

Sustainability Report 2005

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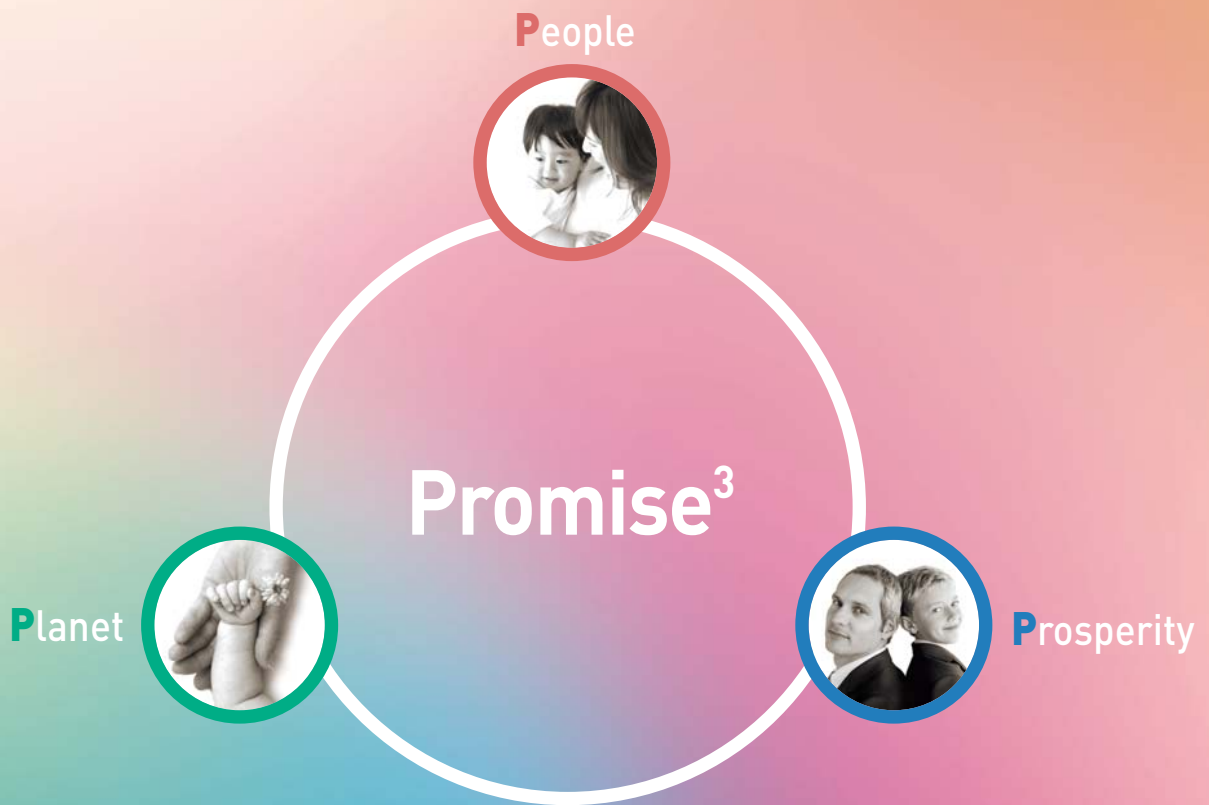
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**Promise<sup>3</sup>** refers to our promise for people, planet, and prosperity.

It embodies LG Electronics' dream for  
a world of happiness for our stakeholders and communities,  
people who can wholeheartedly say "Life's Good" ...  
a clean planet well preserved for future generations...  
and a company that builds prosperity via innovation...



## REPORT OVERVIEW AND SCOPE



### Basic information


LG Electronics began publishing its annual Environmental Report in 2002. By publishing our first Sustainability Report in 2005, our aim is to share information on our management activities and performance, and furthermore our future direction, with various stakeholders.

The first Sustainability Report by LG Electronics is characterized by the following:

First, we have divided our corporate activities into social, environmental and economic activities based on the triple bottom line approach. A separate section at the beginning of the report is dedicated to an overview of our overall management system.

Second, the contents of this report are based on the international guidelines of GRI(Global Reporting Initiative), which is widely regarded as the international standard. In principle, this report was compiled based on GRI guidelines of 2002 and referenced the draft of G3 guidelines. The report also covers all other management activities and performance information deemed pertinent to stakeholders.

Third, the process of understanding our shortcomings in drawing up this report and taking the necessary steps for improvement is as important as publishing the results of corporate sustainability management. LG Electronics regards this report as the first step in publishing Sustainability Reports on an annual basis to provide detailed information on our corporate sustainability management activities and performance.



### Report scope and process

The scope of this Sustainability Report is the domestic operations of our headquarters and ten business sites over a period from January 1, 2005, to December 31, 2005. The activities of our subsidiaries and invested companies are not included. However, information on activities and performance from beyond this timeframe was included when deemed important, in addition to major activities of the overseas operations of LG Electronics.

The various activities covered in the report reflect the views of general stakeholders based on the 2002 GRI guidelines.

### External assurance

This report has been externally audited by Samjong KPMG for its accuracy, entirety and reliability. Please refer to page 94 and 95 for the assurance statement.

### More information

For more information, please refer to other LG Electronics publications including our Annual Report, brochure, webzine and website ([www.lge.co.kr](http://www.lge.co.kr), [www.lge.com](http://www.lge.com)). We recognize this report as a useful and valuable channel of communication with our stakeholders. Going forward, our Sustainability Report will serve as a window for transferring and receiving information with our shareholders, customers, business partners, the government and non-governmental organizations (NGOs), in addition to our LG Electronics family members working around the world.





# Sustainability Report 2005...



Through balanced consideration to  
social, environmental and economic aspects,  
which form the pillars of sustainable development,  
LG Electronics is doing its part to build  
a clean environment and caring society.



Our goal here at LG Electronics is to grow into a globally competitive company that is trusted by its stakeholders. In keeping with current trends, we are introducing our activities and accomplishments through our Sustainability Report 2005.



## Dear stakeholders,

Since its inception in 1958, LG Electronics has led the development of Korea's electronics industry. In doing so, we also contributed to advancing the Korean economy and helped raise the quality of life for all. Our unrelenting commitment to challenge and innovation drives us to bring even more comfort and convenience into our lives. This ongoing quest exemplifies the pursuit of sustainable growth at LG Electronics.

The business community faces more changes than ever before. Innovation is a crucial element in doing business and surviving in an ever-changing world. However, innovation has a limited impact when restricted only to the economic side of business and cannot guarantee the long-term growth of a company. Innovation must also encompass the social and environmental dimensions to ensure sustainable growth. This concept is fast spreading around the world. Corporate sustainability management has become a catchphrase for all companies seeking continued growth.

Our goal here at LG Electronics is to grow into a globally competitive company that is highly trusted by its stakeholders. In keeping with current trends, we are introducing our activities and accomplishments through our Sustainability Report 2005.

Our business philosophy retains the basic spirit of corporate sustainability management. Over the past fifty years, we have nurtured our business under the guiding principles of 'Creating Value for Customers' and 'Respect-based Management.' The diverse efforts to make life more comfortable and enjoyable are rooted in our deep respect for fellow man and new ideas. Based on the two goals of creating value for our stakeholders and respecting the creativity and freedom of mankind, we aim to complete our transformation into a company that is demanded of the 21st century.

## Our business philosophy retains the basic spirit of corporate sustainability management.

Corporate sustainability management is a vital tool in reaching our vision of joining the global top-3 electronics and telecommunications company. It is our firm belief that the pursuit of sustainability through balanced development of society, the environment and economy will not only raise our corporate value, but ultimately benefit all of our stakeholders. We are currently devising concrete plans to realize this goal and in line, make the following three promises.

### The first is our economic promise.

The battleground for the electronics industry has never been more predatory and companies that lack innovation are being left in the dust. LG Electronics is looking beyond its success so far and is preparing long-term strategies to create blue ocean markets through innovation. This forward-looking stance will power our growth into the global top-3 electronics and telecommunications firm by 2010. Additionally, we are well aware that any profits and benefits gained and the added value created are only truly meaningful when they can be increased on a sustainable basis. Growing the profits and benefits of stakeholders, this is our economic promise to you.

### The second is our environmental promise.

Drawing upon our achievements in environmental management, LG Electronics will attempt a more pioneering and encompassing approach to secure global leadership in this area. In response to the growing number of product and environmental regulations, we reorganized our 'Eco-Design Committee' at the end of 2005. Vast amounts of resources and efforts are being injected into clean production, with the focus on preventing pollution. Environmental activities are central to our corporate sustainability management and we will continue to expand the program beyond related departments to the entire company.

### The third is our social promise.

As with our slogan "Life's Good," LG Electronics has constantly strived to make a brighter, happier society. Following the formation of a social fund made up of employee contributions and a volunteer team, we declared the 'Charter of Corporate Social Responsibility' in 2005 and laid the groundwork for increasingly systematic social responsibility activities. Going one step further, LG Electronics will strictly adhere to corporate ethical standards and strengthen its systems and programs to promote mutual growth with employees and stakeholders.

Preparing this report provided us with an opportunity to reflect upon our efforts to translate our values on sustainable growth into concrete ways in which we do business. During the process, we confirmed that corporate sustainability management is a very important issue to our stakeholders who expect real growth from the company. For our part, we promise to do our all as a responsible member of the global village to pursue sustainable growth and mutual prosperity. We look forward to your continued support and encouragement along the way.

Thank you.



Vice Chairman and CEO **S. S. Kim**





## OVERVIEW

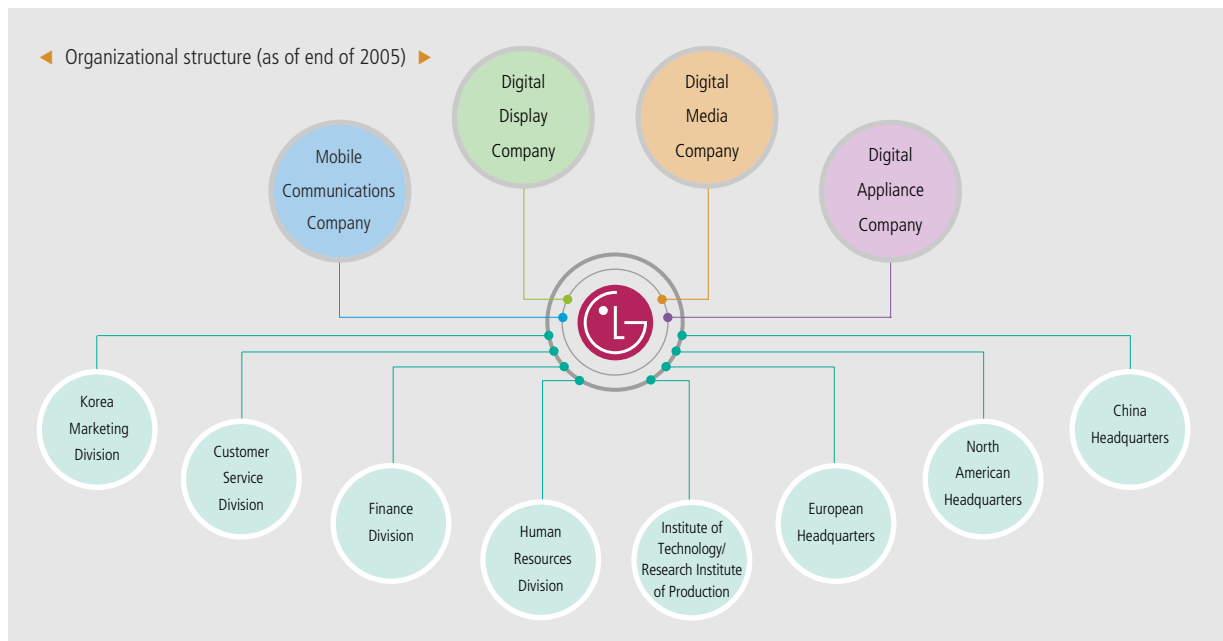
Since our inception in 1958, spirit of embracing challenge and innovation has driven our growth into a leading electronics, information and communications goods maker. Today, it continues to open up new markets in the high-tech digital sector including digital TVs, home network systems, PDPs and mobile handsets, in addition to its home appliance business. To achieve our vision of ranking among the global top-3 electronics and telecommunications firms by 2010, we are focusing our capabilities on developing and introducing world leading products to improve our performance in core business areas as well as discovering new, promising businesses to lead our growth in the coming generations.

- **Company name** \_ LG Electronics Inc.
- **Headquarters location** \_ LG Twin Towers, 20 Yeoido-dong, Yeongdeungpo-gu, Seoul 150-721, Korea
- **Date established** \_ October 1, 1958
- **No. of employees** \_ 77,652 (31,652 in Korea/46,000 overseas)

### ■ Financial highlights (KRW billion, non-consolidated basis)

- Total assets\_ 14,036
- Total liabilities\_ 7,874
- Total shareholders' equity\_ 6,162
- Sales\_ 23,774
- Operating profit \_ 915
- Net profit\_ 703

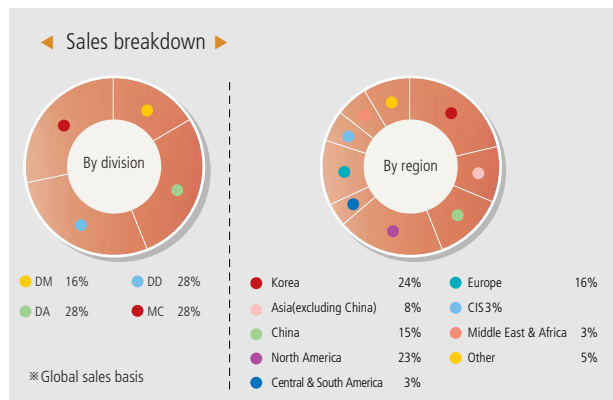
※ As of December 31, 2005



## MAIN PRODUCTS AND MARKETS

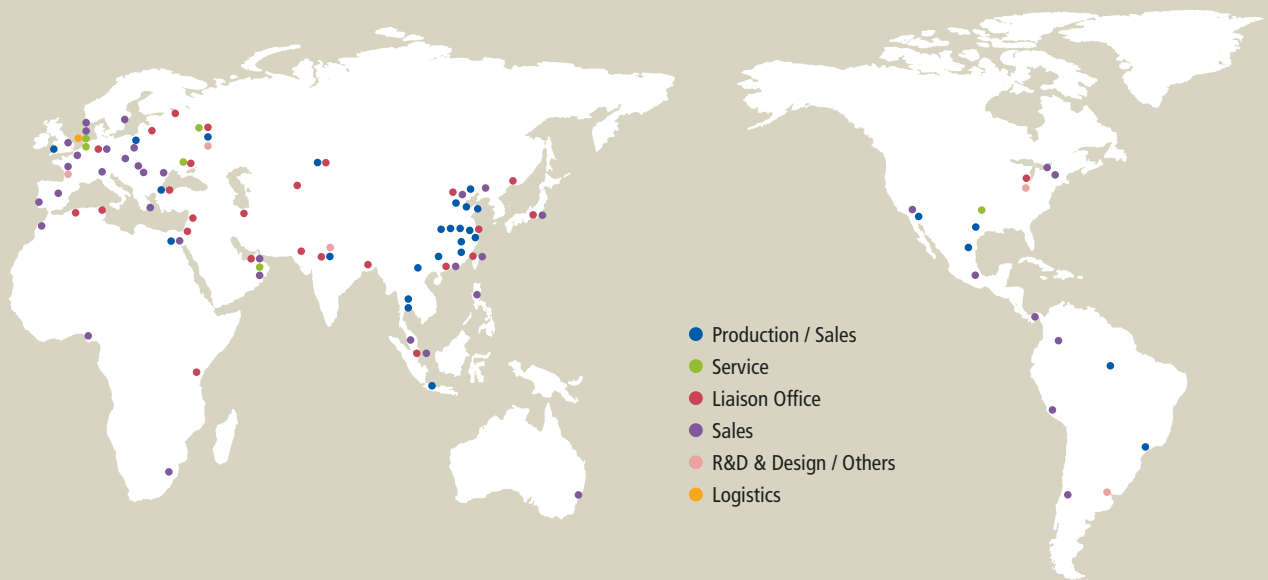
### Sales breakdown in 2005

Mobile Communications (MC)	Mobile telecommunications (CDMA/WCDMA/WLL), telecommunications systems (wired/wireless), exchange (TDX, ATM), key phones, video phones, PCB, handsets, WLL handsets
Digital Appliance (DA)	Refrigerators, microwave ovens, compressors, air conditioners, washing machines, vacuum cleaners, MGTs, home motors
Digital Display (DD)	Monitors, TVs, PDPs, video tapes, DVD-R discs
Digital Media (DM)	Telematics, PC (notebook computers), optical storage, DVD-player/DVD-REC/combi, security PDA





## ◀ Global organization and location ▶



## Global networks

## • EUROPE

LGEMF	LG Electronics Mobilecomm France
LGewa	LG Electronics Wales Ltd.
LGEMA	LG Electronics Mlawia Sp.Z.O.O.
LGEEK	LG Electronics United Kingdom Ltd.
LGFEF	LG Electronics France S.A.R.L.
LGEDG	LG Electronics Deutschland GmbH
LGELS	LG Electronics Italia S.P.A.
LGEMK	LG Electronics Magyar KFT
LGEPF	LG Electronics Polska Sp.Z.O.O.
LGES	LG Electronics Espana S.A.
LGESW	LG Electronics Nordic AB
LGEPF	LG Electronics Portugal S.A.
LGES	LG Electronics Hellas S.A.
LGEL	LG Electronics Antwerp Logistic N.V.
LGECZ	LG Electronics CZECH S.R.O
LGERO	LG Electronics Romania S.R.L.
LGELG	LG Electronics Austria GmbH
LGEEH	LG Electronics European Holdings B.V.
LGEBN	LG Electronics Benelux
LGELS	LG Electronics European Logistics & Services B.V.
LGESC	LG Electronics European Shared Service Center B.V.

## • CIS

LGELK	LG Electronics Almaty Kazakhstan
LGELI	LG Alina Electronics
LGELU	LG Electronics Ukraine Inc.
LGELR	LG Electronics Russia. LLC
LGELM	LG Electronics RUS-Marketing, LLC

## • MIDDLE EAST AND AFRICA

LGEEG	LG Electronics Egypt S.A.E.
LGEEC	LG Electronics Egypt Cairo S.A.E.
LGEGF	LG Electronics Gulf FZE
LGELT	Arcelik-LG Klima Sanayi ve Ticaret A.S.
LGESA	LG Electronics S.A. (Pty) Ltd.
LGEMC	LG Electronics Morocco S.A.R.L.
LGEME	LG Electronics Middle East Co., Ltd.
LGELI	LG Electronics Nigeria Ltd.
LGELT	LG Electronics Overseas Trading FZE

## • CHINA

LGELH	China Holding Company
LGESY	LG Electronics Shenyang Inc.
LGELT	LG Tontru Color Display System Co., Ltd.
LGEPN	Nanjing LG-Panda Appliances Co., Ltd.
LGETA	LG Electronics Tianjin Appliances Co., Ltd.
LGELQ	LG Electronics Qinhuangdao Inc.
LGESH	Shanghai LG Electronics Co., Ltd.
LGELH	LG Electronics Huizhou Ltd.
LGELK	LG Electronics HK Ltd.
LGELT	Langchao LG Digital Mobile Communication Co., Ltd.
LGELK	LG Electronics (Kunshan) Computer Co., Ltd.
LGELN	LG Electronics (Nanjing) Plasma Co., Ltd.
LGELQ	Qingdao LG Langchao Digital Communication Co., Ltd.
LGELT	LG Electronics (Taizhou) Refrigeration Co., Ltd.
LGELN	LG Electronics Nature (Hangzhou) Recording Media Co., Ltd.

## • ASIA

LGELI	P.T.LG Electronics Indonesia
LGEPH	LG Electronics Philippine Inc.
LGELV	LG Electronics Vietnam Co., Ltd.
LGELT	LG Electronics Thailand Co., Ltd.
LGELT	LG Mittr Electronics Co., Ltd.
LGELP	LG Electronics Australia Pty, Ltd.
LGELT	LG Electronics Taiwan Taipei Co., Ltd.
LGELM	LG Electronics Malaysia SDN. BHD
LGELS	LG Electronics Singapore Pte, Ltd.
LGELP	LG Electronics Japan, Inc.
LGELI	LG Electronics India Pvt. Ltd.
LGELI	LG Soft India Pvt. Ltd.

## • NORTH AMERICA

LGELU	LG Electronics Mobilecomm U.S.A., Inc.
LGELI	LG Electronics Alabama Inc.
LGELU	LG Electronics U.S.A.
LGELI	LG Electronics Canada, Inc.
ZENITH	Zenith Electronics Corporation
LGELM	LG Electronics Mexicali S.A.DE C.V.
LGELM	LG Electronics Mexico S.A.DE C.V.
LGERS	LG Electronics Reynosa Inc.
LGELM	LG Electronics Mexico Monterrey S.A.DE C.V.

## • CENTRAL &amp; SOUTH AMERICA

LGESP	LG Electronics de Sao Paulo Ltda.
LGELZ	LG Electronics da Amazonia Ltda.
LGELP	LG Electronics Panama S.A.
LGELP	LG Electronics Peru S.A.
LGELC	LG Electronics Colombia Ltda.
LGELC	LG Electronics Inc. Chile Ltda.

## HISTORY

### ● Digital Management Settlement Period(2000~Present)

- 2005. 12 Started operating CSM Task
- 12 Strengthened Eco-design committee
- 12 Won Presidential Award for excellence in labor-management culture
- 11 Ascended to No.1 in the global CDMA market in 3Q
- 11 Launched Network Solution Joint Venture, LG-Nortel
- 09 Named top brand in South Africa for 3 straight years
- 05 Implemented global consumer service system
- 04 Declared Charter of Corporate Social Responsibility
- 03 Unveiled the world's first DMB laptop computer
- 03 LGE cell phones no.1 in the North America CDMA market for 2 straight years
- 02 Completed construction of integrated handset research center
- 01 Won top prize for transparent management sponsored by Korea's 5 key economic organizations
- 01 Declared 2005 as the 'Year of Fast Execution'
- 01 Won CES 2005 Innovation Award
- 2004. 11 Developed world first terrestrial DMB-receiving mobile phone
- 06 Commercialized world's first XGA single scan technology
- 05 Began construction of PDP A3 factory
- 02 Developed 5th generation chip for digital TV
- 2003. 12 Developed world's largest 76-inch PDP TV
- 10 S.S.KIM inaugurated as Vice Chairman & CEO
- 08 Produced world's first green technology refrigerator, DIOS
- 01 Developed world's first synchronous-asynchronous IMT-2000 mobile phone
- 2002. 12 Established R&D Center in Beijing, China
- 08 Ranked 6th in global mobile handset industry
- 05 Unveiled world's first mobile phone with organic EL panel
- 04 Split LGE and LGEI
- 2001. 12 Finalized demerger in extraordinary shareholder's meeting
- 07 Launched 'LG Philips Displays,' a joint venture for CRT
- 05 Completed world's second PDP production line in Gumi
- 2000. 09 Merged with LGIC

### ● Digital Management Period(1999)

- 1999. 07 Proclaimed 'Digital LG Vision'
- 05 Commercialized Korea's first 40-inch PDP-TVs
- 05 Launched 'LG Philips LCD'
- 04 Developed first digital TV suited for Korean market

### ● Innovation Period(1987~1998)

- 1998. 12 Reinforced business restructuring
- 1997. 01 Started TL (Technology Leadership) 2005
- 1996. 03 Declaration of LEAP 2005
- 1995. 07 Acquired Zenith
- 03 Renamed 'LG Electronics'
- 02 Announced Management by Principle
- 1994. 04 Proclaimed 'LG Declaration for a Cleaner Environment'
- 1992. 09 Established 'Environmental Committee'
- 1991. 12 Achieved USD2 billion export in home appliances
- 1997~
- 1998 Established production lines in Thailand, Mexico, UK, and the Philippines

### ● Globalization Period(1978~1986)

- 1986. 10 Established production lines in Germany(LGEWG)
- 1984. 12 Exceeded KRW1 trillion in sales
- 1984. 05 Completed Pyeongtaek Plant
- 1981. 04 Established Korea's first overseas production line(LGEAL, USA)
- 1979. 11 Established Gimhae Plant
- 1978. 12 Achieved USD100 million in overseas sales

### ● Growth Period(1966~1977)

- 1977. 12 Accomplished KRW100 billion in sales
- 1976. 11 Completed Chagwon Plant
- 1975. 06 Established Gumi Plant
- 1970. 04 First to be listed in stock market among the peers in Korea
- 1968. 08 First to produce black & white TV in Korea

### ● Foundation Period(1958~1965)

- 1965. 06 Established a corporation
- 01 First to produce refrigerator in Korea
- 1962. 11 First to export tube transistor radio
- 1959. 11 First to produce tube transistor radio in Korea
- 1958. 10 Founded as Goldstar



## MEMBERSHIP IN MAJOR ASSOCIATIONS

### BEST (Business Ethics is the Source of Top Performance) Forum - joined in 2004

- Obtain best practice and information on ethical management
- Obtain know-how from leading overseas corporations
- Participate in regular forums (eight times a year) and workshops

### Korean Business Council for the Arts (Mecenat) - joined in 2003

- The Council is a private non-profit group founded to foster sponsorship relationships between businesses and the arts community.
- As part of its corporate social responsibility, the company is supporting cultural and artistic events.

