and communica- tion/Worker feedback and participation/etc.

ESTABLISHMENT OF SUPPLIER CODE OF CONDUCT

Based on EICC Code, LGE established and declared its Supplier Code of Conduct in 2010 to assist its suppliers in fulfilling social responsibilities. We are providing Supplier Code of Conduct training programs to the suppliers in Korea as the initial step to obtain voluntary agreement on compliance with the Code of Conduct, and consequently expand CSR from LGE's internal activity to overall supply chain management. Eventually, we plan to expand our activity globally to help every supplier fulfill its social responsibility and achieve long term competence.

MEASURES TO PREVENT THE USE OF ILLEGALLY MINED RAW MATERIALS

Illegally mined raw materials consist of tantalum, tin, tungsten and other industrial minerals excavated from conflicted regions such as the Democratic Republic of Congo. These minerals are used as core materials for vehicle, cellular phone and PC components. A militant force may get hold of the distribution channel, trade the minerals, and use the profit it earns from the trade to acquire weapons, resulting in child labor, forced labor and other crimes against humanity. The severity of this issue has the world's attention. LGE is conducting necessary measures to prevent the use of illegally mined raw materials. In February 2010, we conducted an internal survey with major tantalum suppliers, and identified the source of origin as Australia and China. We are planning to conduct regular surveys on raw materials, and also expand the scope to fundamentally block the use of illegally mined raw materials. LGE is participating in the industry's joint efforts to prevent the use of illegally mined raw materials, namely EICC's Extractives work group to discuss joint action towards preventive measures.

We also underlined related activities in LGE Supplier Code of Conduct to identify the source of the minerals and prohibit the use of minerals obtained through illegal mining, thus preventing the use of illegally mined raw materials in the supply chain.

SUPPLIERS' CSR PILOT DIAGNOSIS

In the second half of 2010, LGE selected 4 outsourcing partners for each business area to conduct a pilot diagnosis to identify the status of their respective Corporate Social Responsibility(CSR) and plan improvement activities.

The diagnosis was conducted by the headquarters outsourcing management strategy group, with the following criteria: labor, human rights, ethics, safety, health and environment. The diagnosis was based on key requirements from the ILO Convention, SA 8000, ISO 14001, and OHSAS 18001, following the recommendation of EICC



To ensure sustainable competitiveness in the global market, LG Electronics is supporting its business partners to develop and improve the sustainable management systems. In particular, LG Electronics motivates its business partners to comply with Supplier Code of Conduct, which is based on EICC Code, and encourages them to analyze and improve their weak points through CSR risk management.

in which LGE joined in August. The demo diagnosis was conducted on-site to three outsourcing partners in China and one in Eastern Europe(Poland) The result exposed several common issues of companies in China.

Diagnosis Result • The working hours of workers at production sites of outsourcing partners located in China were exceeding the legal limit, and the companies were failing to provide appropriate measures. The regulation against forced labor was weak, and there was no labor management council activity.

- 1) Company A in Yantai, China:
 - Some manufacturing workers exceed legal working hours. Injection molding machine subject to potential problem due to unstable process interval.
 - No policy for labor management council activity.
 - No policy against forced labor.
 - No health center record.
- 2) Company B in Shanghai, China:
 - Some manufacturing workers exceed legal working hours.
 - No labor management council activity.
 - Insufficient record and/or management of harmful substances.
 - PCBA process is close to the dangerous substance repository.
- 3) Company C in Huizhou, China:
 - Most production workers exceed legal working hours.
 - No labor management council activity.
 - Insufficient use of safety equipment.
 - No medical record management system.
- 4) Company D in Poland: No non-compliance detected.

CSR RISK MANAGEMENT PROGRAM

LGE plans to launch a comprehensive supply chain (production facility) risk management program based on the EICC process in 2011, and strengthen CSR competence of the suppliers located in Korea and in potential risk countries.

The CSR risk management program to be conducted for around 4,000 manufacturing suppliers consists of four steps. The program (i) will be promoted in order to reach LGE’s all production sites and suppliers, and obtain consent on compliance with the Supplier Code of Conduct, (ii) evaluates the suppliers’ CSR risk, (iii) conducts diagnosis to the high-risk classified suppliers, and encourages improvement, and (iv) keeps monitoring to verify if the improvement is maintained at constant level, and support the suppliers to fulfill their social responsibilities.

SUPPLIERS’ ENVIRONMENT, SAFETY AND HEALTH(ESH) DIAGNOSIS AND IMPROVEMENT ACTIVITY

Supplier Support Group in Changwon, Korea carries out periodic training and evaluation of the Environment, Safety and Health(ESH) for HA and AC Companies’ 140 domestic and overseas suppliers. In 2010, we focused on managing high-risk companies, establishing and following suppliers’ ESH audit, and enhancing environmental management. The yearly ESH diagnosis and evaluation on 142 suppliers resulted in 568 non-compliances(environment: 51, safety: 298, fire prevention: 182, health: 37). The improvement rate recorded 98%. Also, we organized the “Suppliers’ ESH Best Practice Competition” to enhance the capabilities of personnel through best practice sharing and encouraged field application and improvement.

Owing to these efforts, the average incident rate with suppliers declined sharply from 0.75% in 2009 to 0.57% in 2010 ; with the increase of capability, the number of partners capable of managing their own ESH increased from 30 to 50.

In 2011, we will focus on the prevention of the suppliers’ ESH risks and conduct monitoring activities and supports to overseas and 2nd-tier suppliers, as well as fostering specialists.

LG Electronics’ Supplier CSR Risk Management Program

phase 1 Introduction	phase 2 Assessment	phase 3 Validation	phase 4 Improvement
Initial Assessment & CSR Requirements	Self Assessment & Improvement	Performance Improvement	Trend Analysis & Training
Internal/External Training Programs	Self Assessment Questionnaire (SAQ)	Selection for Audit Target	Continuous Monitoring
SCC* Compliance Agreement		Establishment of Audit Plan	Support for Supplier Competence Development
Initial Risk Assessment(RA1)		Corrective Action Process	Awards & Recognition
		Verification	Periodic & Unannounced Audit

*SCC : Supplier Code of Conduct



FUTURE DIRECTION

- Support sustainable management through suppliers’ CSR management
- Continuous monitoring & preventing the use of illegally mined raw materials