

03

RESPONSIBLE BUSINESS PARTNER



● LG Electronics is overcoming all of the economic risks it encounters through a win-win partnership with its suppliers, allowing for sustainable support and smooth communication. By voluntarily carrying out fair trade in an ethical fashion, LG Electronics is being reborn as a responsible business partner.

Category	Win-Win Partnership	Fair Trade	Suppliers' CSR
2008 Major Achievements	<ul style="list-style-type: none"> Introduced CPO system and reshuffled procurement organization, reset procurement strategy direction Hosted 1st Global Supplier's Day, strengthened communication by conducting a suppliers' satisfaction survey Increased supplier satisfaction up 5.1 percent compared with the previous year <p>(Results from Suppliers' Satisfaction Survey)</p> <p>2007: 65.5% Satisfied, 10.3% Very Satisfied, Average 68.3p</p> <p>2008: 78.8% Satisfied, 8.8% Very Satisfied, Average 73.4p</p> <p>Legend: Very Dissatisfied (red), Dissatisfied (orange), Somewhat Dissatisfied (yellow), Neither (light green), Somewhat Satisfied (green), Satisfied (dark green), Very Satisfied (blue)</p>	<ul style="list-style-type: none"> Signing and declaration of Subcontractor Fair Trade Agreement for the first time in Korea (Oct. 2007) and revision (Nov. 2008) Online education for all employees on the prevention of cartels Abiding by the Anti-Monopoly Law in China Increasing positive recognition of LGE's activities by outside organizations like the Korea Fair Trade Commission LGE's voluntary compliance program given A rating (2007) CCMS (Customer Complaints Management System) certificate (2007) Evaluation on the execution of Subcontractor Fair Trade Agreement given A rating (2008) 	<ul style="list-style-type: none"> Prepared establishment of Global Procurement Policy Hosted supplier conferences to improve ESH Promoted the sharing of ESH technologies between industries Established and signed an annual ESH plan Assisted suppliers with chemicals management system <p>*CSR (Corporate Social Responsibility) *ESH (Environment, Safety, Health)</p>
Opportunities and Risk Factors	<ul style="list-style-type: none"> Economic crisis makes financial support difficult; advantageous time for trading with competitive supplier 	<ul style="list-style-type: none"> Strengthening laws, regulations and observation regarding fair trade in Korea and abroad Reinforcing activities to increase fair trade awareness for all employees 	<ul style="list-style-type: none"> Determining where suppliers' CSR capabilities need to be strengthened due to tougher regulations in domestic and international manufacturing markets and the environment Areas where sustained, long-term investment of time, cost, and effort are required
Future Direction	<ul style="list-style-type: none"> Carry out 100% cash settlements Fund support (Limit ↓, support with no interest) Training support (provide free training programs) 	<ul style="list-style-type: none"> Establishment and revision of fair trade policy for each business area Reinforcement of compliance activities for employees at overseas subsidiaries 	<ul style="list-style-type: none"> Strengthen supplier-initiated preventive measures against accidents Differentiated ESH support depending on supplier level Establish ESH technology exchange and training development courses
Related Teams and Divisions	<ul style="list-style-type: none"> Global Procurement Planning Group, CPO Division Procurement Team at each company and region Learning Center, CHO Division 	<ul style="list-style-type: none"> Government Relations Team, CSD Compliance Team, CSD Corporate Audit Team 	<ul style="list-style-type: none"> Global Procurement Strategy Group, CPO Division Environment & Safety Group, CSD Procurement Team at each company and region

Win-Win Partnership

LG Electronics operates a direct support program to strengthen its partnership with suppliers as well as its win-win co-work activities with them. Through strengthened win-win communication that came about after the introduction of the Procurement Division's CPO system, LG Electronics is successfully overcoming the current economic crisis together with its suppliers.