### Korea Business Council for Sustainable Development (KBCSD) - joined in 2002

- Group of industry leading local companies sharing their commitment to corporate sustainability management practices
- Activities include responding to international trends and issues concerning corporate sustainability management. Partnership with World Business Council for Sustainable Development (WBCSD)

### Certification of environmental and social management system (manufacturing plants in Korea)

Business site	ISO 14001	OHSAS 18001
Pyeongtaek	Sept. 1995	Jan. 1999
Osan	Oct. 1997	Nov. 2003
Cheongju	Nov. 1996	July 1999
Gumi TV	Aug. 1995	Sept. 2000
Gumi PDP 1	Oct. 2005	Oct. 2005
Gumi PDP 2	Oct. 2005	Oct. 2005
Gumi PDP 3	Oct. 2005	Oct. 2005
Changwon 1	Sept. 1995	Oct. 2000
Changwon 2	Sept. 1996	Oct. 2000
Gimhae	Oct. 1997	Oct. 2000

### Korea Electronics Association (KEA) - Environmental Management Council- joined in 2001

- LG Electronics Executive Vice President Jong-Sik Kim currently acting as non-standing chairman of Environmental Management Council
- The Environmental Management Council presents environment related policies for the electronics industry, cooperates with related local/international organizations to support components makers

### Association of Electronics Environment - joined in 2000

- As the chair company of the association, LG Electronics is undertaking the following as part of its corporate social responsibility activities to establish a resource-recycling society:
  - Pursuing a recycling, mutual-aid project in the electronics sector
  - Supporting policies to encourage manufacturers to assume responsibility for recycling
  - Promoting collection/disposal and recycling of waste electronic goods

### Certification of environmental and social management system (overseas manufacturing plants)

Region	Overseas subsidiary	ISO 14001	OHSAS 18001
Europe	LGEMA	2003	
	LGewa	2000	
North America	LGEMM	2002	
	LGEMX	1998	2003
Asia-Pacific	LGEDI	2000	2002
	LG EIL	1999	2004
China	LG E IN	2000	
	LGETH	2004	
	LG EHN	2003	2004
	LG EHZ	2003	2004
	LGENT	2000	2004
	LGEPN	2003	
Middle East & Africa	LG EQH	2001	
	LGESH	2004	
	LGESY	2000	
	LGETA	2000	
	LG EAT	2003	

### Awards for social, ethical, environmental performance

Date	Organization	Content
June 2003	Ministry of Environment	Presidential Award for Outstanding Environment Management Company on World Environment Day
Dec. 2003	Ministry of Labor/Maeil Business Newspaper	Overall Grand Prize in Safe Management Awards (voted best company in manufacturing division)
Apr. 2004	Korean Government	Silver Tower Order of Industrial Service Merit for labor-management cooperation
June 2004	IBM Business Consulting/Donga Ilbo	Selected one of 30 most respected companies in Korea (environmental management division)
June 2004	Ministry of Environment/ Maeil Business Newspaper	Grand Prize in Environmental Management Awards (Green Marketing division)
Jan. 2005	Indonesian Government	No Accident Award for 3rd consecutive year (LGEDI, LG Electronics' Indonesian corporation)
Jan. 2005	Five business groups (KEF, KCCI, FKI, KITA, KFSB)	Grand Prize in 1st Transparent Management Awards
Dec. 2005	Korean Government	Presidential Award for labor-management culture

## CORPORATE SUSTAINABILITY MANAGEMENT SYSTEM

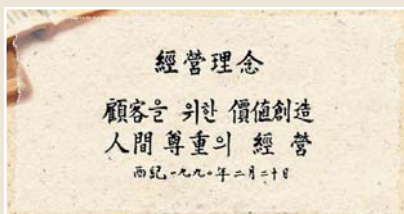
For a more systematic execution of corporate sustainability management(CSM) which is taking root as a global standard, LG Electronics created a CSM task force at the end of 2005 to lay the foundation for company-wide CSM activities.

### MANAGEMENT PHILOSOPHY

Since its establishment in 1958, LG Electronics has steadfastly adhered to its management philosophy of 'creating value for customers' and 'respect-based management' in pursuing growth over the past half-century. By creating value for our customers, we mean to continue endeavoring to maximize customer satisfaction by providing them with unbeatable value.

By customer, we do not limit the definition to consumers who buy and use our products. For us, the word encompasses our various stakeholders including shareholders, employees, business partners and members of our community. In sum, the goal of our corporate activities is constant innovation that will bring unrivalled value and satisfaction to all customers. We strive to deliver supreme contentment to our customers, sustainable profits to our shareholders and investors, self-actualization and fair compensation to our employees, joint development to our business partners, and a clean environment and enhanced quality of life to society.

Respect-based management refers to running our organization in a way so that each comprising member is able to develop and demonstrate his/her abilities to the fullest by respecting individual creativity and autonomy, under the basic principle that our people are the fountainhead of all value. This philosophy entails putting people at the center of all management activities and overseeing operations so that every individual is able to fulfill their capabilities in a performance-based environment that encourages creativity and autonomy.



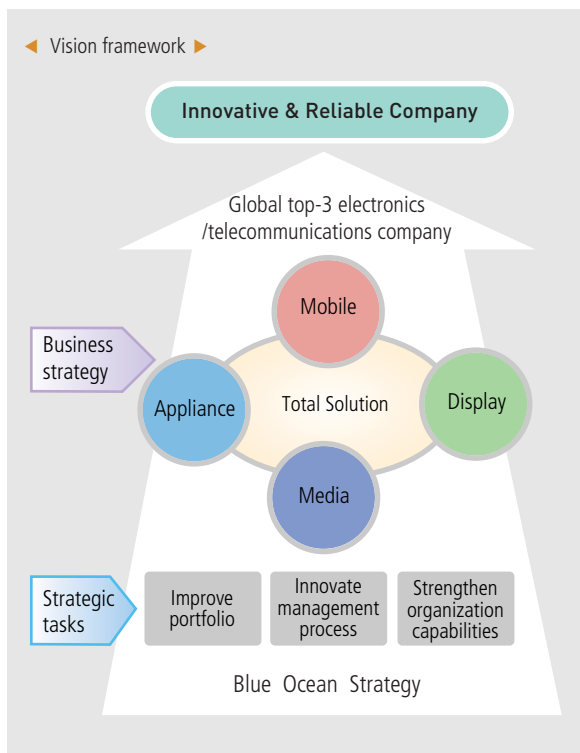
#### ■ Management philosophy

The business philosophy of LG Electronics which has formed the foundation of our business activities reflects the basic spirit of CSM. The starting point of various activities at LG Electronics which promote greater happiness and comfort is our tireless commitment to improving lives for all people in our society and to new ideas. This philosophy serves as the framework for CSM at LG Electronics.



## VISION

### LG Electronics' vision



### Goals

- For our customers: Provide premium value to customers
- For our shareholders: Maximize investment returns
- For our business partners: Recognize as partner for mutual growth and cooperation
- For our employees: Provide great opportunities, spirit, and rewards

### Business strategy

- Maximize customer value by providing total solution to customers based on competitiveness in each of the mobile, display, media and appliance areas
- Respond to changes in market game rules and improve competitiveness while maintaining sight of business foundation based on product leadership
- Fortify premium strategy market centering on customer value, promote alliances and outsourcing in non-core sectors, strengthen 'soft' capabilities (brand, design, key technology) and pursue top-tier level operations
- Seek future growth engines

### Strategic tasks

- Improve portfolio
  - Focus on securing competitiveness in existing businesses in accordance to mission of each business domain
  - Strengthen foundation for parts business and merge new business items and services for mid- to long-term goal
  - Increase value by uncovering new business models such as total solution provider

#### ◀ Portfolio improvement ▶

##### Business Mission

MC	• Commercialization of growth/profit creators
DD	• Lead in DVD and PDP market
DA	• Maintain industry-leading profitability
DM	• Respond to digital convergence

##### Mid-term Strategy

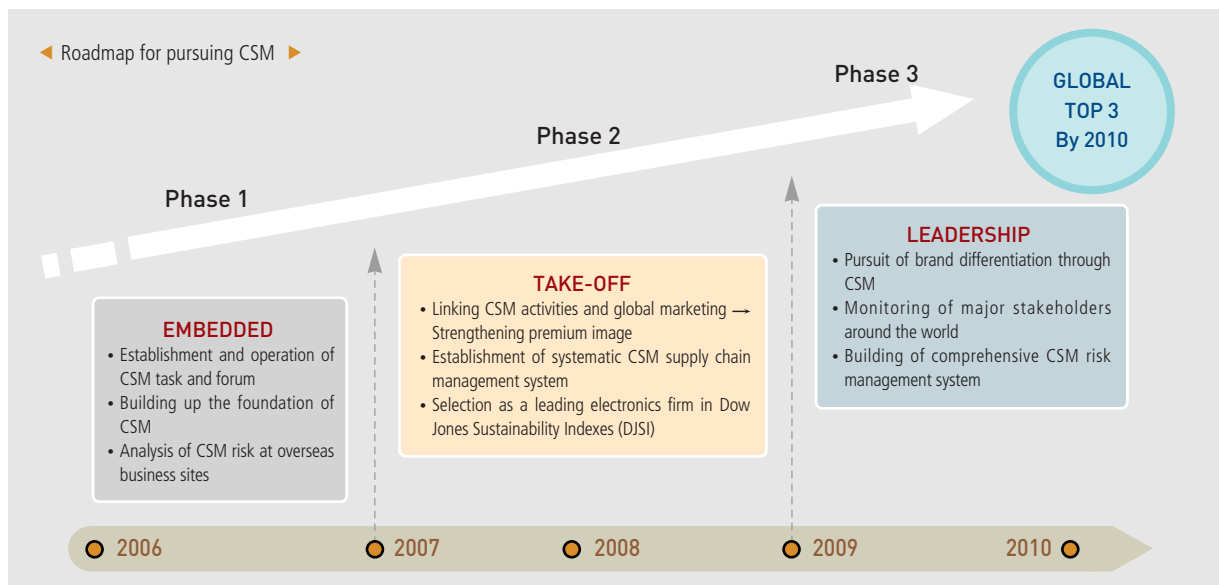
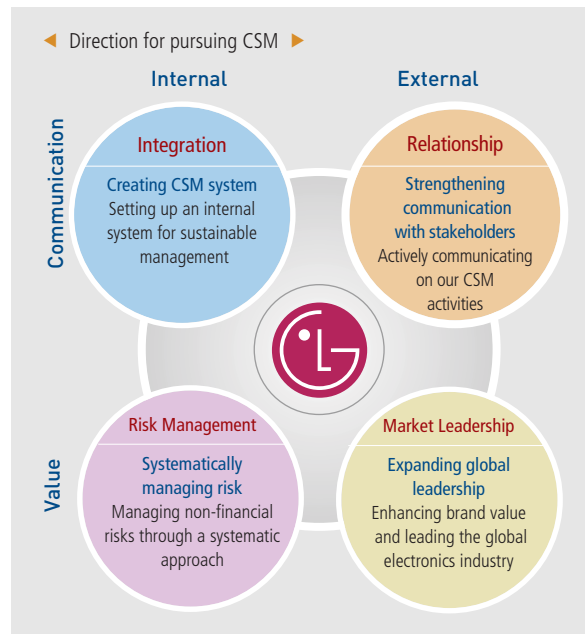
MC	• Concentrate on R&D and design to create hit products
DD	• Harness the company's module/chip/SW total solution
DA	• Increase value centering on advanced markets /premium products
DM	• Expand from home appliances to products for mobile and car use

- Innovate management process
  - Upgrade marketing, product planning and SCM capabilities to understand customer needs and quickly respond to the market
  - Focus on company-wide purchasing and branding
- Strengthen organization capabilities
  - Conduct early R&D to prepare for future
  - Construct infrastructure for global management
  - Attract and nurture key personnel

## PLANNING FOR CSM

Ever since its establishment, LG Electronics has continued to strive for customer value creation based on its principle of respect-based management. For a more systematic approach to CSM which is fast taking place as a global standard, we created a CSM task force team at the end of 2005 to build the foundation for company-wide CSM activities.

LG Electronics also created the CSM forum centering on the CSM task force and including all company divisions related to management strategy, human resources, social contribution, ethics, finance, corporate culture and the environment. The forum is responsible for promoting in-house understanding of the importance of CSM activities. Forum participants share information on activities pursued by each business division, build networking ties and help to prepare the Sustainability Report among others. The CSM forum is predicted to take on a core company function of plotting strategic directions and pursuing execution programs for a comprehensive and systematic approach to CSM activities at LG Electronics.



LG Electronics plans to decide on four basic directions for CSM through the CSM task force and forum and pursue a program that is derived from the directions for each business domain. First, an internal system for CSM such as the organization and system will be further expanded so that each business domain can practice economic soundness, environmental friendliness and social responsibility. Second, financial risk and non-financial risks including those in Korea and overseas related to the environment and social issues will be systematically managed through diligent examination and monitoring. Third, the diverse communication channels with various stakeholders will be

united for a more systematic monitoring of their opinions and demands and better reflection of them in company policies and corporate activities. The publication of the Sustainability Report is in line with such efforts. Fourth, we will build global leadership in Korea and abroad through a branding strategy that is linked to our CSM activities. Through these activities, LG Electronics aims to achieve top marks in economic, environmental and social performance, to gain greater trust and respect from customers and society, and fuel our growth into one of the global top-3 in the electronics and telecommunications industry.

## BLUE OCEAN MANAGEMENT

Through the creation of new markets, new methods and new systems, Blue Ocean management will lead our innovative management style to maximize efficiency and form the solid foundation to achieve our goal of joining the global top-3.

### BLUE OCEAN MANAGEMENT

#### Why Blue Ocean management?

One of the biggest changes brought on by the era of digital convergence has been the limitless expansion of competition, as all competition structures are reorganized and boundaries between industries are broken down. With the changing landscape of competition, companies must also change the way they survive. Only those companies possessing core technology, information and original ideas can dominate.

Innovation has so far driven growth at LG Electronics, but we must produce even more eye-catching results through a more innovative paradigm shift to achieve our ultimate vision of ranking among the global top-3 electronics and telecommunications firms by 2010. This has resulted in the need for a Blue Ocean strategy.

#### What Blue Ocean means for LG Electronics

Here at LG Electronics, we define Blue Ocean as radically strengthening our organization capabilities and upgrading our business structure to focus on high-growth, high-profit business areas in the five key management areas of Blue Ocean Products, Blue Ocean Biz Model, Blue Ocean Work, Blue Ocean System and Blue Ocean People. In addition,

Blue Ocean is a term for all of our innovation activities. To increase our ability to realize the Blue Ocean strategy, we aim to maximize efficiency by employing existing innovation tools for product value, product efficiency and logistics efficiency.

#### 2BY10 - Goal of our Blue Ocean strategy

Our ultimate goal in pursuing the Blue Ocean strategy is 2BY10. This means doubling our sales, profits and shareholder value from 2005 levels by 2010. 2BY10 will serve as the direction in guiding all employees as they immerse themselves in Blue Ocean thinking and strive to achieve unparalleled results.

#### Emerging as global top-3 through Blue Ocean

As stated in our 2006 New Year's commencement address, Blue Ocean signifies an original style of management to achieve the highest levels of management efficiency through the creation of new markets, new methods, and new systems. However, this does not mean we will blindly pursue only those items which are new. Just as important as pioneering Blue Ocean territory, we believe it is also crucial to boldly compete in those areas that call for it. For this reason, our Blue Ocean strategy is to create a company that wins over the competition and thus creates the backbone of our journey to the ranks of the global top-3.

#### ■ "Create a differentiated, new market" LG Chairman Bon-Moo Koo Praises 'Innovation'

"A global company must create basic and differentiated values that cannot be copied by others." That is a quote from LG Group Chairman Bon Moo Koo, who has recently been stepping up on-site management, to the CEOs of each LG group company. Koo pointed out that in order to become a truly global company, one must provide differentiated value and asked that they actively employ the 'Blue Ocean' strategy to this end. Blue Ocean is fast emerging as a major management strategy. Blue Ocean refers to creating a new, 'blue ocean' market that has no competition, instead of engaging in fiercely competitive, 'red ocean' markets. Attending the LG Group CEO seminar on the 25th, Koo said, "Aside from general improvements such as simple cost-cutting measures and increasing productivity, we must concentrate on examining ways to provide value to our customers and efforts on differentiating ourselves." On this day, Koo also handed out awards to teams inside the LG Group which demonstrated exemplary innovation during the past year. Awardees included the development team for GSM mobile handsets at the North American office of LG Electronics, the 6th generation process team of LG.Philips LCD, and the LG Chem team which developed polaroids.

- The Hankyoreh, May 25, 2005 -

# MANAGEMENT BY PRINCIPLE

LG Electronics strives for Management by Principle in which we abide by local regulations and ethical business guidelines to engage in business in a transparent and honest manner, fulfill our corporate responsibility to society, and maximize results.

## UNDERLYING BELIEFS

LG Electronics firmly believes that Management by Principle is the most basic condition and core value to becoming a great company. We will practice fair competition and trade, and adhere to ethical guidelines to grow into a trusted, respected global company.

### Concept and results

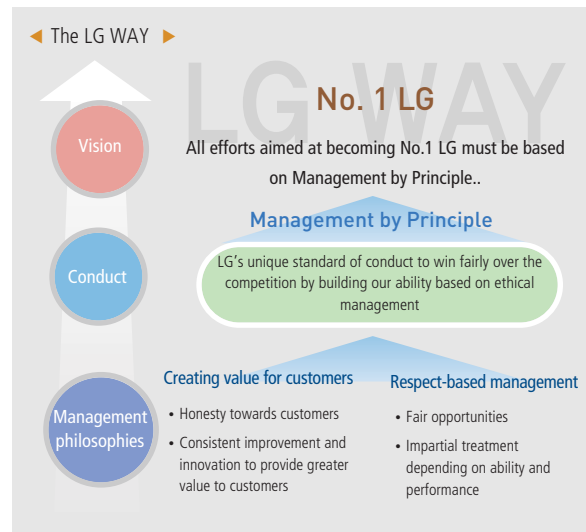
We define Management by Principle as abiding by local regulations and business ethics to fulfill corporate social responsibility while also maximizing business results. In 1994, LG Electronics took the initiative in practicing fair and transparent management when it became the first private company in Korea to publish an ethical code (LG Electronics Code of Ethics). In the following year, the company announced its Management by Principle which elaborates on its ethical code. In 2004, the 'LG Code of Ethics' and 'LG Code of Ethics Guidelines for Practice' were established to clearly define the company's high standards of ethical behavior and practices to employees.

### Firm commitment

One of the clearly stated principles often repeated by the company CEO is that "whoever is responsible for activities that go against the spirit of Management by Principle will be severely punished so that their example will serve as a warning to others." "The company regards those who manipulate management data as deserving harsher retribution than those who embezzle company funds. This is because incorrect data could eventually lead to the downfall of a company over several years." Such statements by the CEO are frequently shared with all employees to reaffirm the company's commitment to transparent management.

## THE LG WAY AND MANAGEMENT BY PRINCIPLE

The LG WAY represents LG's core beliefs, values, and aspirations. It illustrates a vision structure that guides the thoughts and actions of LG people in attaining the ultimate goal of becoming the No. 1 LG. It stipulates the way in which this goal is reached through the practice of Management by Principle, and the realization of LG's commitment to 'creating value for customers' and 'respect-based management.' Management by principle signifies more than ethical management: it refers to management that creates actual results based on competency that can win over the competition.



### ■ European HQ conducts course to train Management by Principle lecturers

On September 28 and 29, 2005, the Netherlands-based European headquarters of LG Electronics conducted a course on nurturing lecturers on Management by Principle. The course was prepared by the Corporate Audit Group and European HQ Audit Group and open to the 15 companies under supervision of the European HQ. The Management Assessment Group plans to expand the program, currently provided to workers in Korea, to local employees at foreign offices through on-and offline training courses.



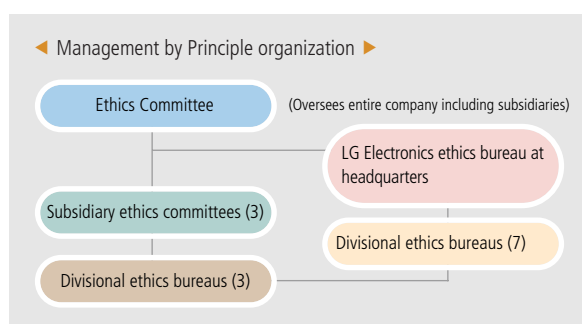
## MANAGEMENT BY PRINCIPLE AND PROGRAMS

### Corporate culture of adhering to the basics

With regular refining of corporate standards and the introduction of a business process map, the company is enhancing its function to control major operations and processes. At the same time, it is striving to have the practice of adhering to the basics as part of our corporate culture makeup. The standardization and automation of the payment settlement process raises the timeliness and accountability of our transparency.

### Management by Principle organization

The top decision-making body for Management by Principle is chaired by the CEO and features the ethics committee, comprised of executive board members. The ethics bureau is responsible for executing decisions made by the committee and overseeing the actual implementation of Management by Principle operations.



#### [ Ethics Committee]

- Composition: As the highest decision-making body related to ethical regulations, the committee is chaired by the CEO of LG Electronics. Other members include members of the executive board (CTO, CFO, DD Company CEO, DM Company CEO, MC Company CEO, President of LG Electronics Institute of Technology, head of HR, head of Korea Marketing, Management Assessment Team leader).
- Regular meeting held every half-year
- Role: Propagating top management's commitment to Management by Principle to establish a culture of and encouraging the practice of Management by Principle. In addition, the committee forms related policies and strategies on Management by Principle forwarded by ethics bureaus.

#### [Ethics Bureau]

- Composition: The ethics bureau at headquarters is directly under the supervision of the LG Electronics Corporate Audit Team and overseas divisional ethics bureaus. The HQ ethics bureau is led by the heads (team leaders) of Corporate Audit groups at each business site, division and affiliate.
- Role: Carries out Management by Principle strategies/policies formed by the ethics committee, manages ethical regulations, establishes and improves related systems, operates system for reporting unfair practices and addresses reported incidents, operates various voluntary reporting systems, provides consultations on issues relating to Management by Principle and ethical regulations, and other activities to promote the establishment and practice of Management by Principle.

### Voluntary reporting system

In the instance of an individual possessing listed/non-listed securities of a business partner firm, which is forbidden by the Code of Ethics, the individual should voluntarily report to the ethics bureau and immediately stop the trade of and dispose of the said securities. The acceptance of bribes and gifts received during holidays or after promotions should also be voluntarily reported to the ethics bureau through the Management by Principle homepage, upon which the said goods are to be returned. When the goods cannot be returned to their sender, they are donated to social charities or religious groups. In addition, a letter signed by an executive requesting the end of such gift-giving and a copy proving the goods' donation is to be delivered to the sender and head of the sender's company.

### Reporting system

Our reporting system is designed to prevent violations of ethical regulations, eliminate corruption and realize the full potential of Management by Principle. We have installed measures including clearly stating the following statement to protect the reporters from any retaliation, "Without the expressed consent of the reporting person, the person's identity and any information pertaining to the person's identity will not be revealed. Any disadvantages suffered by the person due to any failure to protect the person's identity shall be reimbursed and all responsibility will be taken."



Ethics bureau



Return of gift with thank you note



Donation of gift to charity group



Cyber reporting system

### Diverse programs to practice Management by Principle

#### [ Collection of written promises to practice Management by Principle ]

All employees and partner firms of LG Electronics and all of its subsidiaries are required to sign and submit written declarations to practice Management by Principle on a regular/irregular basis. New recruits and newly promoted personnel must submit the written promises while managers must present their statements on an annual basis.

#### [ Distribution of guidelines for Management by Principle ]

Guidelines on Management by Principle are published and distributed in a booklet form to senior managers. The booklets enable managers to easily access guidelines which must be adhered to so that they can set an example and encourage the establishment of Management by Principle throughout the company.

#### [ Training on Management by Principle ]

We are conducting training sessions to emphasize the importance of Management by Principle. Employees working in Korea and those stationed overseas are required to undergo cyber training and group courses at least once a year. The target group was expanded in 2005 to include locally hired employees at overseas offices. The training course concentrates on theory, examples and actual methods of practicing Management by Principle to prevent any corruption or unlawful activities by employees.

#### [ Publicizing Management by Principle ]

Mistakes or violations uncovered during the assessment process are posted on the company online message board or homepage so that all employees can access the case studies. This enables us to present the right behavioral standards and prevent the reoccurrence of similar incidents. To also promote interest in the LG Code of Ethics, an introduction of the regulations and summary are sent to employees via e-mail. A quiz event encourages understanding and practice of Management by Principle.

#### [ Management by Principle survey ]

The survey is conducted every year to check employee and partner firm perceptions on Management by Principle and to gain basic information for improvements. The surveys assess the levels of Management by Principle practiced by the company and employees, rating various Management by Principle activities and points for improvement.

## CODE OF ETHICS

In 1994, LG Group established the 'LG Code of Ethics' and since 2004, the separate ethical codes of LG Electronics and our affiliates have been merged into the 'LG Code of Ethics' and 'LG Code of Ethics Guidelines for Practice' in coordination with LG Corp. This was designed to set a uniform standard for ethical behavior as part of the Group's initiative to practice fair and transparent management among all employees and partner firms.

The LG Electronics Code of Ethics was drawn up to establish the ethical basics and standards for value assessment to which the company and employees must abide by. It is divided into the Code of Ethics, Guidelines for Practice and Explanation of Guidelines for Practice. Among them, the LG Code of Ethics presents the direction to which LG companies and employees should strive for.

- Chapter 1. Responsibilities and obligations to customers
- Chapter 2. Fair competition
- Chapter 3. Fair transactions
- Chapter 4. Basic ethics for employees
- Chapter 5. Corporate responsibilities to employees
- Chapter 6. Responsibilities to society and country

The LG Code of Ethics Guidelines for Practice details each chapter of the LG Code of Ethics into each item for practice and operational system, and shares the same structure as the LG Code of Ethics. The 'LG Code of Ethics Guidelines for Practice Manual' features even more detailed examples and behavioral guidelines so that employees can readily understand Chapter 3 (Fair Trade) and Chapter 4 (Basic employee ethics) of the LG Code of Ethics Guidelines for Practice Manual.

- Chapter 1. Receiving gifts from stakeholders
- Chapter 2. Having an unfair stake in business partners
- Chapter 3. Lacking transparency in selecting partner firms
- Chapter 4. Using company assets in an illegal/unfair manner
- Chapter 5. Manipulating and falsely reporting documents/numbers
- Chapter 6. Violating other ethical regulations  
(dereliction of duty, negligent management, malfeasance, damage to reputation, etc.)

※Reference: p90~91 of Code of Ethics



Cyber training on Management by Principle



# INTERNAL CONTROL SYSTEM

An internal control system enables us to realize transparent management through the operation of an efficient system and voluntary risk control activities.

## INTERNAL CONTROL SYSTEM

### CEO/CFO certification procedure

The revised Securities & Exchange Act led to the adoption of the CEO/CFO certification system in April 2004 for more stringent audit of internal accounting. LG Electronics also has an operations report certification system for heads of overseas offices as well as the heads of domestic business sites and headquarters. Unfair reporting of incorrect performance is regarded as false reporting and the offender is subject to stern measures such as disciplinary actions and even dismissal.

### Control self assessment

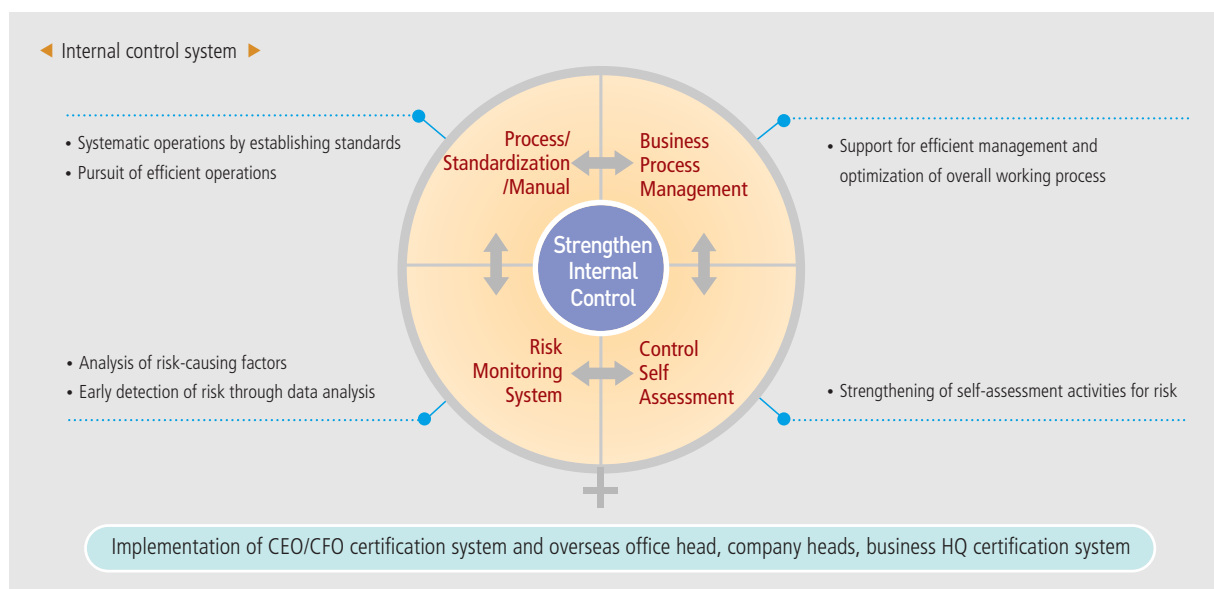
To promote autonomous improvement of our internal control system, in addition to preventing or speedily detecting any major incidents, CSA (control self assessment) has been conducted twice yearly since 1998 so that management and working level personnel can self-assess any business risks and the internal control situation. From the first half of 2005, CSA has been conducted through our own system and our plan is to expand the program to all areas after an initial adoption for the business units such as purchasing, finance and Korean marketing.

### Risk monitoring system (RMS)

RMS is geared toward a systematic and continued management of any signs of irregularities in the work process to reduce the possibility and scale of irregularities. This is done through the early detection inside the organization and is also designed to incite self-awareness on any signs of irregularities among field personnel. The pilot project was launched in 2004 centering on purchasing and marketing segments and we plan to expand the program to all segments following actual implementation in the purchase segment in 2006.

### Internal audit (management assessment)

The aim of management assessment is to eliminate any irrational factors existing inside the organization, protect company assets, maintain the credibility and appropriateness of management information, as well as to check on any factors that hinder the company from reaching its vision. The ultimate goal is to form a fair corporate culture. A professional management assessment (internal audit) organization has been erected for efficient and professional management assessment. The team is responsible for in-depth diagnoses of each professional area and for providing management consulting to boost operational efficiency. The organization has been divided into each function for maximum efficiency.



# CORPORATE GOVERNANCE

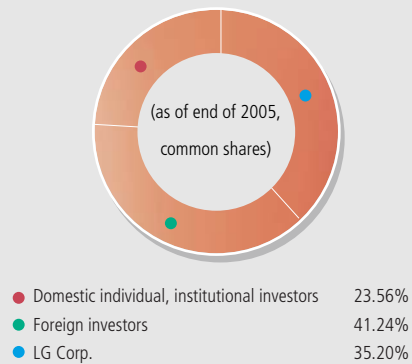
LG Electronics is striving for an advanced form of corporate governance to enhance corporate value and management transparency.

## CORPORATE GOVERNANCE

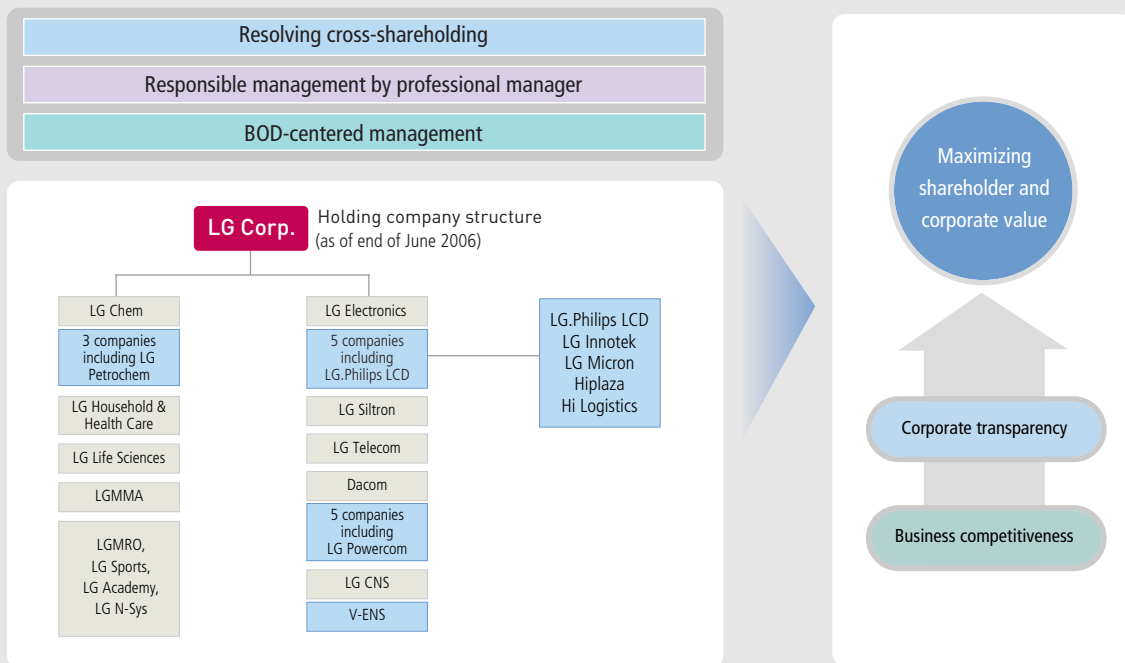
The launch of the holding company system laid the groundwork for heightened transparency. The LG Group was able to put an end to the cross-shareholding among affiliates, as the holding company was fully responsible for investments and LG Electronics was able to concentrate on increasing corporate value and its own operations.

Following Vice Chairman S. S. Kim's appointment as CEO in October 2003, LG Electronics saw the installation of a responsible management system under a professional administrator, while a BOD-focused management system has been working to improve corporate transparency. In this way, LG Electronics has set up the framework to strengthen business competitiveness at home and abroad, ultimately increasing shareholder and corporate value.

### Ownership status



### LG Group structure





## BOARD OF DIRECTORS

The Board of Directors at LG Electronics currently consists of seven directors, with four of them being outside directors. This ensures BOD independence from the major shareholders and management. Additionally, the BOD retains a two-member Outside Director Recommendation Committee comprising one outside director. The recommended nominees are voted on at the next shareholders' meeting.

The outside directors are highly qualified individuals with professional knowledge and experience in key areas. Their main role is to carry out a check and balance function, as well as monitoring the company's overall management activities. Three outside directors are also members of the company's Audit Committee and are able to exercise their rights to evaluate the company's internal control system and appointment of external auditors.

In early December of every year, LG Electronics sets the schedule for BOD meetings for the following year. By principle, the board meets regularly once a month and whenever urgent matters arise. The directors actively participate in the meetings to ensure the company's sound management and to protect the rights of shareholders and creditors. This results in a high attendance rate. A total of 13 BOD meetings were convened in 2005 with the average attendance rate reaching 92.4%.

To ensure that the BOD fulfills its role as the highest decision making body of the company, LG Electronics regularly reports company proceedings to outside directors so that BOD members can engage in lively discussions on important matters from the preliminary, decision-making stage. Outside directors in turn are given ample time to digest the detailed and finished material on pending issues prior to attending the board meetings so that they may present impartial views and assessments of issues including major business items, inside trading among affiliates and management operations.

The outside directors are also given the opportunity for on-site assessment. Visits are arranged for them to production sites as well as the overseas offices and distribution markets. The company helps outside directors take an active role in company management by enabling their participation in outside director training programs hosted by the Korean Directors Association.

## AUDIT COMMITTEE

The audit committee maintains independence, with all of its three members being outside directors. The committee follows separate regulations from those governing the BOD and is accordingly able to independently decide on the committee's operations.

To further ensure transparency and independence, the audit committee is chaired by renowned accounting expert Il-sup Kim. The committee receives preliminary reports on quarterly business results and conducts half-yearly checks on the internal accounting management system. Members also discuss key issues facing the company and are faithfully carrying out their role as a management supervisory organization.

In addition, the committee members approve the appointment of outside auditors after carefully reviewing candidates' professionalism, independence, reputation, service capability, and ability to audit international businesses, as well as any possible business conflicts with the Company.

## COMMUNICATION WITH STAKEHOLDERS

LG Electronics seeks accurate understanding of the diverse opinions, demands and interests of its stakeholders, and reflects them in its decision making process.

We are influenced by and influence a wide variety of local and overseas stakeholders through our business activities. LG Electronics is constantly striving to listen to their opinions and needs, which are then reflected in our business decisions. Key to these efforts is communication between management and stakeholders via the appropriate channels. We plan to examine the possibility of establishing an integrated operation to enhance communication with our stakeholders.



### SHAREHOLDERS & INVESTORS

The general shareholders' meeting is held after the end of each fiscal year and is attended by top management. During the meeting, LG Electronics reports the company's business performance and provides information on issues requiring decisions to its shareholders and listens to their opinions. The investment inquiry page on the company website also offers a venue for shareholders, investors and customers to post and receive answers to any questions or opinions. Disclosures on major management issues related to investor returns are reported

in a timely manner to the KRX and issued on the company's homepage in compliance with the Securities & Exchange Act. In addition, Annual Reports and Audit Reports are regularly disclosed. The content can be accessed at anytime through the Financial Supervisory Service's online disclosure system (<http://dart.fss.or.kr>).

Shareholders and other investors may also contact the company's IR department or personnel in charge of securities to present their opinions on company management issues. The related departments then examine the opinions and refer them to the management or BOD.

### CUSTOMERS

LG Electronics is delivering greater customer satisfaction with its customer-oriented service system, increased service engineer training and the introduction of a customer-centric service evaluation system.

- Customer-oriented service system: For greater customer convenience, we offer a home doctor service in which customers can designate their preferred engineer and receive free service in the event of repeated malfunctions.
- Service engineer training: To ensure that all service engineers work with a service mindset, we carry out service mindset training, customer-response course, and role-playing contest. To enhance technical ability, we have a grading system to assess an engineer's technical competency. We also hold a Technology Olympics to select the most outstanding service engineer. We select the best engineers in each category under the master system, while our grand master scheme selects the master of masters.
- Customer-oriented service evaluation: We conduct the happycall and customer impression evaluation and a customer satisfaction survey on a regular basis among customers who have received our services. By doing so, we can assess customer satisfaction levels to reinforce our strengths and make immediate improvements in areas of weakness.

## EMPLOYEES

LG Electronics has the highest respect and esteem for its employees. Having the top quality personnel is the most important factor towards reaching our goal of joining the global top-3. We believe that we can improve our own competitiveness by selecting the top people and by further nurturing their capabilities and are thus offering various support activities to that end.

LG Electronics firmly believes that management-labor harmony holds the key to boosting employee morale and satisfaction. Our support for employees includes help with career development, problem-solving, and retraining. We constantly strive to inspire professionalism among our workforce and actively share company information.

In our view, an ideal management-labor relationship is one that fosters value creation, which subsequently strengthens a company's competitiveness and enhances the quality of life for employees. Both labor and management share the view that the desire and practice of solving problems based on a mutually beneficial relationship is closely linked to the company's survival. Our corporate culture has been widely recognized as a model example in the business community, and we received the Presidential Award for our labor-management culture in 2005.

## BUSINESS PARTNERS

Early on, we recognized that we cannot realize sustainable growth based solely on our survival strategy and business activities. Therefore, we have consistently worked towards greater cooperation with all of our business partners. Apart from promoting the LGE Green Program among our partner firms to effectively respond to the ever-growing list of regulations regarding a product's impact on the environment and to enhance our competitiveness, each business domain provides support activities to promote the growth and business practices of our small-

mid-sized partners. Such activities take place across a wide range, including environment technology, process management, industrial safety and welfare support, and training support.

## CENTRAL AND LOCAL GOVERNMENTS

As a leading presence in the domestic electronics industry, LG Electronics is increasing its cooperation with local governments, central government and related organizations at each of our local and overseas business sites. In Korea, we belong to industry groups in order to take an active role in the process of governments drawing up related policies and regulations by expressing our industry opinion. Our position as a key member on various industry groups propels us to faithfully execute our role as an industry leader. Through our successful business activities, we have played a prominent role in contributing to the economic development of countries and local governments.

## NGOs & CIVIC GROUPS

We recognize the importance of not only international groups which have global influence but also that of various civic groups who work actively in regional communities. We embrace communication with them to induce more constructive discussions with them on relevant matters. In preparing this Sustainability Report, we exchanged opinions with the Center for Corporate Social Responsibility (CCSR) and listened to the views of Korea Green Foundation in the process of forming our CSM strategy. Going forward, we plan to examine ways to increase our communication channels with NGOs so that we may continuously improve upon our CSM levels and contribute more to the sustainable development of mankind.



### ■ LG Electronics Call Center tops KSQI ranking for home appliance service

Korea Management Association Consultants (KMAC) announced the 2006 list of companies whose call centers were certified with the KSQI (Korean Service Quality Index). The call center service index rates the quality of call center service received by the customer. The 2006 list was compiled among a total of 130 corporate call centers from 17 industries over a period from April 20th to May 24th. The mystery research method was employed using a monitoring sheet (960 samples) of call center employees connected to the main call center phone number. Among them, LG Electronics' Call Center recorded total marks of 94.8% to top the home appliance service sector. Vice Chairman S. S. Kim stressed the need for continued quality innovation, saying, "There is no eternal No. 1. This only means we must try even harder so that customers acknowledge that our call center is the best."

# 2005 Highlight



## ■ 2005 CES Innovation Award

LG Electronics participated in the 2005 CES (Consumer Electronics Show) held at Las Vegas in January 2005 with the third largest booth among some 2,400 exhibitors. CES is the biggest digital consumer electronics exhibition in the world.

A total of 16 LG Electronics display products and high-tech mobile phones were presented with product innovation awards. This marked the second year in a row that the company won the greatest number of awards. Additionally, Microsoft and Intel both showcased convergence technology citing LG Electronics products in their keynote speeches. The company's 71-inch PDP TV and mobile phone which is capable of taking high-resolution photos were highly rated. The 17-inch LCD monitor 'Flatron 1730' received the top innovation award in the computer parts division.



## ■ 2005 Transparent Management Grand Prize

In January 2005, LG Electronics won the grand prize in the first Transparent Management Awards, which was jointly organized by Korea's five representative economic organizations of KEF, KCCI, FKI, KITA and KFSB. The award recognizes excellence in transparent management, labor management relations, and social contributions and environmental management. After an initial evaluation by a panel of experts, candidates undergo an interview before a final judgment by the main jury comprising social leaders including Yong-Deuk Lee, chairman of the Korean Federation of Trade Unions.

By winning the top honor at the first Transparent Management Awards, LG Electronics won recognition for its continued efforts in pursuing ▲BOD-oriented management and operation of an independent audit committee ▲practice of ethical management ▲labor-management ties which create value ▲social volunteering and contribution activities and ▲environmental management.



## ■ 2005 Presidential Award for Labor-Management Culture

LG Electronics received the Presidential Prize in the large business segment at the 2005 Labor Culture Awards presented by the Labor of Ministry on December 15, 2005.

Two major labor conflicts erupted at LG Electronics toward the end of the 1980s. The company managed to overcome those difficulties through concerted efforts for survival. In 1993, the vertical labor-management order was replaced by a horizontal relationship whereby both sides forged a partnership for mutual cooperation. LG Electronics has been highly praised for its new labor-management culture. The relationship for value creation based on mutual respect and trust will play a vital role in helping LG Electronics achieve its goal of becoming a global top-3 electronics and telecommunications company by 2010.



# 2005 Highlight



## ■ LGE Green Program

LG Electronics is well aware that joint efforts are essential in efforts to reduce hazardous substances which are used in products. Since January 2005, the company has been conducting the LGE Green Program with partner firms. The program awards certification to partner firms that have established an eco-friendly quality assurance system that satisfies LG Electronics standards. The certification standards are largely divided into the environmental management system and the hazardous substances and product management system. They are aimed at raising environmental awareness at partner firms.

Through the program, LG Electronics is able to avoid the inclusion of harmful raw materials supplied by partner firms and the use of such substances during the manufacturing process. By producing only environmentally friendly products, the company is also able to prevent environment-related accidents.



## ■ Declaration of the Charter of Corporate Social Responsibility and expanded employee participation in social contribution activities

LG Electronics announced the slogan for its new Charter of Corporate Social Responsibility in an event at the LG Twin Towers in Seoul on April 10th. With some 100 LG volunteers in attendance, the company declared that it will include social contribution as an integral part of its management and fulfill its obligation as a responsible corporate citizen. The company also plans to employ the charter as a guideline in determining policies and action plans for a more systematic social contribution program.

In August 2005, the company collected ideas from employees concerning the entire process of social contributions, including the composition of a volunteer team, volunteering activities, action plans, budget, and activity report. A charity fund made up of donations from the company and labor union has been used in volunteer activities for neighbors in need. Employees from the learning center tutor youths, while network institute researchers provide IT lessons in addition to PC repairs and donations. For their part, design center employees run free art classes for children, while the company's hiking club members have taken part in supporting physical activities for the handicapped. The increased participation of employees in social contribution activities has not only enhanced company-wide awareness of giving back to the community, but also increased team unity and sense of satisfaction among the employees.



A black and white photograph of a woman with long dark hair holding a young child. The woman is looking down at the child with a gentle expression. The child is looking off to the side. Overlaid on the image is a graphic consisting of three concentric circles. The word "Promise³" is centered within the innermost circle.

**Promise<sup>3</sup>**



## A world filled with smiles and happiness...

A world of “we” rather than “I” is the world envisioned by LG Electronics. It would be impossible to imagine LG Electronics without its employees or customers. Our business partners, shareholders and other numerous stakeholders are also a vital component of our organization. For us, “we” includes all of our stakeholders.

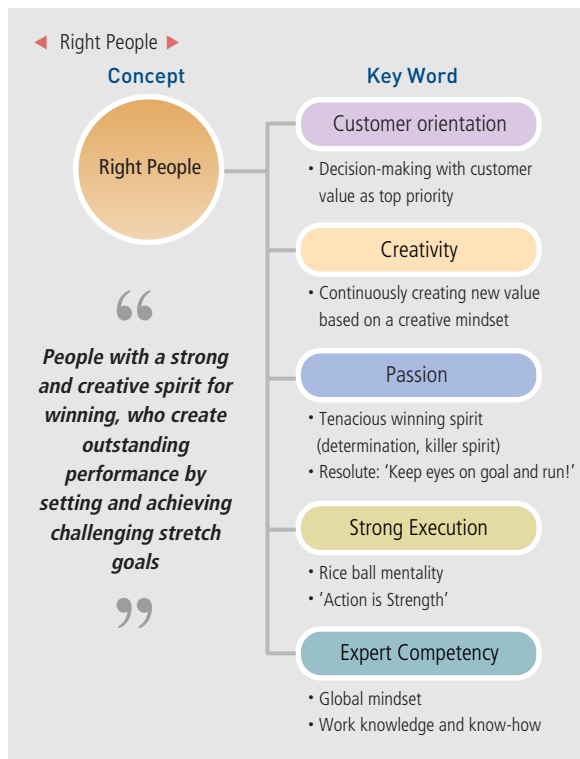
# EMPLOYEES

LG Electronics' aim is to attract and develop the 'right people.'