Win-Win Management with Suppliers

All trade with LG Electronics takes place under a free competition principle, with the opportunity for equal participation guaranteed for everyone according to Jeong-do Management. LG Electronics aims to realize development for itself and its suppliers, which is why it establishes relationships of mutual trust and cooperation through fair, transparent trade.

Goals and Strategies of Win-win Management

Well aware that their total purchases account for as much as 80% of total revenue, LG Electronics has always been trying to grow alongside its suppliers by strengthening their competitiveness. Still, it re-established its strategic direction for purchasing and refurbished its Support Division for suppliers to effectively deal with the recent economic crisis as any responsible business partner would do in a similar situation.

● CHANGING THE STRATEGIC DIRECTION OF PROCUREMENT

LG Electronics will begin with tasks that have high urgency and efficiency after selecting mid- to long-term tasks based on priority, with the main goals of strengthening its capabilities and the introduction of advanced procurement methods. In particular, it will focus on three areas—General Procurement, Procurement Engineering, and China—utilizing advanced procurement methods from 2009 onwards.

● INTRODUCTION OF CPO SYSTEM AND PROCUREMENT ORGANIZATION RESTRUCTURING

LG Electronics restructured the procurement organizations in each company and region by unifying them all into one Procurement Team leader-integrated system centered around Chief Procurement Officer (CPO) and Executive Vice President Thomas K. Linton, whom the company recruited in January 2008.

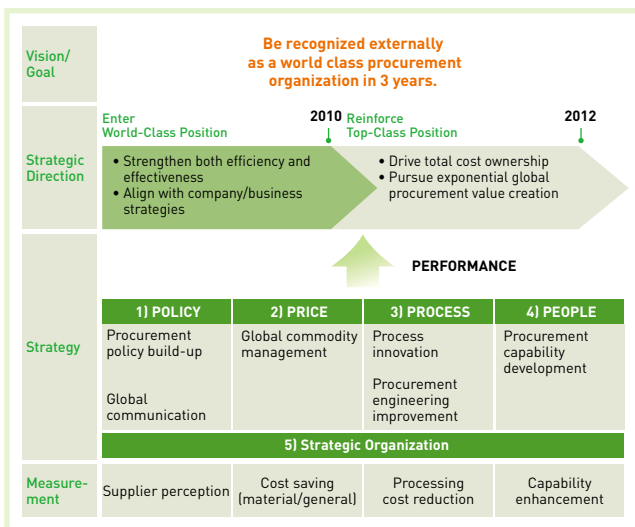
[GLOBAL PROCUREMENT RESOURCES]



● GLOBAL PROCUREMENT RESULTS (2008)

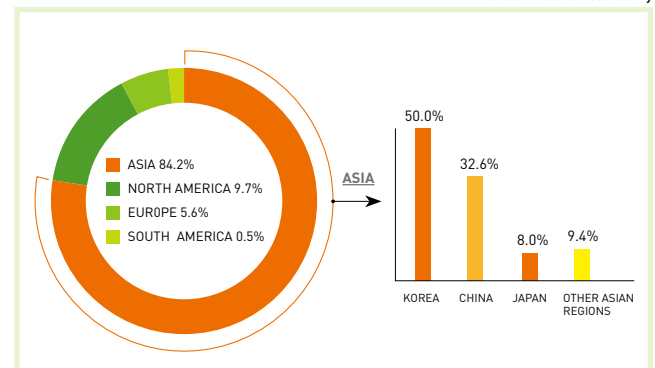
In 2008, total purchases amounted to KRW 39.38 trillion (on a global basis, direct/indirect material costs included), with domestic and overseas costs being roughly equal. Direct material costs were about 2.5 times higher than indirect material costs.

[NEW TRENDS IN PROCUREMENT GOALS AND STRATEGIES]



[GLOBAL PROCUREMENT RESULTS (2008)]

Global supplier spending by region/ direct material costs only



Support System for Suppliers

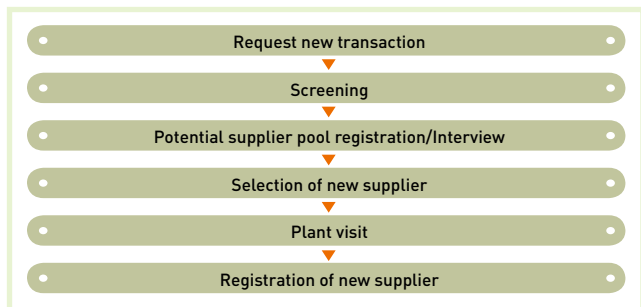
● SUPPORT ORGANIZATION

While focusing support on the set-up of business infrastructure, such as personnel, training, funding, and management/ESH consulting, LG Electronics is also forming a support organization centered on the company's global procurement strategy group, which reports directly to the CPO and the Procurement Teams at each of LGE's five companies.

● PROCESS OF SELECTING SUPPLIERS

Transparency and fairness are concepts that LG Electronics has continuously emphasized with suppliers. LGE is especially committed to offering equal opportunity for suppliers registration and selection to every supplier that has met the new partner requirements as detailed in LGE's Code of Ethics. Additionally, LG Electronics has implemented a corporate integrated process for new supplier registration since 2006, with a PU-SMS (Purchasing Supplier Management System) in place to ensure objective evaluations.

[NEW SUPPLIER REGISTRATION PROCESS]

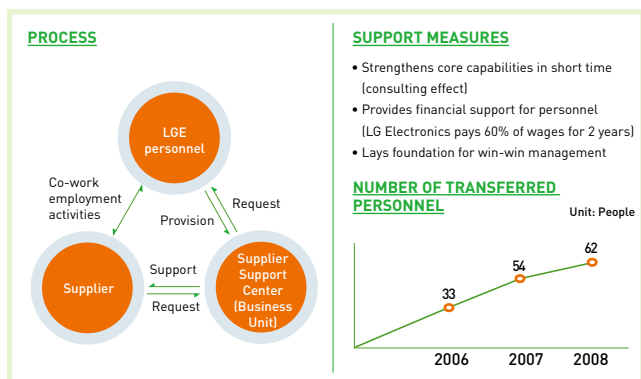


Support Programs for Suppliers

● PERSONNEL SUPPORT

Through its leading personnel transfer policy, LG Electronics is able to hire the very best personnel and strengthen the core capabilities of its suppliers. This policy also plays a crucial role in helping to form close relationships with suppliers while supporting the integration of the corporation's new processes with suppliers, rationalizing management, and improving productivity. To this end, LG Electronics offers financial support and conducts satisfaction surveys for personnel who have been transferred as well as to supplier representatives in an effort to make the transfer policy even better.

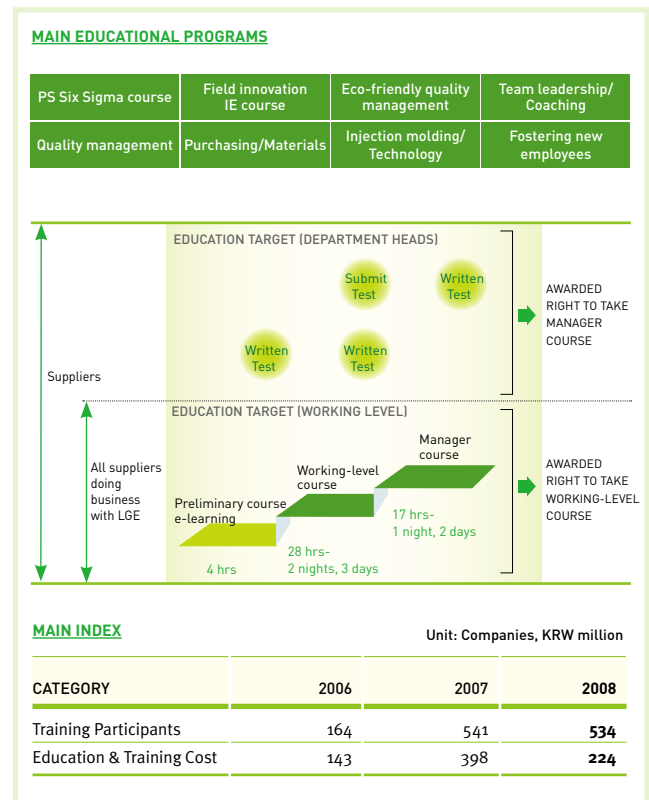
[STATUS OF PERSONNEL SUPPORT]