## HUMAN RESOURCES MANAGEMENT

### Right People

We embrace the philosophy of 'Great Company, Great People,' whereby only great people can create a great company. LG Electronics seeks competent people who fit in the LG culture.

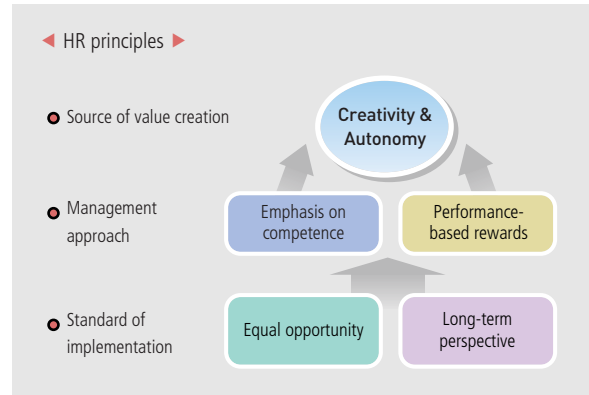


### HR Principles

LG Electronics is creating working environments that will enable all its members to demonstrate their capabilities, be intent on their own work, and create value.

[ **Creativity & Autonomy** ] An individual's creativity is the source of creating value. We respect diversity and autonomy so that each can exercise his / her own creativity to the full extent.

[ **Equal opportunity** ] Equal opportunity builds trust between people. We ensure everyone an equal opportunity regardless of gender, race, age, religion or nationality.



[ **Emphasis on competence** ] We have adopted competence as the most important criterion for making personnel decisions.

[ **Long-term perspective** ] Maintaining a long-term perspective is the foundation of our human resource policies. Human resource programs should be designed with a long-term perspective and implemented with dedication and persistence.

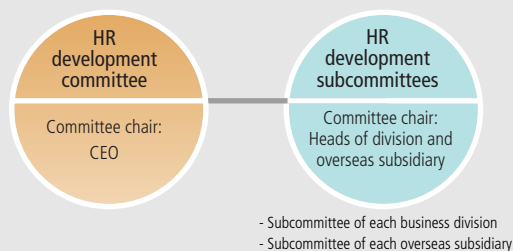
[ **Performance-based rewards** ] Rewards based on performance are essential for human motivation. Performance results will be fairly evaluated and rewarded accordingly.

### Human resources committees

[ **Domestic: HR development committee and subcommittees** ] Recognizing that people are a crucial factor for sustainable growth, we place priority on attracting and retaining top talent. The highest body dealing with HR issues is the HR Development Committee, which is composed of the LG Electronics CEO and the CEOs of each business unit. The committee meets every other month to discuss various HR issues such as nurturing key position successors, organizational changes, and revisions to regulations on HR management. The HR Development Committee plays an important role in reinforcing the abilities of the current executive team and in fostering the top executives of tomorrow.

Each of the business units has a HR development subcommittee. The subcommittees are chaired by the head of the respective business unit and meet every other month. Their functions include nurturing future leaders, selecting candidates for key training programs, and deciding on overseas deployments.

## ◀ HR development committee and subcommittees ▶



## [ Major activities of HR development committee ]

- Formulating company-wide HR strategy & action plans and monitoring
- Fostering key position successors
- Developing and implementing HR system & policy
- Deliberating on major company-wide HR issues

[ Overseas: Successor development committee ] LG Electronics is stepping up the scope and pace of its global operations. In line with the global drive, the overseas subsidiaries have been actively fostering local talent to prepare them for key positions. To that end, each overseas unit has set up a successor development committee to nurture local employees who have a deep understanding of LG Electronics' core values and businesses. Various education programs are available to the local units and their personnel to assist with the endeavor.

Efforts to nurture local workers have the full backing of the top executives. Moreover, the importance of employee development is recognized by everyone at LG Electronics and resources are increasingly being allocated for that purpose. The strong commitment to helping people grow is instilling a greater sense of pride among the workforce serving at our overseas units and has been vital to retaining key personnel.

**Human resources management program**

[ Recruiting and hiring ] LG Electronics strives to attract and retain high-talented people by offering opportunities for development and diverse incentives.

Our recruiting team travels across the globe to bring on board highly talented people from all parts of the world. Various steps are being taken to enhance the competencies of employees at our overseas subsidiaries. One example is the Global HPI (High Potential Individual) program which gives outstanding local workers the opportunity to receive training and work in Korea.

## ◀ Overseas hiring activities ▶

Overseas campus tours	Recruiting for mid-level positions
<ul style="list-style-type: none"> <li>• 4 times in North America, twice in Japan, once in Europe and once in India/Vietnam annually</li> <li>• Mainly holders of masters, doctoral degrees for R&amp;D positions or MBA degrees</li> </ul>	<ul style="list-style-type: none"> <li>• Mainly in North America, Japan, and Europe</li> <li>• Focusing on engineers</li> </ul>

[ Developing Right People ] With the goal of 'developing global entrepreneurs,' this program nurtures a pool of potential successors to executive and managerial posts. The selected people are given the opportunity to attend MBA courses (about 100 persons annually) and other in-depth training programs.

We also have programs to foster specialists in various functions. For this purpose, the functions have been divided into product planning, marketing, research & development, production, purchasing and management. We operate three colleges internally - for marketing, software and purchasing. These colleges prepare future managers under a step-by-step approach. Our technology convergence seminars and action learning program for marketing well represent our focus on integrating learning and job performance. Our education and training system is designed so that what is learned can be directly applied on the job.

## ◀ Developing Right People ▶

## Challenging tasks and diverse training opportunities

## Development plan

- Plan drawn up at the start of a year after consulting with Leader

## Development activities

- Challenging tasks
- Education and training
- Career development plan

## Appraisal

- Mandatory 48 training hours by each employee annually
- 20% weighting given to employee development progress in leadership evaluation



[ **Developing talents** ] Potential future CEOs have to demonstrate traits that are aligned to the culture and objectives pursued by LG Electronics. The company's succession plan forms the basis of human resources development programs at the leadership levels.

- Recruiting and developing leaders
  - Development program based on the company's succession plan
  - Annual leadership evaluation and coaching
  - CEO-led Leader Development meeting on regular basis (on position rotation, customized overseas training, overseas deployment, etc.)
- Recruiting and developing young talents
  - Hiring process to select people who are fit with the company's values
  - Developing through challenging job assignment and appropriate motivations
  - Mandatory training requirements for each job grade

[ **Career management** ] We support career development for all employees by putting the emphasis on actual job duties. Along with clear goal-setting, coaching and feedback are used to help workers carve out their career paths. To support the goals of each individual, we have a system under the leader's guidance. Employees can also take advantage of our e-learning system.

Since a large part of learning occurs on the job, an individual's direct superior provides consultation and coaching for career development. The basis of an employee's development plan is acquiring the skills necessary to fulfill one's duties. We have defined the core competencies for each functional area, and a plan to develop the relevant skills is set once a year. Progress is evaluated at the year's end and reflected in the next year's plan.

We make every effort to harmonize individual needs with the company's objectives. Employees can express their views on personal development, training related to one's functional area, and requests for a transfer or change in position during interview sessions. The opportunity to move to another function or duty is also provided through our internal recruiting system.

Recently, we introduced the Second Career Program. This program assists workers who are deployed to our partner companies or those who decide to utilize their know-how from a big corporation at a small/mid-sized enterprise (SME). Career coaching is provided to these individuals to help them make a smooth transition to a new work environment.

Transition to an SME is beneficial for all parties involved. For the individual, the move enables them to continue utilizing their skills and know-how in a new setting. On the other hand, the SME is able to gain insight into the workings of a large corporation. Moreover, the transition has the effect of creating new job opportunities for older and experienced workers.

- Career coaching & feedback mechanism
  - Mandatory coaching on quarterly basis
  - Comprehensive and transparent feedback
- Enhanced individual development
  - Shift away from conventional training towards on-the-job learning (emphasis on workplace learning)

◀ Career management training ▶

Category	Features	Format
On-the-job learning	• Roles/tasks assigned to subordinates based on level of progress	• Job rotation • TDR, coaching, etc.
On-site training	• Pre-learning before job execution • Voluntary on-site implementation	• Seminars, etc.
Regular training	• Provided by HR development team or outside agencies	• Collective training • e-learning, etc.

[ **Online learning system** ] We have created an online learning system to promote personal development among all employees. Mandatory training is set for each level in the organizational hierarchy and on-the-job learning is actively encouraged. As a means of motivating employees, we have adopted an internal curriculum whereby each employee is required to complete 48 hours of training each year. Over 95% of salaried workers in general and administrative roles receive annual training of 40 hours or more.

In step with our global expansion drive, we are also taking steps to foster local talent in overseas locations where we do business. Each of our overseas subsidiaries has their respective employee development systems. Additionally, we offer online learning in the English and Chinese languages. More than 2 million person hours (PH) is being clocked in on our online learning system every year. In particular, our Chinese e-learning system has been recognized as one of the best practices of corporate training in China. It received the Grand Prize in Corporate Education Innovation given by the Chinese government in 2005.

◀ Comparison between LG Electronics and ASTD survey (2005) ▶

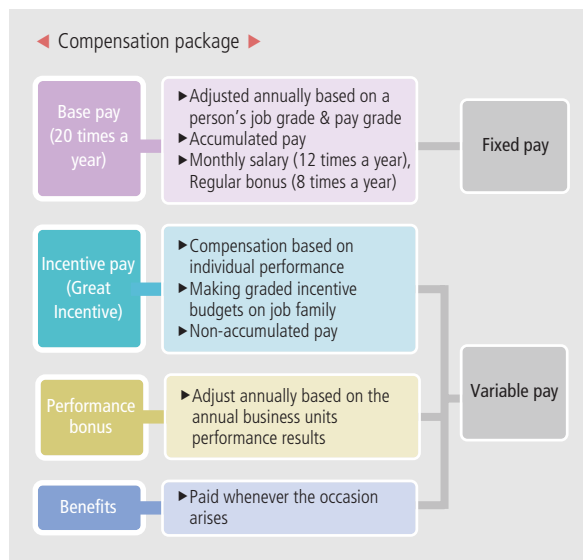
Ratio of labor cost to investment	2.6% (3.24%)
Training cost per person	KRW1.136 million (KRW1.471 million)
Training hours per person	80.7 hours (39 hours)

※ Figures in brackets are the average of benchmarked global firms.

※ ASTD: American Society for Training & Development

※ Based on average foreign exchange rate in 2005(1 USD: KRW1,0243.03)

[ **Compensation** ] The monetary compensation package for employees consists of the annual base pay, incentive pay, performance bonus, and various benefits.



- Motivation for performance (Non-monetary)
  - About 1% of the workforce is selected to participate in MBA programs annually
  - Purpose is to enforce global business competency, perspective for business management

[ **Awards** ] Employees with the most outstanding performances are presented with awards under the name of CEO. Awards are also given to individuals who make a significant contribution in the areas of R&D, environment/safety, patents, and innovation.

◀ Awards ▶

Category	Award criteria	When award is given	Award recipient	Prize
LG Great People Award	Right People with a firm resolve and passion who produce outstanding results (core values and achievements)	Start of year	Individual (gold, silver, bronze)	Medal, cash award, overseas trip
Best R&D TDR Award	Group that contributes to the company by producing outstanding results in R&D	Start of year	Group	Plaque, cash award, overseas trip
Environment/Safety Award	Role model in EESH activities at business unit level	Start of year	Group	Medal, cash award
Inventor of the Year	Individual who contributes to the company and serves as a role model for others in patent application	End of year	Individual	Plaque, cash award
Innovation Award	Individual who produces results by changing process & people with innovative ideas	End of year	Individual	Plaque, cash award

[ **Retired executives career management support** ] We offer a career change support program in conjunction with a consulting agency to retired executives. The tailored plans help them explore new careers.

- One-on-one consulting
  - Support for job search: Document and interview preparation, job information, link to search firms
  - Support for business start-up: Selection of business item, feasibility analysis, incorporation, registration, and other necessary procedures
- Focus group session
  - Group sessions on various topics related to job change (finding a new job, starting a business, change management, health management) and managing finances
- Office space
  - Provision of rooms for individuals (internet, PC, telephone and office equipment), rest area, conference rooms
- Information service

## ORGANIZATION & WORKFORCE STRUCTURE

### Organizational structure

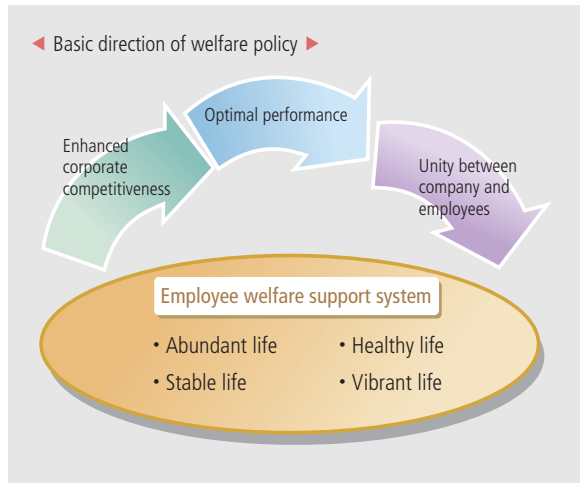
- 4 companies, 5 divisions, 8 regional headquarters
- No. of employees: 77,652 (31,652 in Korea/46,000 overseas)

◀ Overseas units and personnel ▶

Region	Overseas units			No. of employees
	No. of local subsidiaries	No. of local branch offices	Total	
Europe	20	2	22	3,500
North America	9	3	12	5,100
Asia/Pacific	11	5	16	9,900
China	16	8	24	20,100
Central Asia	8	13	21	1,200
Central/South America	6	5	11	5,000
C I S	5	8	13	1,200
Total	75	44	119	46,000

## WELFARE AND BENEFITS

LG Electronics has a strong commitment to ensuring that our employees lead healthy and fulfilling lives. Our welfare support system is designed to maximize employee well-being according to the life cycle of the individual. We offer a wide range of support to provide convenience and stability in our workers' lives.



### Housing assistance

Dormitory facilities are available for employees deployed to the provinces, while financial assistance is provided for home purchase and lease.

### Bonus and holidays for special occasions

The company shares the sorrows and happinesses of its employees to promote unity and a sense of belonging. Employees are granted bonus and holidays for both sad and happy occasions such as weddings or the death of a loved one.

### Education allowance

To help ease the financial burden on employees and support their children's education, the company provides full tuition assistance from middle school to university.

### Medical assistance

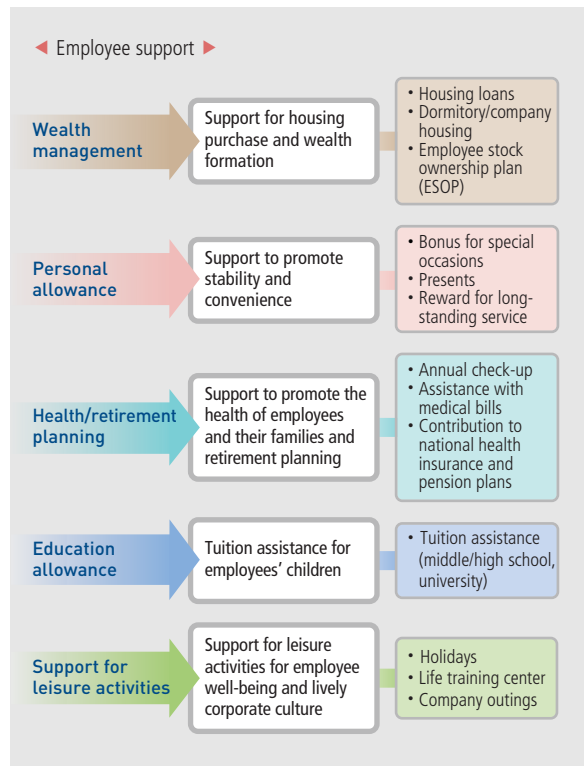
Various forms of medical support are offered to promote employee health. They include annual check-ups and financial assistance with medical bills. Assistance with medical fees is available to employees' families as well through the company welfare fund. We have also adopted the group insurance system.

### Discounts on purchase of LG Group products

Our staff can purchase products of LG affiliates below the market price. This means benefits for both employees and their families.

### Support for leisure activities

Achieving work-life balance is important to maintaining productivity and vitality in the workplace. Employees can avail themselves to resorts in Korea and abroad as well as condominiums nationwide. We also provide opportunities to watch various sporting events and support cultural activities to create a lively work environment.



English camp for children



Supporting leisure activities



Health check-up

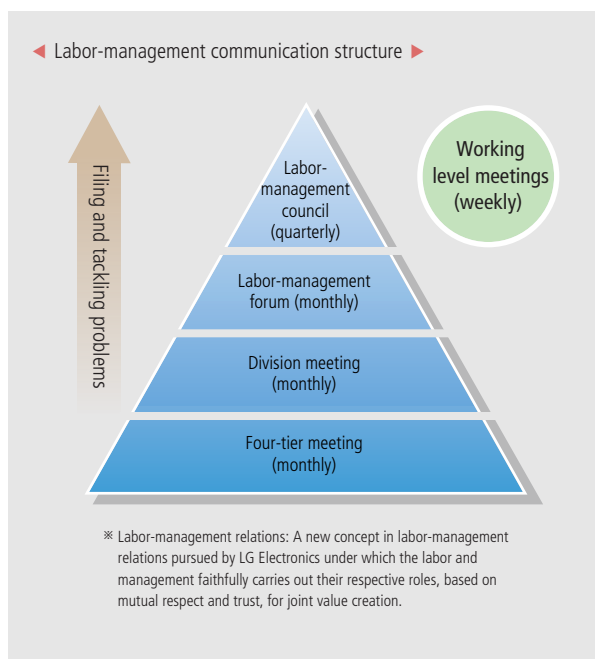


Life training center

## LABOR-MANAGEMENT COMMUNICATION

LG Electronics shares information on major issues with the labor union and all employees through the labor-management council. The council is the highest labor-management communication body. It is composed of the top executives and senior leaders of the labor union and meets on a quarterly basis. One step below is the labor-management forum, which brings together labor and management representatives at the business unit level. The forums are held once every month. Monthly meetings are also held where the members of a division meet with the division head. On the field, a four-tier meeting takes place, with the four levels including lower-ranking employees and supervisors.

LG Electronics uses a system of bottom-up communication to work out various issues and resolve difficulties faced by employees. The emphasis is on resolving problems where they occur. We also operate a counseling center when workers can consult with professional counselors to resolve personal problems such as work stress and interpersonal conflict.



### Labor-management council

The labor-management council promotes harmony in the workplace and contributes to advancing the economy by working toward the shared goals of employee well-being and sustainable growth of the company. Based on mutual understanding and cooperation, the council seeks ways to make the company more competitive and enhance productivity. The council addresses labor-management issues that affect the entire company. The labor representatives are the union leaders (including the heads of factory chapters), while the management is represented by the CEO, CFO and CTO. Each of the business sites has its own lower level council that deals with issues pertaining to the respective site. These lower bodies comprise the division heads and union officers.

### Labor-management forum (for each business unit and plant)

The forum deals with common issues within a business unit (labor relations, production, product quality, working conditions, etc.) and items not resolved at division meetings and four-tier meetings. Issues not resolved at the forum are referred to the labor-management council at the business site level.

### Division meeting

Discussions are held on a regular basis to tackle labor-management issues at the group level and difficulties facing employees.

### Four-tier meeting (section chief, line staff manager, foreman, labor representative)

These meetings bring together on-site supervisors and labor representatives to discuss pertinent issues. Unresolved matters are referred to the labor-management forum.

### Counseling center

A counseling center has been set up at each business site to help employees concentrate on their work duties. The centers provide timely and professional advice to employees whose work is suffering due to organizational or personal conflicts.



Labor-management council



Labor-management forum with CEO



Labor-management forum with CEO



Counseling

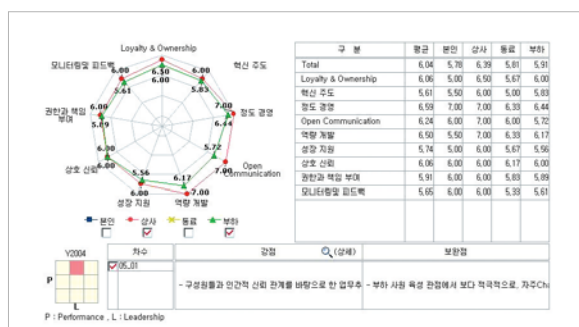
## CORPORATE CULTURE

LG Electronics' vision is to rank among the global top-three electronics/telecommunications companies by 2010. This vision cannot be achieved with superior product technology and outstanding people alone. What is crucial is an corporate culture that will motivate the best people to demonstrate more than 100% of their potential and turn the impossible into the possible.

LG Electronics aspires to the vision of a 'Great Company, Great People' (A Great Company makes Great People and Great People make a Great Company). A creative and dynamic corporate culture is imperative to realizing that goal. We need individuals who proactively generate distinctive and creative ideas, and a culture that promptly turns those ideas into action. To that end, we are pursuing the 'LGE WAY' which embodies our values and innovation-oriented standard of behavior.

### Leadership innovation

An executive seminar is held every year in which all of the top executives gather to review progress made in realizing the 'LGE WAY' and draw up action plans for the current year. By doing so, they are taking the initiative and setting an example for the rest of the organization. In addition, a leadership evaluation is conducted annually to cultivate trust-based leadership (TBL) which is pursued under the LGE WAY. Through impartial evaluation from superiors, peers and subordinates, all of the company leaders can identify their weakness from the TBL perspective and seek ways to improve on those shortcomings.

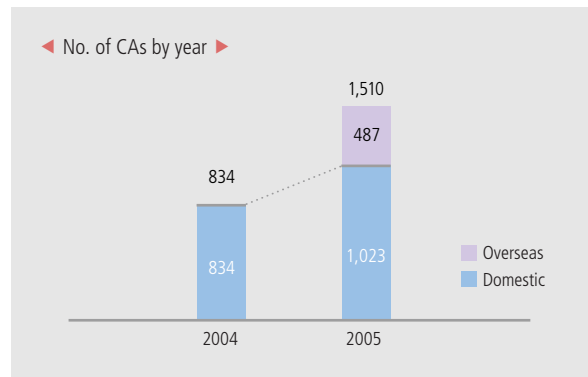


TBL leadership evaluation screen

### Employee engagement

Voluntary participation by all employees is essential to promoting a sound corporate culture. That prompted LG Electronics to introduce the 'CA (Change Agent)' organization.

All constituents of LG Electronics including the overseas subsidiaries have CAs. The CAs are working-level staff, i.e., assistant managers or managers. Their role is to gain a clear understanding of the direction of change pursued by the company and to implement change activities in their respective workplace.



The main program carried out by CAs is the 'MGT (Making a Great Team)' activities. Under MGT, a CA works to make his/her team the most competitive through team surveys and workshops with the purpose of finding areas where improvement is needed. Activities are then carried out to make the necessary changes. The MGT activities are at the center of the CA organization which was adopted in 2004. The CAs have now become a core organization at LG Electronics for ensuring competitiveness.



MGT activities at overseas subsidiaries

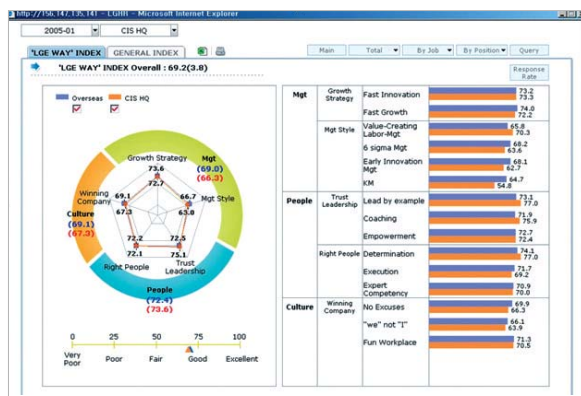




### Communication innovation

Communication functions as the artery of an enterprise. At LG Electronics, there are various channels, both online and offline, for smooth exchange of views and ideas between the ranks and between peers. At the heart of our communication system are the 'Top-Direct Communication activities' which are spearheaded by the top management.

Top-Direct Communication activities take place in a variety of forms such as special lectures, conferences, and field visits. They enable employees to sufficiently understand the company's operations and conditions, while allowing the executive officers to identify and address employees' views and demands in a timely manner. This interchange helps build a foundation that allows workers to fully concentrate on producing results.