● TRAINING SUPPORT

After being selected as one of the operating organizations by Korea's Ministry of Labor in July 2006, LGE has been operating the LG Electronics Business Partner Work Training Consortium. This consortium continues to develop training programs, led by the Corporate Procurement Strategy Team, relevant personnel of other LG Electronics procurement teams, and the Learning Competency Development Group. These programs are either provided free to suppliers directly or employees of suppliers can attend any of a number of academies across Korea at no extra cost. Recently, after numerous requests from suppliers, LG Electronics also established a new team leadership program.

[STATUS OF TRAINING SUPPORT]



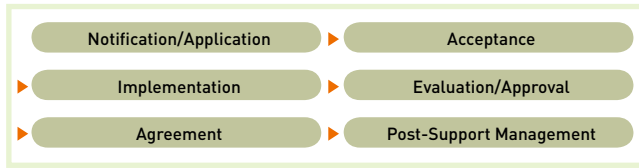
● FINANCIAL SUPPORT

Every year LG Electronics allocates KRW 20 billion for the financial stabilization of its suppliers through direct investment in exceptional suppliers or promising companies. From 2009, LGE will provide interest-free financial support in exchange for lower loan limits, giving a substantial boost to suppliers that find it hard to raise capital. In addition to direct financial support, LGE will make 100% cash payments and facilitate network loans in collaboration with financial institutions and government agencies.

[SCOPE OF FINANCIAL SUPPORT]

SUPPORT TARGET	• Suppliers and companies designated as strategically supported (those with new/core technologies)
SUPPORT LIMIT	• Maximum of KRW 2 billion per supplier
SCOPE OF SUPPORT	<ul style="list-style-type: none"> • Investment in new facilities for new products (parts) • Investment for replacing existing facilities • Investment in testing facilities, measuring instruments, and JIG for quality improvement • Investment in factory automation for productivity improvement • Investment in cutting-edge technology development • Investment in equipment for suppliers that have entered overseas market with LGE

[PROCESS OF FINANCIAL SUPPORT]



[STATUS OF FINANCIAL SUPPORT]

DIRECT FINANCIAL SUPPORT

Purpose of Support:

- Investment in equipment & facilities/development of cutting-edge technology/eco-friendly efforts/improvement regarding hazardous substances
- Scheduled to provide KRW 100 billion over a period of 5 years: maximum of KRW 2 billion per company

	2004	2005	2006	2007	2008
Unit: KRW billion	18.7	16.5	13.8	5.5	3.5
Total (2004~2008)	58				

SUPPORTING NETWORK LOANS IN ASSOCIATION WITH FINANCIAL/GOVERNMENT ORGANIZATIONS

KRW 83.9 billion
286 companies

Accumulated figures between 2004 and 2008

● **MANAGEMENT/ESH SUPPORT**

As part of its management and Six Sigma consulting support, LG Electronics provides internal/external consulting services for innovation in quality, productivity, cost saving and work process. Each company at LG Electronics has also signed a Parent Company-Supplier Win-Win Partnership agreement. Meetings are held on a monthly basis to share ESH information with suppliers on the environment, safety, disaster prevention, health care and more, as well as success cases and matters that require improvement.

[MANAGEMENT CONSULTING/SIX SIGMA CONSULTING/ESH SUPPORT RESULTS]

DETAILS

TARGET COMPANIES: Suppliers selected through evaluation

SUPPORT PERIOD: On average 3 to 6 months

SUPPORT:

- **MANAGEMENT INNOVATION CONSULTING**
 - Dispatching professional consultants
 - Organizing an Innovation Team with the supplier's CEO as its head
 - Rationalization of management, cost reduction, specialized skills, and work process improvement
- **SIX SIGMA CONSULTING**
 - Six Sigma skills, 100ppm and 5S activities, and other innovation activities
- **ESH CONSULTING**
 - Fires, electrical accidents, fire extinguisher safety
 - Supporting ISO 14000 and eco-friendly activities

SUPPORT RESULTS

684 COMPANIES
More than 300 people

500 COMPANIES
More than 200 people

2007 2008

Communication with Suppliers

● **2008 GLOBAL SUPPLIER'S DAY**

On May 21, 2008, LG Electronics held a Global Supplier's Day, inviting CEOs from its top 300 suppliers based on an evaluation carried out at the headquarters and by company procurement teams. At the event, LGE shared with suppliers its vision and strategies for win-win partnerships and granted Global No.1 Outstanding Supplier Award (Qualcomm in 2008) and small & medium contribution awards (4 companies) based on the performance evaluation of suppliers.

In addition, LG Electronics hosted a fundraising auction with items donated by the corporation and other participants. It raised approximately KRW 66 million and contributed all of it to the United Nations Children's Fund (UNICEF).



1. 2008 Global Suppliers Day's Awards Ceremony
2. Charity Auction for UNICEF

● **OPEN DIALOGUE WITH SUPPLIERS**

Through various communication programs, LG Electronics provides encouragement for suppliers and listens to their opinions and challenges, while also guaranteeing transparency in all business transactions.

[SUPPLIER COMMUNICATION PROGRAMS]

PROGRAMS	OPERATION CYCLE
Supplier Portal	Opened
New Supplier Registration System	Opened
Supplier Suggestion System	Opened
Suppliers' Satisfaction Survey	1 / Year
Evaluation & Awards for Existing Suppliers	1 / Year
Global Supplier's Day	1 / Year
Procurement Executive Council	1 / Quarter

● **SUPPLIERS' SATISFACTION SURVEY (CONDUCTED IN NOVEMBER 2008)**

According to a survey on suppliers' satisfaction, which included LG Electronics' top 160 suppliers, the overall satisfaction level rose 5.1 percent, from 68.3 percent in 2007 to 73.4 percent. Respondents said the greatest reason to work with LG Electronics had to do with its "stable and sustained delivery system as well as its smooth partnership." When compared to the competition, the survey showed that suppliers are satisfied for the most part with LG Electronics' response speed, contingency measures, improved process of delivery and inspection, overall attitude of employees, integrity, and transaction practices, though they are less happy about its requests about prices and inconsistencies in purchasing orders (PO).

Based on these results, which seem to indicate a need to improve sub-processes through closer partnerships, LG Electronics will focus its efforts on strengthening its feedback system before and after the business process.

Fair Trade

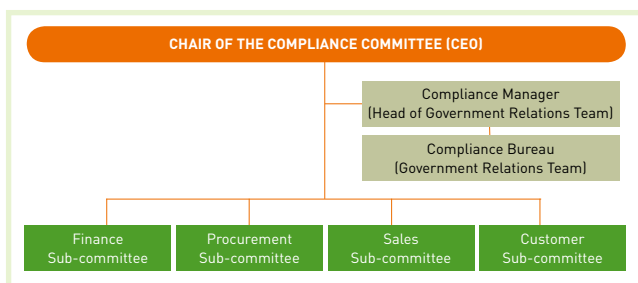
LG Electronics reinforced its Fair Trade Compliance Program based on the principles of fair trade and competition throughout the company's value chains. LGE pursues fair and transparent trade with its suppliers as well as free and fair competition with all competitors.