LGE WAY Survey

### System-process link

To ensure that activities for change in the corporate culture are not merely one-time events, but an ongoing effort to make the company more competitive, LG Electronics is strengthening the link between system and process. This starts with our recruiting practice. We require potential new hires to take our unique aptitude test, the Right People Selection Test, so that we can select people who match LG Electronics' idea of the 'Right People.' Another systematic framework to promote the 'Right People' is the Right People Competency Evaluation conducted on all employees once a year.

Additionally, we have been conducting an annual survey of all employees since 2004. The survey is designed to analyze and identify activities needed to realize our goal of a 'Great Company and Great People.' The survey provides a framework in which the company can identify the satisfaction levels and demands of all our workers, including those at our overseas subsidiaries. The employee input is reflected in our change activities.



Two-way communication activities



## HUMAN RIGHTS

### Human rights activities

The Labor Standards Act in Korea prohibits forced labor and labor by minors aged 15 or below, and Korea is a member of the International Labor Organization (ILO) and has ratified the ILO convention on child labor. As corporate citizen serving Korea and the world, LG Electronics abides by these regulations on forced labor and employment of minors.

In Korea, we carry out production and sales activities in various locations including Seoul, Gumi, Changwon, and Pyeongtaek. Most of the domestic employees are Korean; thus, racial diversity and racial discrimination is not a major issue. Nonetheless, we prohibit unfair treatment and discrimination based on a person's hometown, sex, age, religion or academic background. An employee who feels he/she is a victim of discrimination may express his/her view through the labor union or a variety of other mechanisms available within the company.

A sensitive issue in the Korean workplace is gender discrimination related to hiring, promotion, pay, educational opportunity, and retirement. A major principle of HR management at LG Electronics is that we do not discriminate between men and women. Additionally, we are addressing the issue of sexual harassment with grievance procedures and education.

At the global level, our overseas units comply with the laws and regulations of the respective country. Most of the overseas employees are of the ethnic origin of the local region. We have yet to formulate our overall principle on human rights of the global units at the headquarters level, but they are under review and should be finalized by 2007.

We stated 'respect-based management' when we formulated our management principle. Recognizing the importance of human rights, we continue to refine the related systems and procedures.

## LABOR-MANAGEMENT RELATIONS

### Shift from cooperation for survival to value creation

Labor-management relations at LG Electronics are based on the pursuit of value creation in which both sides work to reinforce corporate competitiveness and enhance employees' quality of life. We view this relationship as one involving interaction between people, interests, and life. As such, labor-management relations can be seen as an organic system. With any living system, change and innovation is imperative for survival and growth. Staying competitive entails the skills and execution ability to resolve problems with a global perspective. Both labor and management believe that engagement with the attitude of 'starting with me, in one direction, from the easy tasks' is the path to competitiveness.

### Horizontal relationship built on trust

The two major labor disputes of 1987 and 1989, which took place amid the tumult of the democracy movement in Korea, marked a turning point in labor-management relations at LG Electronics. Previously, there had been a vertical relationship, with the focus on protecting one's own interests. But that was replaced by a horizontal relationship based on mutual trust and respect under which workers and managers pursued the shared goal of 'raising competitiveness and enhancing quality of life.' It was at this time that LG Electronics recognized that labor-management cooperation is a core management task. We learned the precious lesson that labor-management cooperation cannot be achieved without transparency and mutual trust and respect, and that labor-management cooperation is essential to building a competitive company and enhancing quality of life.

The views of the labor union and employees are reflected when making major decision, and the company takes steps to enable their participation. The company is striving to maintain and advance the horizontal labor-management relationship. For instance, the first stop is the labor union branch office when managers visit a business site. While the top executives focused on changing the culture and perception, on-site supervisors played a pivotal role in implementing change, helping to establish a new order in labor relations.



Consultation for problem-solving



Rest area for female employees



Labor-management cooperation



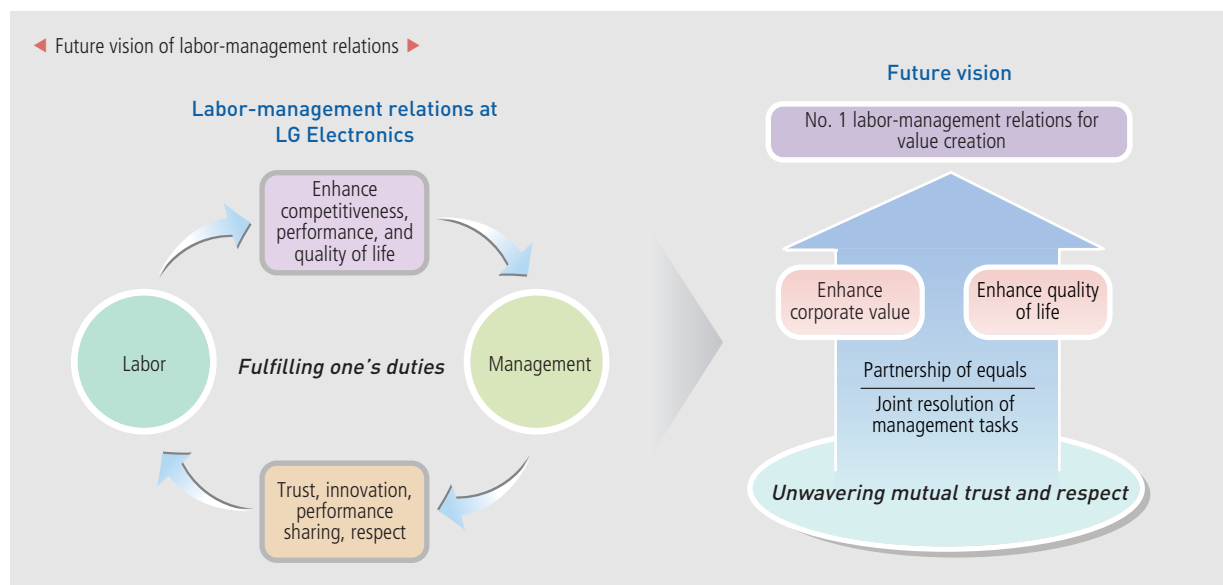
Labor-management agreement

### Voluntary participation

As its trust in the company recovered, the labor union made voluntary efforts for greater productivity and quality innovation. The union took the initiative to market products and provide services offered by the company. It also stood at the forefront of social contribution activities. The LG Electronics' Social Service Group, jointly launched by the labor and management, carried out various activities such as visits to welfare facilities, a campaign to promote local agricultural products, an environmental protection drive, and helping teenage heads of households. Employees also started to see themselves as proactive agents in generating business results, rather than as mere bystanders.

### Upshot of labor-management cooperation

As a result of labor-management cooperation, LG Electronics achieved remarkable financial progress and six sigma quality. Moreover, the problem-solving ability of our field employees and our on-site voluntary management system are on par with those of the world leading companies. Our labor-management culture has been acknowledged internally and externally. In 2005, we received the Presidential Award in the labor-management culture category presented by the government. In 2006, LG Electronics Vice Chairman S.S. Kim received the Gold Tower of the Order of Industrial Service Merit on the occasion of Labor Day.



Seog-Chun Jang/  
Chairman of Labor Union

#### ■ "Making a No. 1 LG is up to us."

##### • What is the labor union's philosophy on labor-management relations?

Labor and management should maintain a win-win relationship based on mutual trust and respect whereby problems are resolved through dialogue. The union will continue to advance the relationship for value creation, so that union members may enjoy better working conditions and greater work stability through the growth of the company. This is our idea of the ultimate picture of labor activities. Stable labor-management relations are vital to making LG Electronics one of the global top-3 by 2010. And in order to win on the global stage, efforts must be made so that labor-management relations are a core factor for competitiveness. The union has to take the initiative and undertake activities to raise corporate value. That is the picture of labor-management relations that lead to value creation.

##### • How do you plan to cultivate a labor-management culture of value creation?

For the past 16 years, the labor union has maintained a tradition of no conflict. This stance will remain unchanged as we move forward. However, nothing is immune in labor-management relations. I hope that the top executives, managers, supervisors, and all union members remember lessons learnt in the past and continue to recognize the importance of labor-management relations. In some sense, we have been caught up in mannerisms amid the more than 16 years of stable labor-management relations. We have to motivate ourselves to break away from the inertia. To achieve the company's vision, the top management has to take arduous steps and lead by example. At the same time, they have to remember the importance of maintaining labor-management relations in which all employees participate.

# CUSTOMERS

LG Electronics strives to realize customer satisfaction guided by its ‘customer-first approach’ under which ‘the customer is the reason and purpose for service.’

## CUSTOMER-ORIENTED ACTIVITIES

### Customer-oriented principle

Since launching our services in 1963, we have been making every effort to satisfy customer needs with diverse service schemes and advanced IT infrastructure. Foremost, the customer has to be the priority in customer service. We are guided by our ‘customer-first approach’ under which ‘the customer is the reason and purpose for service.’ LG Electronics always thinks from the standpoint of the customer when devising systems and policies with a view to emerging as a global service leader most admired by customers.

Our basic philosophy on customer service is that only firms chosen by the customer can survive. Building on that belief, we foster service engineers and service centers that treat customers like family. Our aim is to treat our customers like our family members and loved ones. Akin to someone planning ahead to spend precious time with a loved one, we strive to be ever prepared to best serve our customers.

LG Electronics-style service engineers not only have the necessary technical skills, but also have the mindset to understand the customer’s inconvenience caused by a malfunctioning product. That means the service engineers possess appropriate interaction skills, a warm smile, and the heart to empathize with the customer.

Customer service is not just in the job scope of the customer service department. It is an objective shared by the entire company. Along with the customer service staff, all employees of the service centers are aware that repurchases occur when customers are satisfied with the services accompanying a product. That is why customer service forms the basis of all decisions.

### Customer-first program

To meet customer needs and demands, the customer service department runs a customer-oriented service system and continues to improve the service center environment. Training is consistently provided to service center staff and performance is assessed through a customer-oriented service evaluation system.

### [ Customer-oriented service system ]

- Holiday service: This is a unique service introduced in 2006 to deal with emergency repairs needed on weekends and public holidays and for the convenience of double-income couples.
- 30-minute service for cell phones: We introduced this service for mobile phone products because we understand that the customer’s time is precious. Under this scheme, it takes no longer than 30 minutes to repair a mobile phone, from the moment a customer walks into the service center to the time the work is complete. There is no need for a prior reservation. Presently about 90% of handset repairs are done within half an hour.
- Service at one go: We provide swift and precise services so that customers do not have to bring in products again for repeat problems or malfunctions. About 78% of services are completed in one go, and the figure is steadily rising.

There are various other measures we offer for customer convenience. They include the appointment service (our staff visit at a pre-set time); engineer real-name system (to reduce the uncertainty caused by a stranger’s visit); home doctor service (the customer designates the service engineer); and free repair upon repeat malfunctions. We also have a service system for remote areas for residents of isolated and hard-to-reach places and provide free repairs for flood victims.

In June 2006, we introduced the CCMS (Customer Complaint Management System), through which problems arising between the company and consumers are resolved without intervention by a third party. Under an internal cooperative framework, we promptly and precisely handle matters from the filing of customer complaint to post-management. CCMS is aimed at realizing the company’s management philosophy of ‘creating value for customers’ and represents our customer-oriented approach.

[ Service engineer training ] To instill a service mindset among our service engineers, we provide them with service mindset training, a customer-response course, and role-playing contest. Their technical abilities are assessed via a grading system for technical competency. A Technology Olympics is held to select the most outstanding service engineer. We also select the best engineers in each category under the master system, while our grand master scheme honors the master of masters.

[ Customer-oriented service evaluation ] We conduct the happycall and customer impression evaluations and a customer satisfaction survey on a regular basis. The respondents are customers who have received our services. By doing so, we assess customer satisfaction levels to reinforce our strengths and make immediate improvements in areas of weakness.

[ Customer-oriented service centers ] Customer assistants are deployed in the front lines to provide assistance from the moment a customer enters a service center. The centers also provide free parking. To make customers feel at ease, they can speak face-to-face with service engineers while their products undergo repair. This gives them a chance to hear explanations on the problem and on how to effectively use the product. The service centers feature free battery recharging stations, drinking water, and mobile phone sterilizers for customer use. A space is set aside for Internet access for people who need to take care of urgent business. Customers may give suggestions or express complaints through feedback cards placed at the centers.

## PRODUCT CONVENIENCE

### Design management

Early on, LG Electronics predicted that the convergence of design and cutting edge technology will spur revolutionary changes in lifestyles and foster a new culture. In 1958, we became the first home appliance company to introduce the concept of industrial design. Over the years, we have persisted with efforts to enhance lifestyles and maximize brand power through design. Design was selected as one of our four core competencies in 1999 and we declared 'design management' in 2006.

LG Electronics has been an important force in leading design trends. With the purpose of creating premium quality designs that catch the customer's fancy at first sight, we strive to generate distinct concepts and forms that appeal to the senses. At the same time, we also work to create more convenient products. We conduct research into the customer interface and adopt environmentally-friendly materials and processes that respect man and nature. What we pursue is the utmost in aesthetics and convenience for our customers.

The Design Center works in close cooperation with the Environmental Technology Committee and shares common standards. The center introduced TDR (Tear Down and Redesign) for eco-friendly designs. It organizes various seminars and issues a guidebook for joint development with related companies to promote the concept of green design.

A representative outcome of such efforts is the Flatron monitor. This product does not contain environmentally hazardous substances as it is produced with PC-ABS projection finishing without halogen. All components are also safe for the environment, and the product features silver nano particles (ceramic particle that emits negative ion). These efforts were acknowledged in 2005 as LG Electronics was given the iF Material Award, the world's most prestigious design award.



Flatron Monitor

For multimedia products such as the notebook PC, we use materials that can be recycled or reused. Instead of plastic, we use magnesium which is reusable and blocks electro-magnetic waves. We also developed designs that facilitate assembly, dismantling, and disposal. We limit the usage of plating for the product exterior and post-process paint that harms the environment, and use eco-friendly materials that do not contain cadmium or lead.

We are increasingly shifting towards eco-friendly designs with reusable materials. For product exterior, we do not use oil-based coating which may look attractive but is difficult to dispose of. Instead, we use water-based ink, for which disposal is easy although costs are high. We are also developing packaging structure and design to seek alternatives to using styrofoam for shock absorption in packaging.



Flatron Fantasy Monitor Package - Flexo printing on corrugated cardboard instead of offset printing

Environmentally-friendly designs exemplify LG Electronics' respect for people in conducting its business. Along with the value offered by the product itself, we aim to provide innovative value to users to reflect their needs, dreams and hopes. We aspire to being a sustainable business that fulfills its social responsibilities to shape a brighter future.



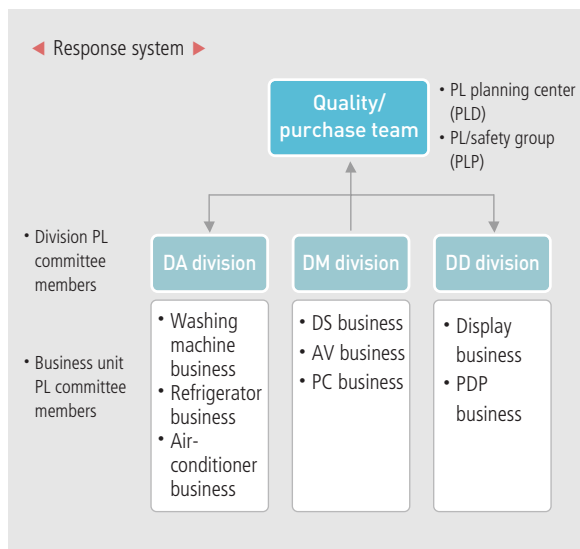
## PRODUCT SAFETY

We give the utmost consideration to product safety throughout the entire production process from the initial design stage in order to prevent injury and property damage resulting from defective products.

Ensuring consumer safety is a priority task at LG Electronics. We approach product safety from three aspects: design defect, production defect, and warning labels.

### Response system

Korea introduced the Product Liability Act to protect the rights and interests of consumers. In accordance with this law, LG Electronics has set up a product safety system that covers the entire organization. A dedicated body has been set up at the headquarters, each division and each business unit to enable organic information-sharing.



The Quality/Purchase Team is responsible for quality matters for the entire company. Within the team are the PL Planning Center (PLD) and PL/Safety Group (PLP), which are respectively in charge of product liability defense (PLD) and product liability prevention (PLP). Each business unit and division has a dedicated PL committee member.

At the highest level, the PL Technology Committee meets once a quarter with the headquarters overseeing the meetings. These meetings serve as a forum for exchange of technological information. Each business unit organizes the PL TSC (Technology Specialist Council) meeting, in which division PL committee members participate. At the next level below, each of the departments hold a monthly PL subcommittee meeting.

### Enhancing product safety

In accordance with the Product Liability Act enacted in Korea in August 2002, our domestic business sites have set up the necessary systems (professional staff, team) to address product safety. While our overseas sites have a weaker systematic framework for dealing with product safety, their activities are supported by the business units and headquarters so that they may respond in a timely manner.

All new products are subject to inspection procedures at various stages, starting with the development phase, to assure they meet high safety standards. For products that are mass produced, sampling is done on a regular basis to examine if there are any problems regarding product safety. When a problem is uncovered, corrective action is taken immediately regardless of the chances of that problem arising.

When a flaw is detected, we check the possibility of the problem arising for the corresponding model as well as for other similar models and take prompt corrective measures. Our product safety assurance efforts are comprehensive, spanning from the inspection of PCB board, various components and wiring to the warning labels affixed on products and instruction manuals.

### ◀ Fire resistance testing for injection material ▶



Vertical/horizontal fire test



Glow wire test

For rigorous control over product safety, we carry out testing under general testing conditions and unusual conditions that may arise when a product is used by the consumer. In doing so, we try to replicate all possible circumstances that could lead to a fire inside the testing lab. For that purpose, we have various facilities including a moisture resistance lab and fire analysis lab.

◀ Product safety test/analysis equipment ▶



**Moisture resistance lab**

Testing for moisture resistance, fire hazard, arc detection, and electric shock



**Fire analysis lab**

Testing for probability and fire spreading

## INFORMATION SECURITY

### Basic principle

LG Electronics recognizes that the protection of personal information forms the basis of building trust with the customer. In the course of conducting our business, we operate a website and collect personal information from online members. We use such data only for the purpose of online transactions and for enhancing customer convenience. We continue to reinforce our information security system to safeguard customer information.

### Network security

LG Electronics has an advanced security system for its server and network which includes a two-tier firewall to protect customer's personal information. Personal information and payment details are encrypted using SSL (Secure Socket Layer) of Verisign of the US.

### Internal security measures

We limit the number of employees who can access customers' personal information to a minimum. Authorized personnel are given a password so that other persons cannot access or use the personal information. Along with regular and special training on security issues, we have a designated customer information security manager.



Building a global service network



Holiday service



Electromagnetic waves test lab



Environment test lab

# SOCIAL CONTRIBUTION

LG Electronics' caring and giving philosophy supports various community enrichment initiatives to help fulfill cherished dreams and hopes of our neighbors.

## SOCIAL CONTRIBUTION OUTLINE

### Social contribution goals and principles

**[ Goals ]** Reinforce corporate image through strategic social contribution activities. Contribute to improving business performance and attain vision of becoming global top-3 through strengthened organizational unity and vigor.

### **[ Principles ]**

- Connect long and short-term management goals. Select and concentrate.
- Maximize existing resources and encourage participation by employees and executives as well as outside stakeholders.
- Raise corporate image and brand value through proactive communication.

### Charter of Corporate Social Responsibility

As a global company, LG Electronics fulfills its social responsibility by showing love for those who have dreams and contributing to making a better society where everyone can lead a happy life.

1. LG Electronics actively supports those who strive to reach (realize) their dreams
2. LG Electronics operates its corporate citizenship programs by forming partnerships between labor and management, executives and employees, customers and local community citizens, and related NPO/NGOs.
3. LG Electronics conducts its corporate citizenship activities from a long-term perspective.
4. LG Electronics focuses on the areas of social welfare, education and cultural activities by means of sponsorship, financial aid and volunteer work.
5. As a global corporate citizen LG Electronics conducts its corporate citizenship activities wherever it does business.

### Budget for social contribution activities by year

In 2005, LG Electronics' total giving amounted to KRW15.8 billion in various social contribution initiatives. Also, 27,888 LG Electronics employees and executives contributed many hours of service to carry out the company's philosophy of caring and giving.

#### ◀ Social contribution spending ▶

Type	2004 <sup>1)</sup>	2005
Total spending on social contribution programs	KRW13 billion	KRW17.9 billion
(Directly-operated programs)	(KRW3 billion)	(KRW4.1 billion)
(Cash contribution)	(KRW7.4 billion)	(KRW13.1 billion)
(Product and service contribution)	(Equivalent to KRW2.6 billion)	(Equivalent to KRW0.7 billion)

1) Estimate

### Budget for social contribution activities by sector

In 2005, LG Electronics' directly operated contribution activities focused primarily on social welfare programs followed by education/schools/academic research, culture/arts/sports, and emergency relief efforts.

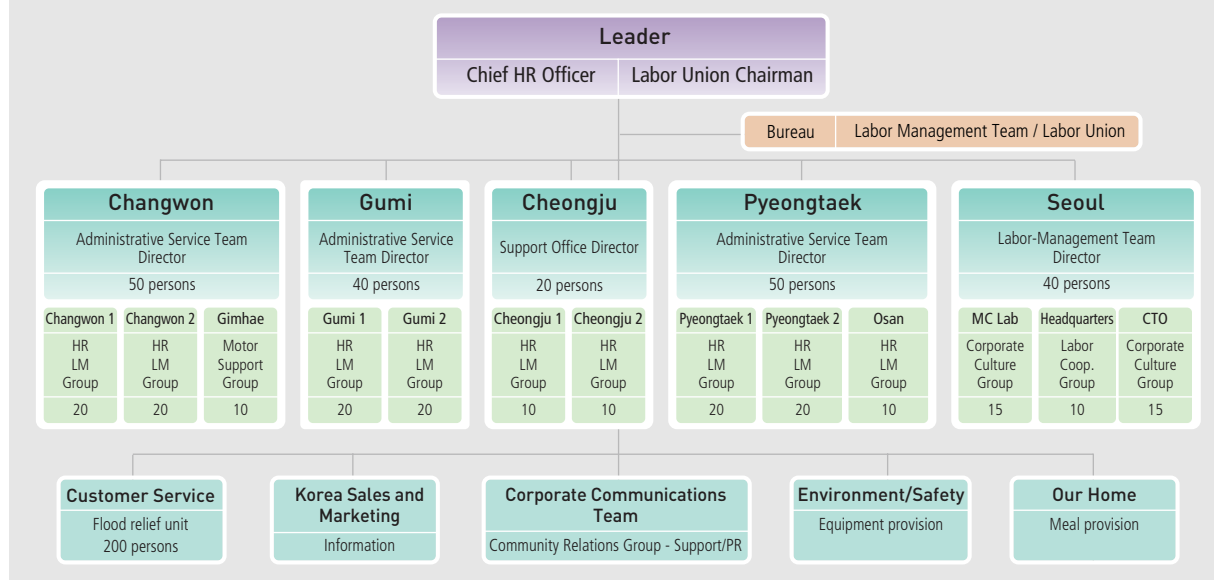
#### ◀ Social contribution expenditure by sector ▶

Sector	Funding	
	2004 <sup>1)</sup>	2005
Social welfare	KRW1.2 billion	KRW1.9 billion
Medicine & healthcare	KRW60 million	KRW190 million
Education/schools/academic research	KRW900 million	KRW1.2 billion
Culture/arts/ sports	KRW240 million	KRW730 million
Environmental preservation <sup>2)</sup>	KRW150 million	KRW1 million
Emergency and relief efforts	KRW150 million	KRW2 million
International relief efforts	Unable to total as of now	KRW20 million
Others	KRW200 million	KRW70 million
Total spending on directly-run programs	KRW3 billion	KRW4.1 billion

1) Estimate

2) Environmental preservation expenses above were used to execute social contribution related campaigns and others.