Principles of Fair Trade and Competition

In order to implement its "Principles of Fair Trade and Competition," as stipulated in chapters 2 and 3 of its Code of Ethics, LG Electronics introduced a Fair Trade Compliance Program in 1995, the first time a Korean company had ever done this. Since then LGE has set up a related organization and held voluntary training and supervision sessions on a continual basis, while improving the work process as well. Every year, LG Electronics' CEO also reaffirms the company's Commitment to Compliance.

Fair Trade Compliance Program Structure

LG Electronics' compliance program meets the seven key elements that are required by the Fair Trade Commission. The Compliance Manager, who is nominated by the BOD, supports the CEO, chair of the Compliance Committee, and is responsible for managing and supervising the Compliance Bureau, which carries out the details of the program. The committee supports each sub-committee under the bureau, which is divided up according to the value chain, and reports on the status of the company's compliance program once every six months to the BOD before voluntarily disclosing those reports through the stock exchange.



Fair Trade Compliance Activities

When signing contracts, establishing policies, and executing advertisements with suppliers, LG Electronics' working-level departments should consult with the Compliance Bureau in advance, which will then examine risk factors that may occur in the work process of major teams and departments, such as those related to purchasing and sales, through regular diagnostic evaluation (1/year) and irregular evaluation (on demand), ensuring that verified problems are improved without fail. Also, related personnel are obliged to take increasingly detailed online/offline education courses, depending on their job position and years of employment.

[FAIR TRADE EDUCATION]

CATEGORY	OFFLINE EDUCATION			ONLINE EDUCATION
	Course	Target	Frequency	Frequency
	Introductory Procurement Course	Supply Management Course	Special Education	e-Fair Trade Course
	Working level	Manager	Organization leader	Working level, Leader
2007	Every six months 30 people/3 hrs	One time 30 people/3 hrs	Procurement Strategy Meeting (20 people, including executives)	11 times
2008	Every six months 30 people/3 hrs	One time 30 people/ 3 hrs each time	Procurement Strategy Meeting (20 people, including executives) Special education for members of companies' Procurement teams	7 times

2008 Major Activities

● EXECUTION OF SUBCONTRACTOR FAIR TRADE AGREEMENT

LG Electronics faithfully executed the Subcontractor Fair Trade Agreement, which was signed in October 2007 between LG Electronics and its subcontractors, and was given an A rating in its execution of the agreement by the Fair Trade Commission in November 2008. LGE encouraged its affiliates to join all related activities and ended up signing the agreement once again with six major affiliates.

● ONLINE EDUCATION FOR THE PREVENTION OF CARTELS

For the benefit of all employees, LG Electronics conducted online education to ban cartels, with employees signing a written promise to make every effort to prevent the creation of a cartel.

● VOLUNTARY COMPLIANCE MEASURES TAKEN FOR CHINA'S ANTI-MONOPOLY LAW

Through regular e-mails, LG Electronics kept employees up to date with the main content of China's Anti-Monopoly Law and matters to be attended to regarding it in the run up to the law taking effect (Aug. 2008). In September 2008, outside experts were brought in and education on this issue was conducted for heads of finance/sales teams and departments throughout the China Region. In December of the same year, similar education was carried out for heads of sales teams and departments in Korea.

VIOLATION OF FAIR TRADE LAW AND CORRECTIVE ACTION

In January 2008, the Fair Trade Commission handed down a fine of KRW 180 million after an employee event at LG Powercom was declared unfair trade. In order to prevent such violations in the future, LG Electronics shared all the relevant facts with employees and conducted corrective education for the teams and departments that had been in charge.

Suppliers' CSR

Recognizing that the social and environmental responsibility of suppliers is in line with its sustainability management, LG Electronics makes every effort to help suppliers improve their CSR competitiveness through continuous development and discussions with its suppliers.