## ◀ 2006 LGE Social Service Group organization chart ▶



## ◀ Social contribution history ▶

1962	• GoldStar launched a campaign to send radios to rural areas	2002	• LG Electronics established LG Hope Primary School in Xinchengzi, Shenyang Province, China
1966	• GoldStar adopted 'Social Service through Products' as its company motto		• LGEMT launched an anti-drug campaign in Thailand
1969	• Opened Jinju City Yonam Library		• LG Electronics sponsored the World Summit on Sustainable Development 2002, held in South Africa
1974	• Provided a free after-sale service in its roadshow in flood-ravaged areas		• LG Electronics provided free surgical operations in the Middle East and Africa
1976	• Anyang Plant visited 'House of Love' to support underprivileged youth		• LG Electronics' executives and employees donated funds to the establishment of a Child Cancer Rehabilitation Center in Russia
1977	• GoldStar launched sisterhood programs with underprivileged children	2003	• LG China Holding Company launched a nationwide campaign to combat SARS disease
1979	• GoldStar provided urgent circulation service to flood-damaged areas		• LG Electronics launched its Social Service Group
1981	• Provided a free service to flood-damaged areas affected by Typhoon Agnes		• LG Electronics sponsored La Villa de las Ninas of Mexico performance
1982	• Assisted agricultural farmers		• LG Electronics sponsored an event for the bereaved families of Turkish soldiers in the Korean War
1983	• Donated computers to educational institutions and provided free computer education		• LG Electronics sponsored the LG Charity Concert in the Czech Republic
1984	• GoldStar declared the Year of the Consumer	2004	• LG Electronics sponsored U.S. LA LG Wiltern Theatre
1985	• Raised and donated funds to help children suffering from heart disease		• LGETA sponsored a concert for handicapped people in China
1986	• Gumi Plant helped farmers with rice planting		• LGEMH provided free surgical operations for blind people in Vietnam
1987	• GoldStar provided a special free service to regions flooded by heavy rains		• Sponsored House of Boys of Korea students, allowing them to visit the presidential palace of Mexico and stage performances there
1988	• Launched a fund-raising campaign to help teenage family heads		• Nairobi, Kenya branch sponsored a free harelip surgical operation
1990	• GoldStar launched campaigns to form sisterhoods with schools on isolated islands		• LGECZ held a concert for raising charity funds for Czech youths
1991		2005	• Offered USD 600,000 in relief aid to tsunami-affected areas of Southeast Asia
-2004	• Sponsored Korean Students' Invention Exhibition		• Sponsored the French government's campaign to combat cancer
1994	• Held a picture-drawing contest for primary school children in Malaysia		• Offered free medical services in the Middle East
1995	• Launched an environmental campaign in Dubai Sponsored the UN's 50th anniversary of the 'UN PEACE WALK'		• Declared a Charter of Corporate Social Responsibility
1996	• Held a picture-drawing contest for orphans in Turkey		• LG Electronics sponsored a visit to Korea by Greek soldiers who had been involved in the Korean War
1997	• Held the Great Love Festival, in aid of North Korean children		• Support for House of Boys in Mexico
	• Officially sponsored the 60th anniversary of the forced migration of Koreans from the former USSR to Central Asia		• Charity event of Czech Presidential Palace
1998	• Received Presidential Meritorious Service Citation for flood-damage measures		• Support for children's cancer in Russia
1999	• Established the LG Hope Primary School in Shenyang, China		• Sponsored free surgical operations for harelip and cataracts
	• Held LG Scholarship Quiz events in Vietnam and Thailand		• LG Electronics' Day of Love and Sharing
2000	• Sponsored the Moscow Marathon Contest		
	• Held the Korean LG Cup Yalu River Literary Prize Award Ceremony for Korean immigrants in China		
2001	• Held events in celebration of LG Day in Mexico		
	• Launched environmental conservation campaigns in Nanjing, China		

## SOCIAL CONTRIBUTION PROGRAM - DOMESTIC INITIATIVES

Since its foundation in 1958, LG Electronics has been carrying out far-reaching and diverse social contribution programs, spanning volunteer work, social welfare, and education. Our initiatives include supporting 5,000 child-headed households which started in 2003, carrying out blood donation drives, providing free meals for the homeless, and taking part in the Habitat for Humanity program to build affordable housing for people in need. Education is another primary area of focus. By sponsoring LG Electronics Junior Science Class, a computer education program for the seriously disabled, and youth mentorship initiative, we encourage our employees to use their capabilities to improve their communities and people's lives.

Since 2004, LG Electronics has partnered with non-profit organizations to help build a healthy society. We organized the Goodwill Blood Donation Drive with Korea Red Cross. Attended by over 5,000 people, it demonstrated our commitment to help those in need. Also in 2004 and 2005, we teamed up with 'Beautiful Store' and held Beautiful Saturday Bazaar. In 2004, we collected some 90,000 items and sold them in 20 stores nationwide. In 2005, the event was held in 12 stores in Seoul and Gyeonggi-do area including LG Twin Tower in Yeouido where 32,000 employees volunteered as salespeople and sold an estimated 40,000 donated items. All proceeds were delivered to charity organizations sponsoring low-income elderly living alone and child-headed households.

### Participation

[ Social contribution funds ] LG Electronics' executives including the CEO donate 1% of their wage to the funds every month. Employees and the labor union have also been contributing 1% of their bonus to the funds since 2004, with the company matching that amount in donation as well. LG Electronics' generous donation to social contribution funds is a testament to our company-wide spirit of giving.

[ With our neighbors, with LG ] LG Electronics operates the 'LG flood relief volunteer corps.' to help rebuild areas hit by floods during the rainy season. Volunteers made up mostly of 4,500 customer service personnel are dispatched to flooded areas and provide relief as well as repair electronic goods for free.

In particular, we operate a 400-strong 'emergency taskforce' for immediate relief efforts. They carry out restoration and cleanup work, check electrical facilities to ensure safety of homes, and provide water pumps and rescue efforts in emergencies. In cooperation with the Pyeongtaek, Gumi and Changwon workplaces, LG Electronics' flood relief volunteer corps mobilizes manpower and donates goods according to extent of damage. By offering practical help and comfort to flood victims, LG Electronics is showing that it is a reliable and caring partner to customers in need.

[ Volunteerism in action ] We are reaching out to our communities through volunteer programs in which all our employees can take part in. For one, we have teamed up with Habitat for Humanity to build affordable housing for people in need. We have donated KRW480 million from our labor-management social contribution funds and KRW240 million from our social contribution budget to the project and some 700 employees volunteered their time to build houses in Chuncheon, Gangwon-do, Gyeongsan, Gyeongsangbuk-do and Sacheon, Gyeongsangnam-do since May 2005. Our volunteer work has extended to helping the homeless by providing free meals which started in November 2004 and donating winter coats during Christmas time. In addition, some 1,000 volunteers join hands every winter to make kimchi, the staple Korean dish, in eight regions around the country including Seoul, Pyeongtaek, Gumi, Changwon and Busan which are delivered to isolated neighbors in our communities.

[ With our communities ] Since 1994, LG Electronics' Changwon branch labor union has been sponsoring mentally challenged children at 'Hanmaeum Home.' The facility has been undergoing financial difficulties due to lack of government assistance. In addition, the company's DA business unit held a campaign to donate 10,000 briquettes to the less fortunate.



LG flood relief volunteer corps



Habitat for humanity program



Free meals for the homeless



Donating briquettes



Employees at LG Electronics' Korea Marketing Division are contributing their services to local community initiatives to help the elderly living alone, child-headed households and others that require assistance in Daejeon, Daegu, Gyeongsangbuk-do and Gyeonggi-do. In particular, everyone working in Suwon, Gyeonggi-do, donated blood for local children suffering from leukemia and held a charity concert for local residents.

Meanwhile, LG Electronics' Learning Center is involved in a program to support the visually impaired. Volunteers read for the blind and take part in making basic materials for printing of books in Braille. In September 2004, the center sponsored an information search competition for the visually impaired in Gyeonggi-do which was aimed at bringing the internet closer to the blind community.

The company's DA division is working with underprivileged children. It invited 200 orphans from Sungyook Orphanage in Milyang City and children who are in charge of their households to an event where they enjoyed some fun time with families of employees.

#### Promise of hope

[ [Bringing dream and love to children](#) ] We hope for a world in which children can spread their wings and reach their individual potential. In 2003, LG Electronics raised KRW1 billion in social contribution funds to sponsor 500 children who head their households. We will continue to support them through financial and mentorship programs until they grow up to be responsible members of society.

Other programs for child-headed households include summer camp and winter camp where children learn the significance of giving and teamwork. Also in partnership with Korea's Make-A-Wish Foundation, we grant the wishes of children with life-threatening illnesses to give them hope, strength and joy. We will continue to support those children with cancer, kidney disease, and other serious illnesses to help brighten their lives.

[ [Bringing a hopeful future to teenagers](#) ] Laying a foundation in which our youth can dream of a bright future is the duty of individuals, companies, society, and the country. Since 2004, we have been holding the 'LG Electronics Junior Science Class' for underprivileged youths once a week during summer vacation. Last year, the company's top researchers participated in these classes attended by some 500 youths to explain complex theories of electronic technology in an easy and fun way. Participating children and teenagers were given a chance to experiment and make products on their own. Science kits were handed out as gifts.

Also since 2004, volunteers comprised of researchers and employees in Seoul and Gumi have been meeting with children from less fortunate backgrounds once a week after school during the school term to offer academic guidance and mentorship. We will continue to educate and inspire young people so that they can pursue their dreams.

[ [Bringing hope to the disabled](#) ] Sharing is what makes us and our society beautiful. LG Electronics is directing our resources towards initiatives that demonstrate how technology touches lives and makes dreams of our less fortunate neighbors a reality.

For those with serious disabilities but a strong desire for knowledge, we provide customized IT training services according to their needs as well as the nature and degree of their disabilities. We also operate 'LG Wings of Information', an one-on-one computer education program for the seriously disabled in order to expand their connection to the world and increase their independence.



Blood donation drive



Beautiful Saturday Bazaar



Junior Science Class



LG Wings of Information

## SOCIAL CONTRIBUTION PROGRAM - GLOBAL INITIATIVES

LG Electronics is actively addressing the needs of overseas communities where we have a presence. As part of our worldwide philanthropic efforts to help friends in remote and impoverished regions, we have been providing financial assistance to House of Boys in Mexico since 2000. In China, we have been carrying out the 'I Love China' campaign which has helped cement our reputation as a socially responsible company. In addition, we set up a LG Hope Primary School in the city of Shenyang to offer children there a chance for better education.

Since 2000, we have been offering free surgical operations for children with congenital harelips and cleft palates in the Middle East and Africa. In Thailand we partnered with the Thai government to sponsor its anti-drug campaign and joined the 'Walk across the country' event to promote public awareness. Our other global social contribution programs include donating used personal computers to orphanages (Egypt), sponsoring a soccer team made up of disabled youth (Netherlands), funding for construction of children's cancer center (Russia) and sponsoring 'Bridge of hope' charity telethon (Malaysia) and anti-cancer campaign (France). We have also won the trust of local communities for our immediate response and diverse initiatives to support relief efforts during the tsunami crisis in South Asia in 2004.

### China: I Love China, 愛在中國

Just as difficult times help to strengthen the bond between two individuals, so too would LG Electronics like to strengthen its bond with China, by helping China during difficult times. In 2003, when the shock of the SARS epidemic overwhelmed China, LG Electronics rallied to combat the spread of the disease, and launched the 'I Love China, 愛在中國' campaign. We, together with the people of China, worked to distribute hygienic supplies, donated antibacterial home appliances, and contributed to the creation of a healthy, hygienic culture. Also, in 2004 we threw the 'I Love China Festival', which involved touring small and medium-size Chinese cities in greater need of cultural exposure and experience than their larger counterparts.

Meanwhile, as a corporate citizen of China, LG Electronics actively organizes and participates in charity events. We established the LG Hope Primary School in Shenyang, China, and provided to the school free projection TVs, PCs and other educational audio visual appliances. We donated 200,000 yuan (approximately US\$25,000) to the Chinese Youth Development Association for the establishment of the LG Hope Primary School. In Nanjing, we established the Hospital of Goodwill, supported impoverished students, and provided free surgical operations to innate cleft lip infants patients from poverty-stricken families. Since 2003, we have been sponsoring the LG Mobile Phone Golden Apple program through Chinese CCTV, forming a close relationship with China's younger generation. On LG Day, designated as such by the city of Huizhou, in association with local citizens, we organize a diverse range of social, cultural, and sporting events. As a corporate citizen of China, LG Electronics is committed to continued involvement in corporate social responsibility-based activities, with a view to winning over the hearts and minds of the people of China.

### Asia: Think Asia

As a corporate citizen of Asia, LG Electronics endeavors to be involved in the accomplishments and progress of the regional community, and in doing so become a faithful, like-minded friend. In Thailand, we held a 'long march across the nation for drug elimination' event in connection with Thai government's drug elimination program in 2002. In 2004, we provided free surgical operations to 208 blind people, restoring their vision through donation to underprivileged patient support association in Vietnam. In addition, we sponsored Bridge of Hope, a TV program involving making phone calls of goodwill in Malaysia.

Also, we lends materials, as well as a spiritual helping hand, to citizens experiencing difficulties, thus earning the trust and confidence of the local people. In 2001, we provided assistance in India's earthquake restoration work. In 2004, we launched various aid campaigns to alleviate the difficulties of tsunami-affected Southeast Asian areas including Korea, India, Thailand, and other Asian nations.

Since 1999, we have been sponsoring the LG Champion Quiz TV program, which began in Thailand, and is now also held in Vietnam,



Scholarship to LG Hope Primary School in China



Supporting tsunami-stricken Indonesia



LG Scholarship Quiz in Vietnam



La Villa de las Ninas in Mexico

the Philippines, Indonesia, Kazakhstan, as well as other nations. The LG Champion Quiz program, aired in a primetime slot over the weekend, achieves high ratings, attracts enthusiastic responses from these nations, and is acclaimed as a leading program for the public's benefit.

As such, we run Scholarship Quiz programs in Asian nations, where there exists a strong passion for education and learning and a genuine interest to invest in human resources, in order to foster skilled, talented individuals. This campaign also positions LG Electronics as a people-oriented corporation that contributes to the development of local communities.

#### **Africa: New Life and New Hope**

Through specific corporate social activities in the Middle East and Africa, LG Electronics endeavors to be readily accessible to the people of these countries.

Since 2000, we have provided free surgical operations to patients born with a cleft lip in undeveloped areas in the Middle East, and throughout Africa.

In 2002 we provided this free operation in Pakistan and Egypt, in Morocco in 2003, in Kenya in 2004, and in Kenya and Morocco in 2005, giving new hope and a renewed joy to the children undergoing the surgery. We remain committed to continuing this free service to those in need.

In U.A.E (Dubai) and Saudi Arabia, we operate the Dubai Women's Club, a health program for women. We also recently launched a campaign to donate used PCs to orphanages in Egypt. In these ways, we participate in diverse corporate social activities to position LG Electronics as a more readily accessible corporation.

#### **Russia / CIS: A Friendly Corporation in Eurasia**

LG Electronics acts as a friend to the people in Russia and CIS, conducts corporate social activities such as cultural programs, and encourages the development of talented individuals, in its bid to be readily accessible to the community.

The LG Festival, held annually since 1999, is a cultural event that tours the major cities of Russia and invites local participation. The LG Festival incorporates the Children's LG Picture-Drawing Contest, the Miss LG Pageant, the LG Karaoke Contest, as well as other events, thus creating an essential city festival in which locals can participate.

The LG Festival tours small and medium-size Russian cities with less experience of culture than their larger counterparts. Events such as folk performances, singing championships, celebrations, donations of social and welfare funds, and other regional culturally friendly events, turn the small and medium-size cities of Russia into exciting festival playgrounds every weekend. The LG Festival was established to give something back to rural customers in areas isolated from the cultural benefits of their big-city neighbors. The festival has now spread to over 150 cities across Russia, making it the greatest regional festival in the nation and boosting the LG brand.

We also work to develop the talents of individuals throughout Russia and the Ukraine through the Scholarship Quiz program. We facilitate computer classes for children in Kazakhstan and other nations, and donated funds toward the establishment of the Child Cancer Center in Russia. Through activities such as these, LG Electronics conducts a diverse range of corporate social activities.

#### **Europe: Uniting the Hearts of Europe**

LG Electronics conducts a diverse range of cultural events to foster European culture. We contribute to regional social development and cultural sponsorships. In organizing these events, we win over the affections of the people of Europe.

For three years in a row from 2003, LG Electronics threw the LG Charity Concert in Prague, Czech Republic, which aimed to support youth scholarships. In Spain, we sponsored the Millennium Concert, building a reputation of faithfully fulfilling social responsibilities. In France, we sponsored the Tale of Chunhyang Opera Performance in Paris, and the Koreans Living in France Festival. In the United Kingdom, we held the LG London Korean Festival, thus promoting Korean culture.



LG Digital Reading Room at Russian State Library



LG Champion Quiz in Kazakhstan



Surgical operation for children with cleft lip in Kenya



Medical services in Panama

Meanwhile, in France, LG Electronics officially sponsors the annual anti-cancer campaign, which in 2005 was jointly organized by the French government and France's Cancer Association, to combat cancer and raise public awareness of cancer. To this end, we held a Picture-Drawing Contest and a Video Contest on the theme of combating cancer, targeting children from some 100 primary schools nationwide. In these ways we work toward regional social development.

#### North America: Culture-loving Corporation

In the United States, LG Electronics donates money to underprivileged members of the community, and conducts various corporate social activities for the benefit of the community, involving fire stations, libraries and other institutions.

In particular, we sponsor LA Wiltern Theatre, a performance hall designated as a U.S. national cultural legacy. Established in 1931, Wiltern Theatre attracts over 300,000 people annually, and is a hub of U.S. popular culture. With LG's sponsorship, it is now named Wiltern LG, and is widely acclaimed for its renowned performances. We also sponsor a world-class New York's Fashion Week, as well as the Nanta Performance, which promoted Korean culture, and attracted the attention of local opinion leaders. These events have helped us further boost our corporate image of developing and sponsoring culture.

#### Central and South America: Spreading Influence

In Central and South America, ranging from Mexico to Brazil, LG Electronics conducts community-oriented corporate social activities in sectors such as society, culture, sports, and education. In doing so, it further boosts its brand image. Since 2000, we sponsored La Villa de las Ninas (House of Girls) in Mexico. Through this occasion, students from the House of Boys of Korea had opportunities to visit Mexico's presidential palace and perform symphonies in 2003 and 2004. Also, in 2005, we sponsored the student troupe from the House of Boys of Mexico to have them perform in Korea, a move that considerably helped promote friendly ties between Korea and Mexico.

In addition, we support the Small Jesus Society in Brazil, providing free meals to poverty-stricken people in Sao Paulo. The Peru subsidiary officially sponsored the Official National Contest of the Peruvian Horse of Step, a traditional cultural festival, and youth-oriented Latincup 2004. LG Electronics' Scholarship Quiz program for high school students is also held in Panama, Venezuela, and Guatemala, and helps raise popular interest in education.

#### ■ Declaration of 'Charter of Corporate Social Responsibility'

LG Electronics held an event to declare the slogan for its Charter of Corporate Social Responsibility at Yeouido's Twin Tower on April 10, 2005. In attendance were Vice President Young-Kee Kim, head of Human Resources and some 100 LG Electronics volunteers. The declaration affirmed the company's commitment to include social contribution as an integral part of its management activities and fulfill its obligation as a responsible corporate citizen. The Charter of Corporate Social Responsibility establishes the foundation that guides LG Electronics' efforts to make a positive impact on local communities. The company chose 'Sharing love, fulfilling dreams' as its slogan after reviewing some 500 works submitted to its social contribution slogan competition.



Social contribution funds

#### ■ Labor union gives part of its incentive pool to social contribution funds

LG Electronics Labor Union is sharing the company's commitment to social responsibility with plans to give KRW750 million from its 2004 incentive pool to the social contribution funds. The company is responding enthusiastically to the union's decision and matching that amount in donation to create an annual joint labor-management social contribution fund worth KRW1.5 billion. The money will be used to support a wide range of programs enriching our communities.

#### ■ LGEMS sponsors 'La Villa de las Ninas'

LGEMS (LG Electronics Mexico S.A.DE C.V.) has been sponsoring La Villa de las Ninas (House of Girls) run by the Sisters of Maria since 2002. In 2005, 120 students from the House of Girls visited Korea and gave choir and dance performances at Cheongwadae. The House of Girls of Mexico and House of Boys of Korea have been holding annual cultural exchanges since 2003 with students from the House of Boys of Korea performing at Mexico's presidential palace in 2004. LG Electronics is committed to providing diverse cultural experiences and educational opportunities to underprivileged youths from impoverished regions in Central and South Americas.



La Villa de las Ninas visiting Cheongwadae



## ■ Global Sports Sponsorship

We sponsor sports activities that people all around the world love and enjoy, thereby encouraging them to share their passions and inspiring unity. LG Electronics sponsors sports events around the world, which energizes people's life, and instills passion and the sense of reconciliation in their hearts.

### [ Football ]

#### ► Tournament Sponsorship

The LG Cup is an international match accredited by FIFA, and is now the region's top soccer championship since its first match in 1997. The Middle East and Africa are suffering deep-rooted religious and social conflicts. To the people in this region, football is passion itself, and a festival to erase discrimination and conflict. The LG Cup inspires them to dream of great things.

LG is the official sponsor of the 2006 Egypt Africa Cup of Nations, and the 2008 Ghana Africa Cup of Nations. The Africa Cup of Nations, organized by the Confederation of African Football (CAF), has been held every two years since 1957, and is the continent's greatest championship game participated by different nations. This championship has prompted Africa to emerge as a new football power, shaking the two soccer powerhouses, Europe and South America. LG also bestows the Fair Play Player Award together with CAF to further enhance the spirit of sports. Besides, we are the official sponsor of the LG Amsterdam Tournament, a competition among Europe's famous pro football clubs, and a famous pre-season tournament in Europe.

#### ► Team Sponsorship

We are the official sponsor of the Sao Paulo Football Club, one of Brazil's most popular football teams. Players wear official uniforms featuring the LG logo in various championships. This markedly enhances the LG brand recognition and Korea's national image. Also, we are the official sponsor of the Olympic Lyon Football club, France's famous football team. With the sponsorship LG has positioned as a reliable and intimate brand in France. In addition, we officially sponsor famous professional club teams (Monarcas Morelia of Mexico, Cienciano of Peru, Once Caldas of Columbia, Fulham, and Arsenal of the UK) and national football teams (Germany, Hungary, Greece, Russia and Iraq).

### [ Golf ]

In 2006, LG started sponsoring the US PGA 'Skins Game.' Now in its 24th year, the Skins Game is the nation's biggest golf championship that opens during the golden holiday week of Thanksgiving Day. The Skins Game also boasts of having the highest TV viewing rate of live golf telecasts. Champions in this LG-sponsored golf tournament donate 20% of their prize money to charity organizations.

LG Electronics sponsors 'XCANVAS Women's Open' to inject excitement and vibrancy into women's golf. Just three tournaments have been held until 2005, but it has already become Korea's premier major tournament and KLPGA's national title game. With many world-class players participating in the tournament, it has earned the reputation as the smaller version of the US Women's Open. Its popularity is demonstrated by the fact that the event draws the most number of TV viewers and spectators in the gallery among domestic women's golf tournaments.

### [ Action Sports ]

We sponsor the Action Sports Championship, which is a favorite sport among young people around the world. Action Sports, also called Extreme Sports and X Games, are risky, adventurous leisure sports. Standard events are Aggressive Inline, Skateboard, Bicycle Motocross (BMX), and Freestyle Motocross (FMX). The year 2005 also saw the opening of the world's largest LG Action Sports Championship in Manchester, UK, and LG Action Sports Championship USA in Los Angeles, USA. In particular, 200 champions from 20 countries around world who had won in the regional preliminaries competed fiercely in the world championship. Moreover, we fully sponsor the LG Pro Tour Team featuring famous international pro champions, helping them further improve their talents to the full and contributing to the development of Action Sports.

### [ Cricket ]

Cricket is the most loved sport in the UK, Australia, India, South Africa, and other British Commonwealth countries. LG Electronics shares joy with them. The Cricket World Cup is the most authoritative cricket championship in the world, and is held every four years. We sponsored the 2003 South Africa Cricket World Cup, thereby earning the trust from the host nation and other participating countries. Our activities have become an effective way to deeply endear the company to these local communities. Moreover, we sponsor various championships organized by the ICC(International Cricket Council). Especially, since 2005, we have been exclusively sponsoring the ICC Ranking System, thereby making a great contribution to the further development of cricket.

### [ Ice Hockey ]

Ice hockey is the national sport for Northern European nations, where it is more popular than football, allowing players to release their youthful energy and passion on the ice rink. Through an agreement with the Swedish Ice Hockey Association, we are sponsoring the LG Hockey Game starting in 2006. LG Electronics provides plasma TVs and mobile phone experiential space in the stadium, and infuses various events to further delight ice hockey fans, thus enhancing our status as well as contributing to local communities in the region.



Sao Paulo Football Club



LG Amsterdam Tournament



Cricket



Action Sports



## BUSINESS PARTNERS

LG Electronics was the first in Korea to introduce a voluntary compliance program to promote fair trade. Recently, each of the divisions has been strengthening support for business partners in this area.

### FAIR TRADE

LG Electronics has been at the forefront of introducing the Fair Trade Commission-proposed Compliance Program. We are very much committed to performing with integrity for fair competition and transparent transactions with rival companies, partner firms and consumers. The Compliance Program outlines our conducts aimed at prevention and early detection of any action in violation of the Fair Trade Act. Here at LG Electronics, we have in place one of the best compliance systems that encompasses training, analysis and consulting.

Our Compliance Program lays down specific principles that guide us in our day-to-day activities. For our initiative in practicing fair and transparent management, we were awarded the Presidential Prize in 1996. In 2001, we overhauled our entire corporate ethics program to meet the standards set forth in the Compliance Program. The Fair Trade Commission's Compliance Committee comprised of representatives from the private sector formulated seven essential requisites enabling companies to voluntarily comply with the Fair Trade Act. The core requisites in LG Electronics' Compliance Program are explained below.

#### Operation of compliance team & appointment of compliance manager

In May 1995, the company set up the 'LG Electronics transparent culture promotion committee,' the policy making body responsible for fair trade issues. The 'working group for transparent culture' comprised of senior officials and the 'transparent culture promotion bureau (currently the transparent culture group),' were also established as permanent bodies. They were instrumental in outfitting the company with a compliance system and carried out various corporate activities to reinforce transparency and fair business practices.

In February 2002, we reorganized the compliance bureau into three sub-committees of finance, marketing and purchase to enhance efficiency. The company also appointed the head of the international cooperation team (currently Executive Vice President Sang-Geun Nam) as the compliance manager during the first regular board meeting in 2002.

In early 2006, the consumer sub-committee was added to the three existing sub-committees and started activities as a trial business participant for the Consumer Complaints Management System under preparation by the Fair Trade Commission.

#### Distribution of compliance manual

LG Electronics was the first domestic company to draw up and distribute compliance guidelines in 1995. Since then, six different types of guidelines have been handed out. Currently, we are preparing revised job manuals based on the Fair Trade Commission's key precedents.

- Job manual for compliance (comprehensive)
- Job manual for compliance (marketing)
- Job manual for compliance (contractors)
- Cases of unfair transaction
- Job manual to prevent unfair collective action
- Job manual to prevent insider trading

#### Fair trade training

We provide comprehensive training to all our employees to foster awareness of compliance and reinforce their commitment to abide by compliance policies. In particular, we are focusing on e-learning via the company intranet to allow more employees to take part in the training. The training is a prerequisite for employees in related areas to equip them with full understanding of the Fair Trade Act.

#### ■ CEO's declaration of commitment to compliance

In February 1994, LG Electronics implemented its code of ethics based on its commitment to Management by Principle. The company became the first in Korea to adopt the Compliance Program, with the CEO pledging to voluntarily comply with the Fair Trade Act. The entire workforce also vowed to observe the Compliance Program. In February 2002, the company revised its compliance policies in line with the prerequisites set forth by the Fair Trade Commission. We made a disclosure to the Korea Stock Exchange of the fact and the CEO reiterated his commitment for voluntary compliance through e-mails and electronic bulletins to employees.

## ◀ LG Electronics' major training courses related to fair trade ▶

Program	Subprogram	Schedule
e-fair trade in action course		4-6 times a year
Procurement work related training	<ul style="list-style-type: none"> <li>• Purchase Focus course</li> <li>• Purchase college course</li> </ul>	3-4 times a year twice a year
Special training by outside lecturer	<ul style="list-style-type: none"> <li>• Company-wide training for persons in charge of purchase</li> <li>• Company-wide training for persons in charge of promotions</li> </ul>	once a year
Training to prevent unfair collective actions	<ul style="list-style-type: none"> <li>• Training to prevent improper collective action by marketing personnel</li> </ul>	irregular
Training to prevent insider trading		irregular

**Analysis & consulting**

In order to prevent unfair transactions by raising employee awareness and rectifying problems, we conduct regular analysis by business function more than once a year. Moreover, we provide consultancy on various questions put forth by related departments to facilitate implementation of a voluntary and proactive fair trade culture.

- Regular analysis conducted by business area
  - Analysis and evaluation of contractors (for purchase departments of business units)
  - Analysis and evaluation related to marketing (for departments of Korea Marketing division)
  - Analysis and evaluation on insider trading (for finance department)

**[2005 Results]**

- Analysis of transactions with contractors: 4 times
- Consulting: We offer consultation via the bureau of compliance committee (transparent culture group) regarding various questions raised by related departments on the Fair Trade Act. All contracts undergo separate reviews on whether they violate the Fair Trade Act conducted by the bureau and legal team before they are signed. For media advertisements, the company regulation stipulates they may not be executed without prior review by the bureau on whether they violate the Labeling and Advertising Act.

**[Consulting]**

- When implementing policies related to finance/ marketing/ purchase
- When drawing up various contracts (provisions), regulations and guidelines
- When carrying out corporate marriages such as business transfer and stock acquisition
- When executing signage and other advertisements
- When signing contracts

**Regulation on disciplinary action against employees violating Fair Trade Act**

In January 2002, we established disciplinary regulations for employees who violate the Fair Trade Act or are involved in actions in which the Fair Trade Commission has identified as being in violation of the Act. Wrongdoers are subject to penalties as decided by the Personnel Disciplinary Committee.

**Reporting Compliance Program status to BOD**

For effective operation of the Compliance Program, we ensure that our Board of Directors is fully informed on the company's compliance training, analysis and other key matters. The briefing is carried out at least twice a year.

**Establish document management system**

All materials and documents generated while running the Compliance Program such as the CEO's declaration, compliance manual and other training, analysis and consulting materials fall under the responsibility of the compliance manager. They are stored and managed by the transparent culture group which serves as the bureau of compliance committee.



Fair trade education

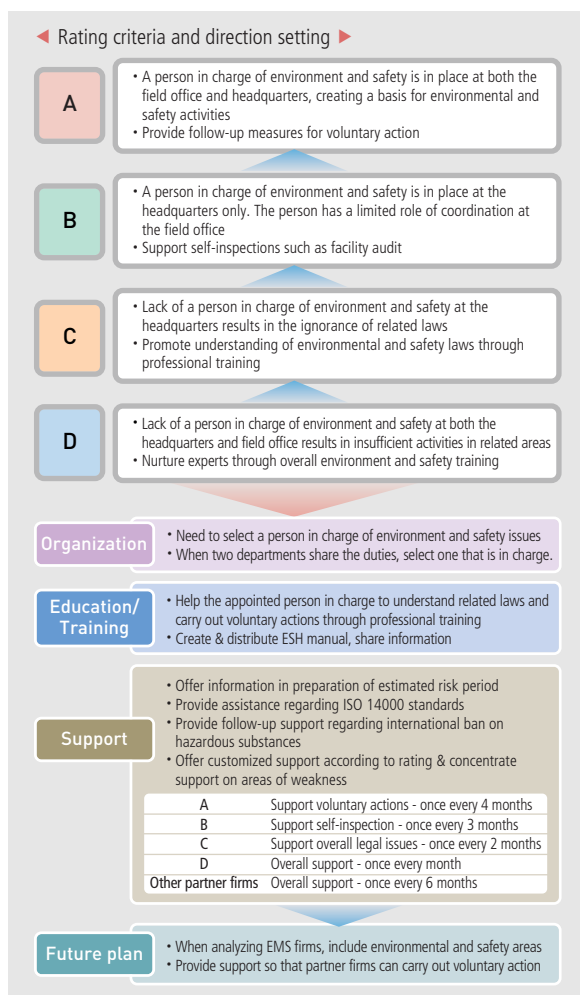


## SUPPORTING OUR BUSINESS PARTNERS

LG Electronics has in place a support group for its business partners in each of the company's business areas. Considering the nature of the electronics business, assistance is provided in areas such as environmental regulations. We also help our partner firms raise their awareness of ESH (environment, safety and health) and fire safety. Based on company-wide guidelines, each department of the four divisions offers insight in the pertinent areas directly to partner firms.

### Environment, Safety and Health (ESH) support

The DA division classifies the level of partner firms' ESH performance into four grades from A to D. Based on the classification, the division selects areas that require concentrated support by dividing partner firms into four groups according to their business. The four groups are electro circuit system, sheet metal, injection and cutting tools/others. The areas for concentrated support are divided into five categories of general, environment, safety, fire safety and health. LG Electronics maps out a support plan according to the partner firm's management level in each of these areas.



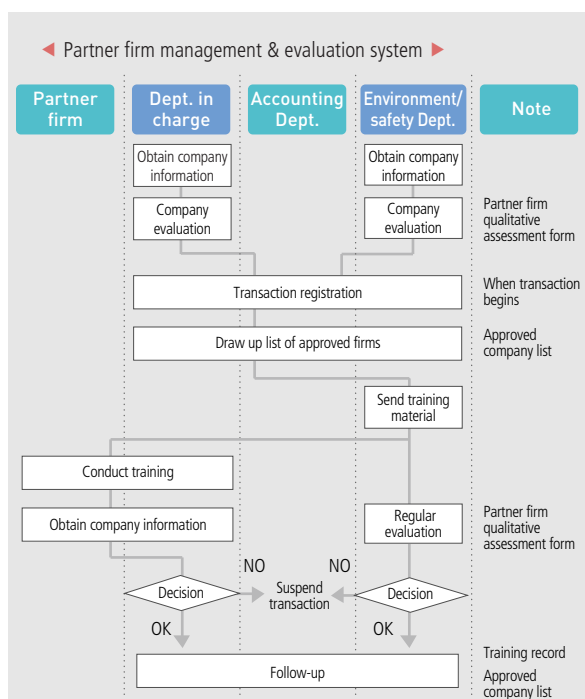
### Management & evaluation

When starting new business transactions with potential partner firms (e.g., in-house service providers/contractors, purchase/material firms, waste treatment companies and facility firms), we first analyze the given information on these companies and evaluate their level of performance in areas including operations, quality management, cost management, delivery date management, financial structure, environment and safety. The assessment results are used as the basis for determining whether to start business with these companies following review by the Fostering Committee.

#### ◀ Supervising departments by function ▶

Supervising department	Target of supervision
Manufacturing technology department	Facility firms doing business with each business division
Purchase/material department	Supply of parts & materials for production of goods
Environment/safety department	Contracts with waste treatment companies
Administrative department	Contracts with in-house service providers/contractors, coating firms
Facility technology department	Work related to facility, construction, central air conditioning, and facility installation at all divisions
Logistics department	Contracts with logistics firms for product transportation
Emergency planning department	Training on security, environment and safety for outside visitors to business sites
Production/HR department	Contracts with each business division's production service providers/personnel agencies

The following diagram illustrates the general work process related to the selection of partner firms, subsequent registration of business transactions, training, evaluation, decision to continue business and follow-up.



### ESH activities

The DA division organized an ESH team under the Purchase Strategy department in 2004 and has been conducting a comprehensive training program for major partner firms (112 EMS and partner firms, key overseas partner firms). These regular training sessions are geared towards improving our partner firms' ESH performance level. The ESH team visits the partner firms for the training. The frequency of visits is between once a quarter and once every half a year depending on the assessment of the partner firm's ESH level. We seek solutions to identified problems during meetings with a company head when providing on-site assistance.

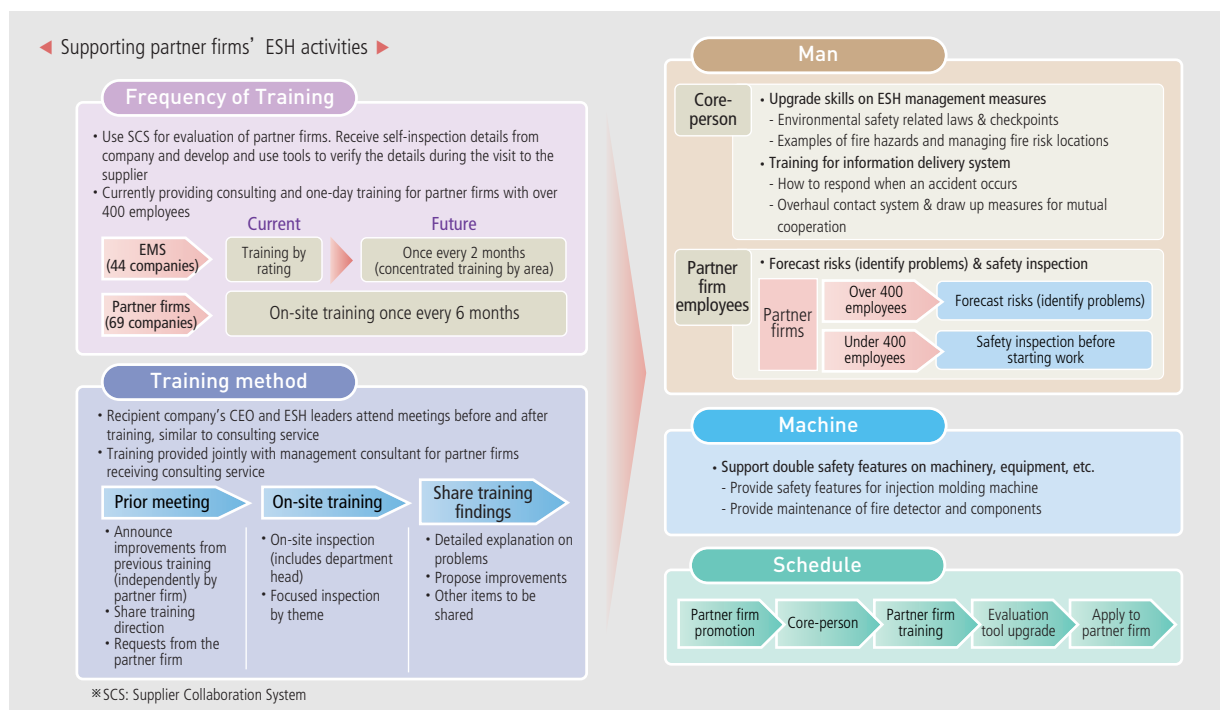
LG Electronics is also encouraging each partner firm to appoint an ESH core-person to carry out related tasks. The core-person plays a pivotal role as a communication channel between LG Electronics and the partner firm in resolving environmental and safety issues.

In order to improve environmental and safety management capabilities, we conduct regular evaluations and provide ESH related consulting. The

evaluation outcome is used as a part of our purchase assessment data (SM assessment & EMS assessment) on partner firms. This means that LG Electronics' assessment is a systematic process that not only assesses a partner firm's quality, productivity and price but also its ESH practices.

We also foster abilities of ESH core-persons through regular ESH training opportunities and by allowing access to LG Electronics' weekly ESH training material. In accordance to our annual plan regarding seasonal issues and problems, ESH core-persons receive relevant information and support from LG Electronics that enable them to come up with appropriate solutions. In particular, we employ the ESH core-person communication channel to facilitate quick response in times of natural disasters (typhoon or heavy snow).

Meanwhile, we are working with the overseas partner firm support department to provide regular support in improving our international suppliers' ESH practices. Our primary focus is on helping China after which we plan to expand assistance to all other global locations.



Training for partner firm ESH core-person on preventing accidents

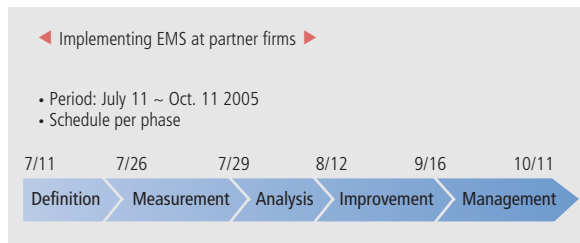


Stretching exercise at a partner firm to prevent muscle and joint injuries

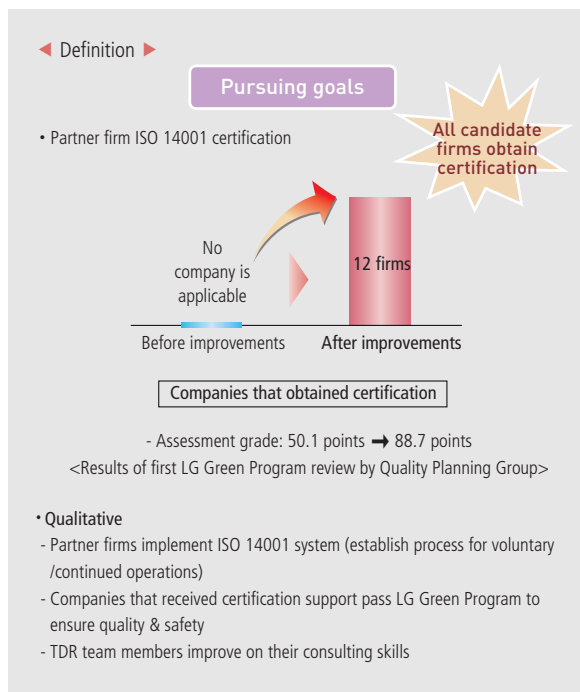


### Supporting implementation of EMS (ISO 14001)

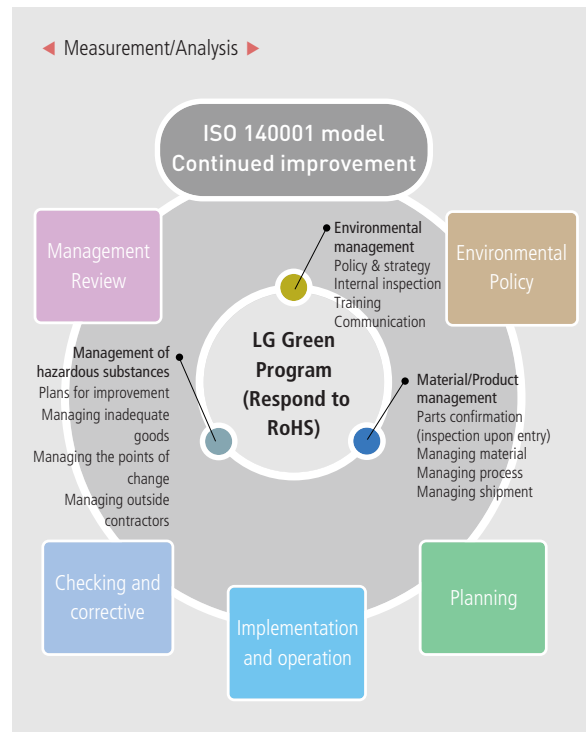
Since 2004, the DA division has been mobilizing a team within the Purchase Strategy department to support partner firms' implementation of environmental management system. The unit assisted 12 firms in 2004 and 18 in 2005 in their efforts to set up a framework to respond to RoHS (Restriction of Hazardous Substances), which regulates the use of certain hazardous substances in electrical and electronic equipment. The DM and MC divisions also recognized the importance of improving partner firms' level of environmental practices from the standpoint of source control. From July to October 2005, the two divisions established a schedule to pursue related tasks by phases and provide systematic assistance to partner firms so they can obtain environmental management certification.



[ 1st phase: Definition ] In this phase, we decided on specific goals to pursue and the operation period by assessing the conditions of partner firms.



[ 2nd phase: Measurement/Analysis ] We identified what is needed to implement the environmental management system at our partner firms via brainstorming. Based on these findings, we selected detailed tasks. In order to provide a model that is most appropriate to each partner firm in responding to RoHS directives, we compared key requirements and the model structure of the existing ISO 14001 standards and LG Green Program, LG Electronics' in-house compliance guidelines. The comparison was aimed at confirming appropriateness of the set goals and enabling continued improvements.





[ 3rd Phase: Improvements ] The following table depicts progress in major activities per action item.

◀ Key improvement activities ▶

Action Item	Major activities	Schedule			Note
		July	August	September	
Upgrade skill /training for persons in charge	<ul style="list-style-type: none"> <li>• Environmental trend/requirements explanation</li> <li>• Environmental impact evaluation method</li> <li>• Eco-friendly certification system explanation, action items by C/L</li> <li>• Skill-up training to foster internal inspectors</li> </ul>	→	→		• Complete training (5 courses)
Conduct environmental management evaluation and implement process	<ul style="list-style-type: none"> <li>• Analyze/ assess environmental factors by process</li> <li>• Establish/implement goals through evaluation findings</li> <li>• 1st visit: Evaluate environmental impact/ Set up standards</li> </ul>	→	→	→	<ul style="list-style-type: none"> <li>• Conduct environmental impact evaluation (12 firms)</li> <li>• Implement process</li> </ul>
Establish items (20 items per company)	<ul style="list-style-type: none"> <li>• Establish and carry out action item criteria under ISO 14001 standards requirement</li> <li>• Operate by action item criteria</li> </ul>	→	→	→	• Complete standard establishment (12 firms)
Internal inspection	<ul style="list-style-type: none"> <li>• Implement internal inspection process</li> <li>• Carry out internal inspection/ review management/ improvements</li> <li>• 2nd visit: Establish standards and provide guidance on insufficiencies</li> </ul>	→	→	→	• Carry out internal inspection (12 firms)
Hazardous substance oversight process	<ul style="list-style-type: none"> <li>• Identify oversight status/ analyze check list</li> <li>• Establish and execute process</li> </ul>		→	→	• Establish process for hazardous substance oversight
LG certification review ISO 14001 certification review	<ul style="list-style-type: none"> <li>• 3rd visit: Additional individual instruction for weak companies</li> <li>• LGE certification review by LGE quality planning</li> <li>• Certification review by ISO 14001 certification agency</li> </ul>		→	→	

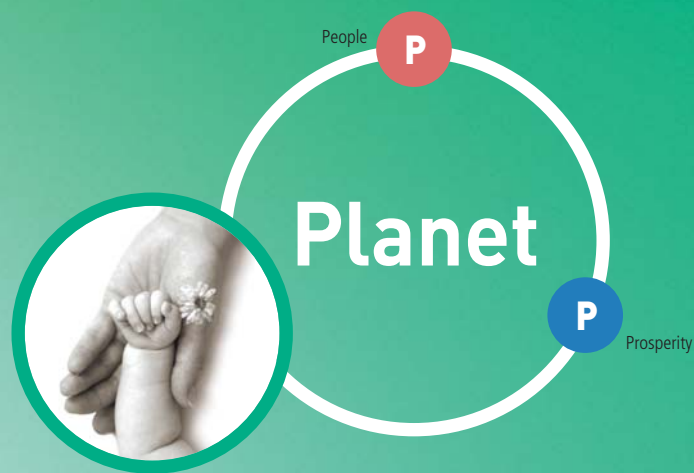
[ 4th phase: Management & future plan ] We plan to carry out such tasks as follow-up, quarterly training and provision of environmental information after upgrading the environmental management system of our partner firms for continued improvements. Also, LG Electronics plans to provide its expertise in operational management after reviewing the instruction details for partner firm inspection and inappropriate action items to be employed on the field. The following table illustrates the key contents.

◀ Follow-up activities ▶

Action Item	Major activities	Schedule	Note
ISO 14001 follow-up	<ul style="list-style-type: none"> <li>• Confirm operation of EMS</li> <li>- Carry out internal audit and support improvements</li> <li>- Confirm improvements from follow-up review, preliminary inspection and review findings</li> <li>- Rationalize application of management standards (hazardous substance management, etc.)</li> </ul>	Audit schedule for follow-up oversight	<ul style="list-style-type: none"> <li>• Certification agency's follow-up audit (once/year)</li> <li>• Support preliminary/follow-up inspections</li> </ul>
Conduct environmental training	<ul style="list-style-type: none"> <li>• Carry out action item training for ISO 14001</li> <li>- Training to strengthen capability of person in charge of environment/ improve self-inspection skills</li> <li>- Improve execution capability of environmental impact evaluation and hazardous substance management</li> <li>• RoHS/WEEE information training</li> <li>• Share best practices of other companies</li> </ul>	Once/quarter	• Group training and training tour
Provide information regarding environmental, safety trend and related laws/ regulations	<ul style="list-style-type: none"> <li>• Provide information on EESH (domestic and overseas related laws)</li> <li>- Mailing EESH Information (Hot Issue)</li> <li>• Information on latest trends in ISO14001 certification</li> <li>• Distribute information on buyer (LG Electronics) response/policies regarding environmental regulations</li> </ul>	Once/month	• Mailing In-house EESH bulletin



**Promise<sup>3</sup>**



## A beautiful future for generations to come...

Caring for the planet is an inherent corporate responsibility. As a global environmental leader, LG Electronics faithfully carries out its duties to preserve our precious planet. Our environmental awareness is evident in all of our products and processes.