Enactment of Global Procurement Policy

LGE is preparing for the enactment of the Global Procurement Policy (to be declared in the second half of 2009) with the aim of strengthening the social, environmental and economic capabilities of its suppliers. The Global Procurement Policy, which has been handled mainly by the CPO Division's Global Procurement Strategy Group, will include LGE's comprehensive procurement principles as well as its commitment to improving strategy, HR, and systems and pricing for the sustained performance of suppliers.

Training Programs on Jeong-do Management

LG Electronics has held seminars to share related activities and training programs on Jeong-do Management (LG's unique ethical management way) for employees of its suppliers. Since August 2008, LGE has conducted training on Jeong-do Management for overseas suppliers as well, starting with its subsidiaries in Qingdao and Yantai, China. Furthermore, the company is actively advancing Jeong-do Management through promotional events and LG Electronics' CEO messages.

[STATUS OF JEONG-DO MANAGEMENT TRAINING]

Unit: Companies

CATEGORY	KOREA	OVERSEAS	TOTAL
No. of Suppliers	201	69	270

ESH Evaluation Management

LG Electronics has a suppliers' development group as part of the Procurement Team of HA company which conducts training in ESH and evaluation. In 2008, training focused on raising awareness of supplier representatives and technology exchanges between industries as well as training people in charge. In particular, we empowered our suppliers even more in ESH sectors by reflecting monitoring results concerning supplier assessment (based on the agreed ESH annual plan in the 1st quarter) at a signing ceremony with management representatives.

Support for management of chemical substances

LG Electronics signed an MOU with the Korea Occupational Safety & Health Agency to ensure it made efforts to enhance the capability of its suppliers to manage hazardous chemicals and improve their work environment. A total of 147 suppliers have been led to assess and improve their manage-

ment of toxic chemical substances, and provided support to establish an overall safety and health management system.

[KEY ACTIVITIES FOR SUPPORT ESH]

FRONTLINE-ORIENTED ESH EVALUATION AND IMPROVEMENT
<ul style="list-style-type: none"> • ESH evaluation and improvement review through regular visits • Supervisor/manager training to increase safety awareness • Suppliers' In-house Safety and Health Management • Energy loss-related consulting and environment-related mentoring
THEME-BASED SUPPORT AND TOP-QUALITY ESH TRAINING
<ul style="list-style-type: none"> • Identify key coaching points for suppliers and provide support accordingly • Hold ESH technology exchange events on a quarterly basis • Provide ESH information to prevent similar accidents • Encourage suppliers to manage FSI (Frequency Severity Indicator)
FEEDBACK SYSTEM
<ul style="list-style-type: none"> • Operate a system to manage a schedule for ESH visits/evaluation results/improvement status • One-on-one training for new people in charge • Implement a "strike-out" system (warning e-mail and notice to suppliers) • Provide relevant ESH information to attract interest

[STATUS OF TEACHING AND TRAINING]

► COACHING RESULTS

Unit: Companies, Cases

CATEGORY	NO. OF SUPPLIERS	FREQUENCY OF SUPPORT
2007	108	279
2008	195	380

► ESH TRAINING RESULTS

ITEM	DATE	ATTENDANCE	REMARKS
ESH Technology Exchange (injection)	2008.10.29	95%	Sharing the top ESH injection supplier cases
ESH Technology Exchange	2008.12.17	96%	Sharing the top ESH sheet metal supplier cases (sheet metal)
Supply Staff Coaching/Training	2008	-	Supply vehicle safety management/number of accidents
Environmental facility Benchmarking	2007.7.24	7 suppliers	Air water, waste equipment management B/M

NON-FINANCIAL RISK DIAGNOSIS AND MANAGEMENT

LG Electronics plans to develop a process to diagnose risk factors in the social and environmental aspects of business starting in 2009. It will then create and distribute non-financial risk management guidelines through a pilot diagnosis project, diagnosing and managing the risks of our suppliers as well as all of LGE's business sites.