We are committed to doing all we can to pass on a safe and pleasant world to future generations.

# ENVIRONMENTAL MANAGEMENT SYSTEM

Since proclaiming the 'LG Declaration for a Cleaner Environment' in 1994, LG Electronics has been carrying out various activities under its long-term strategy for environmental management and creation of eco-friendly products.

## ENVIRONMENT AND SAFETY VISION

### ■ Environment and Safety Vision

LG Electronics strives to continuously innovate technologies and conduct R&D to ensure sustainable development and improve quality of life. These continuous efforts are aimed at providing the best service to customers and handing over a safe and pleasant environment to generations to come.

### ■ Environment and Safety Declaration

- LG Electronics, embracing Management by Principle, has been endeavoring to minimize environmental pollution and safety-related accidents in the workplace created in the process of carrying out business activities, and furthermore to keep the natural environment clean and protect people's health. However, the ever-increasing issues related to the environment, safety and health require corporations to act out their social roles positively and proactively, and provide an opportunity to create new product values.
  - Thus, LG Electronics seeks to improve the environment, safety and health through its accumulated experience and innovative technological development, cooperate closely with communities, and ensure wholesome and sustainable development for the whole world.
  - All of the executives and employees are aware that these efforts are the foundation to realizing a superior LG, and vow to fulfill their respective responsibilities with full dedication and integrity.
- I. LG thinks first of the environment, safety and health in all stages of its management activities, and takes such occasions as opportunities to create customer value.
  - II. LG establishes and thoroughly observes strict criteria based on environment, safety and health-related laws and regulations of regions and nations where it operates.
  - III. LG regularly assesses the results of its activities relating to environmental, safety and health issues, and subsequently publicizes the results.
  - IV. All executives and employees at LG are deeply aware of their social responsibilities for conserving the environment, and positively participate in communities' environment conservation efforts.

### ■ Environment and Safety Policy

- LG Electronics, mindful of the importance of conserving the global environment and maintaining a safe and pleasant working environment, conducts all management activities and directs its executives and employees to strive to promote environmental conservation, safety activities, and health improvement, in carrying out their respective duties.
- I. We uphold the environment, safety and health as essential elements of all decision-making processes. We put the environment and safety first in launching a new business.
  - II. We embrace environment, safety and health criteria on the basis of international treaties and national laws, spontaneously observe these criteria, and consequently, continue to improve environment and safety management criteria.
  - III. We let the public know the results of all our environment, safety and health activities through the media, thus pursuing transparent management in relation to environment, safety and health.
  - IV. We, all executives and employees, shall voluntarily participate in efforts to conserve and recycle resources, remove elements that pose risks to the environment, and improve individuals' health, in conducting all management activities.
  - V. We evaluate in all stages ranging from planning to disposal, to proactively develop environment-friendly products.
  - VI. We continuously develop technologies and techniques relating to environment, safety and health, to keep all work processes and equipment environment-friendly and safe.
  - VII. We step up mutual understanding and cooperation with the communities regarding environment, safety and health, and expand international cooperation and exchanges.

## ENVIRONMENT AND SAFETY STRATEGY

LG Electronics has defined its medium- and long-term strategy to pursue environmental management and environment-friendly product-related activities more systematically. This strategy eventually aims at the completion of CSM and has been executed as environment-related activities among all our business activities. Through three strategic structures beginning from 2001, LG Electronics has extended its environmental management to CSM level.

Environmental management beginning from 2001 extended its category to EESH (Energy, Environment, Safety and Health) management, after reflecting the new business atmosphere in 2004. Furthermore, it was integrated into the CSM category in 2005.

### ◀ EESH Direction ▶

#### Category 1

- Enhancing corporate value through preparatory measures on regulations

Taking preparatory measures on tightening domestic and overseas regulations based on our capability relating to the work environment, safety and health. Holding a dominant position in the industry and enhancing corporate value through the implementation of the measures.

#### Category 2

- Maximizing organizational capability
- Improving performance indicators
- Positioning as a leading global company

Strengthening organizational capability, system, and the company's position into the global top-3.

#### Category 3

- Expanding our internal management system

Expanding our internal management system to our overseas workplaces and business partners based on our managerial strength. Enhancing corporate value through management of non-financial risk

LG Electronics has defined its medium- and long-term EESH strategy as follows:

### ◀ Three phases for environmental management ▶

2001 ~ 2003

EESH Management

Separate management of environment, safety and health activities

Existing individual activities and measures are combined into long-term strategy

2003 ~ 2005

Shift from EESH Management to CSM

Combining individual activities into an EESH system and introducing sustainable development concept as a key management strategy

Infrastructure is set up; organization is reshuffled; environmental activities are combined with social responsibility activities

2005 ~

CSM

Stabilize CSM to be a global leader in social responsibility and environmental activities

Global leadership is secured through CSM

Mid- to long-term action plans for the environmental management strategy and environment friendly products strategy currently carried out at LG Electronics include integrated EESH activities and CSM activities.



Clean workplaces





[ **Environment/ Energy** ] To address heightened control on the total amount of pollutants released in air and water, LG Electronics has been strengthening various measures to respond to new regulations since 2004. This proactive stance to head off potential problems that may arise from new regulations has always been one of LG Electronics' basic management principles. We are placing an added emphasis on proactive action in the wake of recent moves toward toughening environmental regulations both at home and abroad. In the same light, we are pursuing an electronic waste recovery and recycling program to respond to extended producer responsibility (EPR).

We also plan to take step-by-step actions beginning with building our Greenhouse Gas Emission Inventory after the year 2006 to meet the challenges of climate change agreement (Kyoto Protocol) which recently went into effect. On top of our existing activities, our focus will be on increasing clean production through development of eco-friendly products, introducing environmental accounting for effective environmental management, and carrying out green marketing to improve corporate value.

[ **Safety and health** ] LG Electronics organized a task force to build a disaster prevention system. Specific actions including a musculoskeletal disease prevention program have been taken by the task force from early 2005.

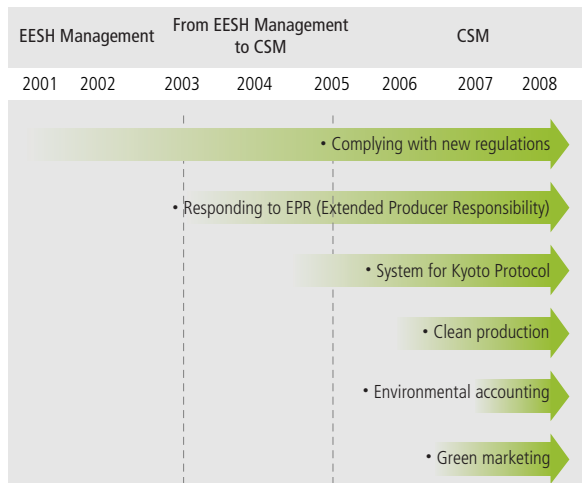
Industrial safety and health were included in the mid- to long-term activities since we needed an integrated strategy in the process of expanding from environmental management to CSM.

In addition, measures to restrict the use of hazardous substances have been carried out from late 2005 as part of our eco-products strategy in the wake of strengthening global regulations on hazardous substances. Each production site manages hazardous substances to prevent accidents.

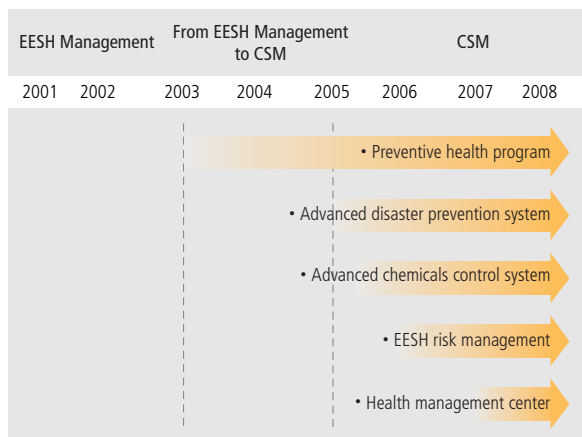
[ **Integration** ] Since 2000, we have been committed to securing experts in environmental and safety areas and improving their capabilities. Moreover, the leadership made the decision to foster a committee whose main activity is to pursue company-wide sustainable growth.

Our other initiatives include implementing an environmental performance evaluation system, promoting the use of an information system and managing an eco-friendly/society-friendly supply chain. This sustainability report has been compiled upon our achievements in these areas. In 2006, we have been placing greater emphasis on sustainability by taking actions aimed at making a positive difference. It is also our aim to improve the ESH performance level at all our local and global business sites.

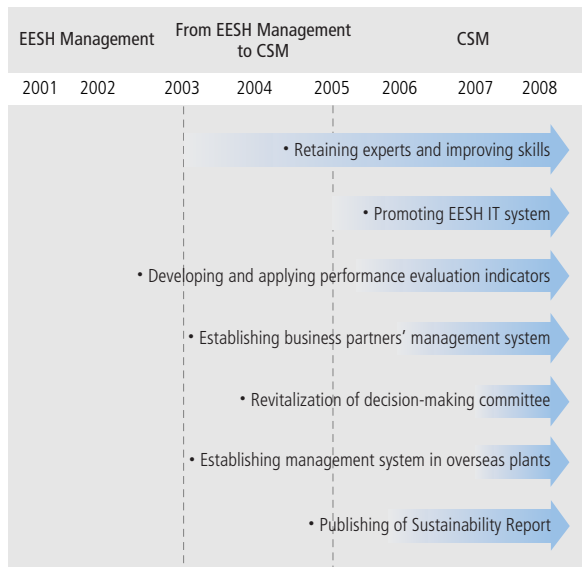
◀ Environment and energy tasks ▶



◀ Safety and health tasks ▶



◀ Integration tasks ▶



## EESH SYSTEM

### Organization for environmental management

#### [ Environmental Management Committee/Eco-Design Committee ]

Founded in 1992 and composed of top management members, the Environmental Committee (currently Environmental Management Committee) of LG Electronics discusses and determines environmental targets and policies in consideration of the whole life cycle of products, from design to management, distribution, and disposal. With the increasing demand for environmentally-friendly products, the Environmental Technology Committee composed of top research and development people, was separately organized. In January 2006, LG Electronics once again expanded and reshuffled the Environmental Technology Committee and newly founded the Eco-Design Committee. The Committee specializes in the design of eco-products and development of production technologies and their application.

#### [ Environmental Management Committee ]

- Determines company's environmental management policy, strategy and targets
- Administers periodical monitoring for planning and implementation of core projects
- Performs regular audits for environmental management regulation compliance

#### [ Eco-Design Committee ]

- Judges and executes the company-wide eco-design strategy
- Promotes eco-design activities in product development procedures
- Supports the development of new environmental technology and propagates it

### Internal auditing system

#### [Environmental audit and assessment]

To achieve sustainable improvement in environment, safety and health performances and reduce the EESH-related risks, LG Electronics has developed and implemented the EESH management system based on the ISO 14001 standard since 1995, and utilized OHSAS 18001 since 1999. According to the procedures required by these standards, each division (MC, DA, DD, and DM) implements an internal audit once a year. In addition, the company identifies any potential risk to be corrected through cross checks if necessary.

Moreover, company-wide assessment on EESH of workplaces both in Korea and overseas is conducted based on performance indicators. The results are reflected in the record of auditees to make further improvements.

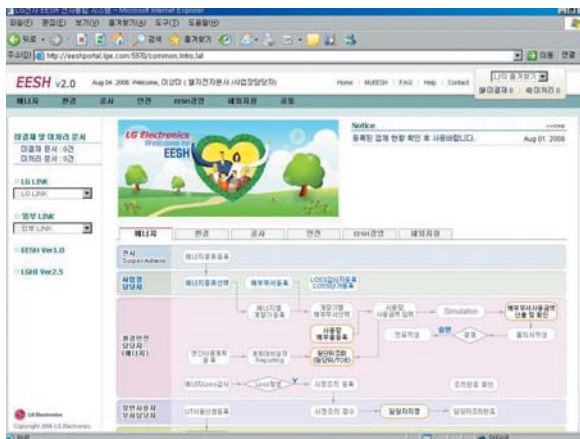
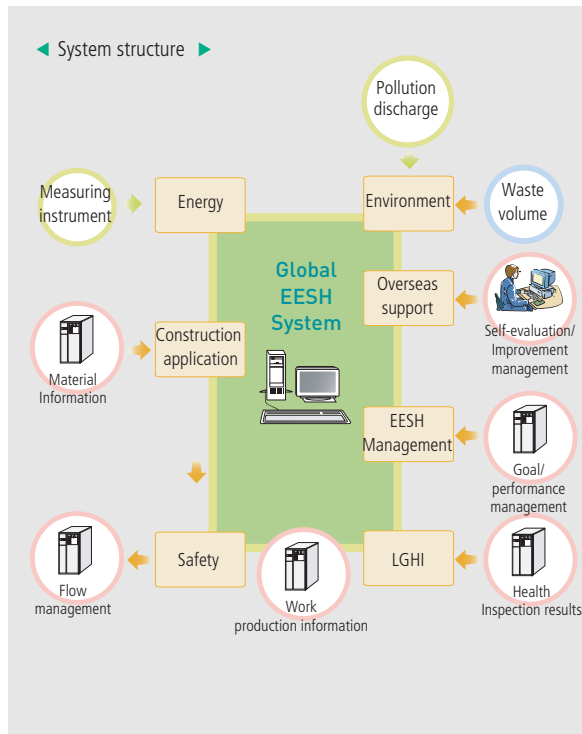
#### ◀ EESH auditing and assessment ▶

Type		Times/Year	Details
Follow-up audit		1	Certification maintenance audits by ISO 14001/OHSAS 18001 certification bodies
Internal audit	Headquarters	1	Internal audit of each division by headquarters
	Division	1	Internal audit of each plant by division
Cross Check		As needed	Cross check
EESH assessment		1	EESH performance assessment and rewards



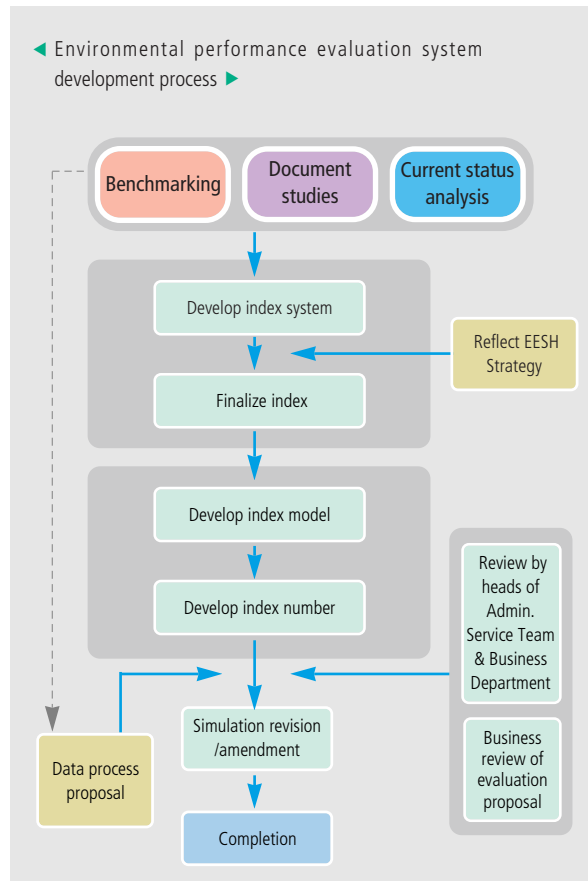
## EESH IT System

LG Electronics' implementation of the EESH IT System is aimed at improving cost efficiency by eliminating the source of waste that arises from off-line work and supporting business activities through index management. The system is comprised of six modules (energy, environment, construction, safety, EESH management, overseas support). Each module compiles EESH performance data which is used as a valuable resource in company operations.



## Environmental performance evaluation

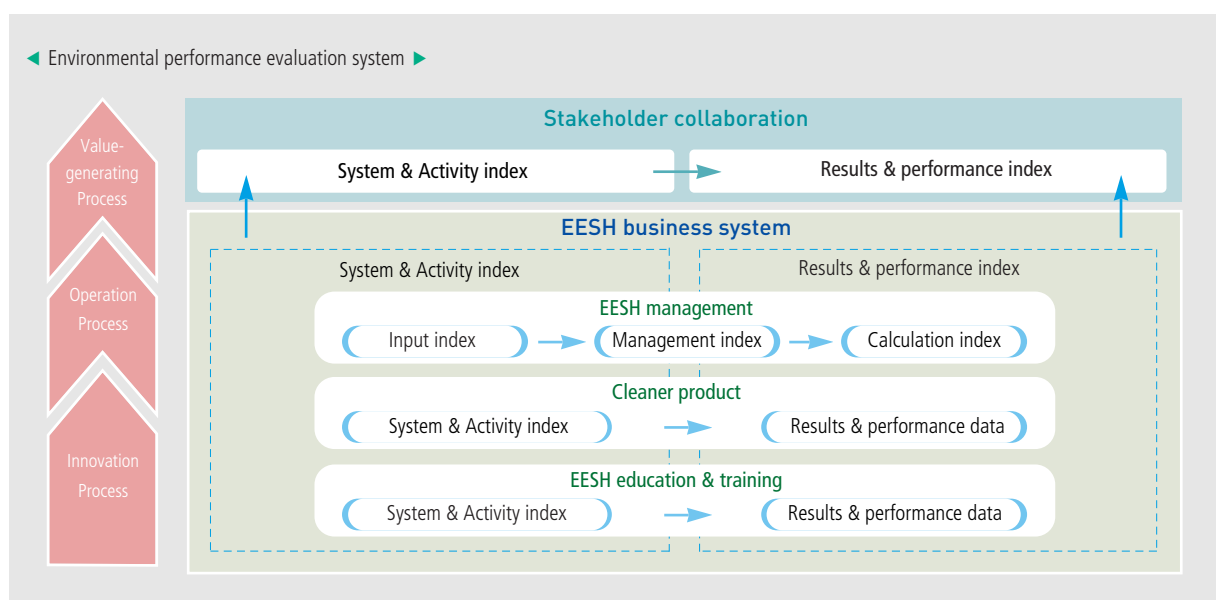
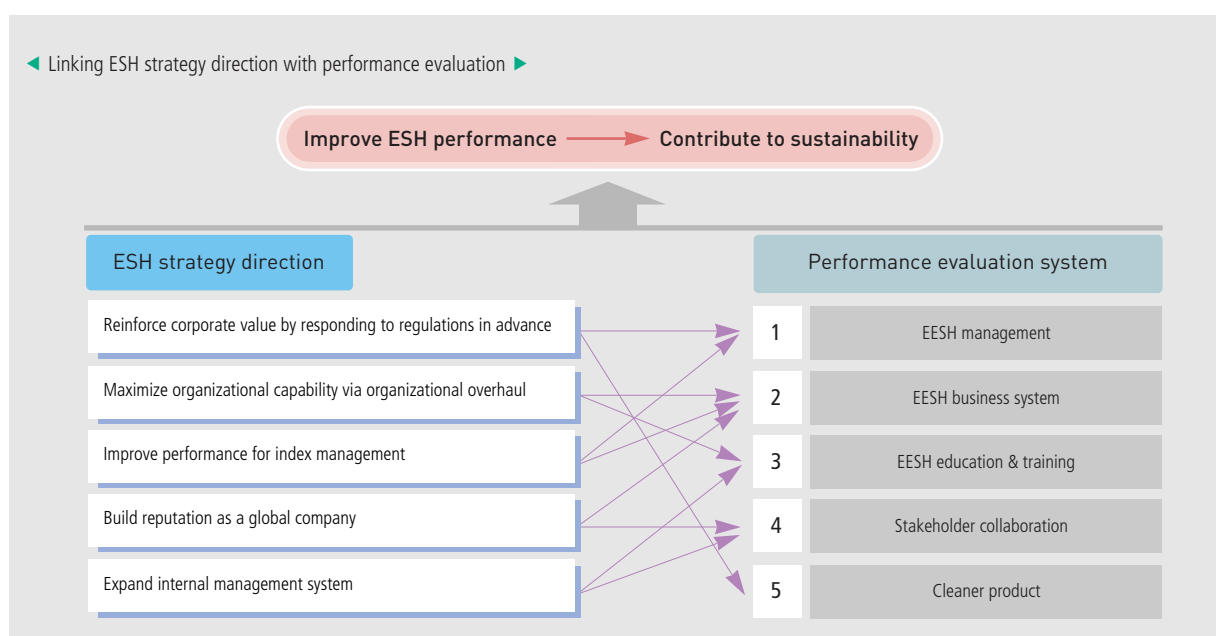
In 2005, LG Electronics launched the Environmental Performance Evaluation System to ensure systematic management of environmental activities and to raise overall performance levels. The system is designed to oversee not only the environmental aspect but safety and health related activities as well.



As illustrated in the above diagram, such means as benchmarking and analysis of current status were employed to develop an index system and set up individual indices that best manage the company's ESH activities. Subsequently, the index model and index numbers, which are methods for describing the completed index, were determined. The process underwent several revisions at the workshops for the company's environment and safety group as well as those responsible for ESH at each division and business unit level. Their opinions and business conditions were taken into account in drawing up the final environmental performance evaluation system.

The basic framework of our performance evaluation system has a direct connection to our environmental management strategy. As depicted in the below diagram, our strategy direction and the structure of performance evaluation system are organically interrelated. They facilitate the management of each index while at the same time help attain strategic goals. The structure is designed not only to improve EESH performance but to ultimately contribute to the company's sustainable development. The system's five elements were built upon the BSC (Balanced Scorecard) concept which enables a company to clarify its vision and strategy and translate them into action. The system entails an interconnected, step-by-step process that enhances products' environmental soundness and management

activities through employee training. It also improves the internal work process and actively communicates results to the stakeholders. Although we have yet to devise the index system that includes the financial aspect, we plan to complement the system so that it encompasses such factors as stakeholder collaboration and financial results. The entire index is comprised of 18 items that act as the basis for measuring the level of environmental performance at the company level. This is used as the criteria to measure the level of EESH management activities at the division, business unit and workplace level. Using a baseline of 100 for the year 2005, the system will calculate results starting in 2006.



◀ EESH management activity index ▶

Category	Serial No.	Index name
Input index	1	Amount of chemical material used
	2	Amount of energy used
Management index	3	FSI: Frequency Severity Index
	4	Health index (currently includes suspected health hazards only)
	5	Fire risk assessment
Calculation index	6	Amount of greenhouse gas emission
	7	Amount of pollutant release-air
		Amount of pollutant release-water
		Amount of pollutant release-waste

◀ EESH business system index ▶

Category	Serial No.	Index name
System & Activity index	8	Planning & system
	9	EESH cost
	10	Environmental, safety risk control

◀ EESH education/training index ▶

Category	Serial No.	Index name
System & Activity index	11	Organization & personnel
Results & Performance index	12	EESH training results
	13	Fire drill

◀ Cleaner product index ▶

Category	Serial No.	Index name
System & Activity index	14	Report publication
Results & Performance index	15	Results of local community, environment, safety related activities

◀ Stakeholder collaboration index ▶

Category	Serial No.	Index name
System & Activity index	16	Attainment rate of EPR objectives
Results & Performance index	17	Development of eco-friendly products
	18	Amount of packaging material used

## EESH risk management

In order to remove risks and uncertainties from business activities, effectively recover from any emergency, and to minimize loss, LG Electronics has defined a multi-step action plan and has conducted response drills for possible emergency situations.

Quick communication of an emergency or accident should be ensured to protect employees' safety and health. For fire accidents, training and drills are repeatedly carried out to make sure the initial response is taken within two minutes.

Storm and flood damages are likely to occur in summer. The impact of a natural disaster depends on how well we are prepared for it. LG Electronics proactively checks facilities for any risk and hazard to prepare for storms and flood. We also have strengthened the risk management system by developing and using an emergency response scenario.

In order to minimize the influence of an emergency or accident in our workplaces on the communities, LG Electronics works together with external organizations through close communication on the situation. We prevent the spread of an incident's impacts and control the access of local residents.

When an emergency strikes in the community and help is called for, fire trucks and in-house fire brigades are immediately dispatched to control the emergency in its early stages and to help rescue and recovery.

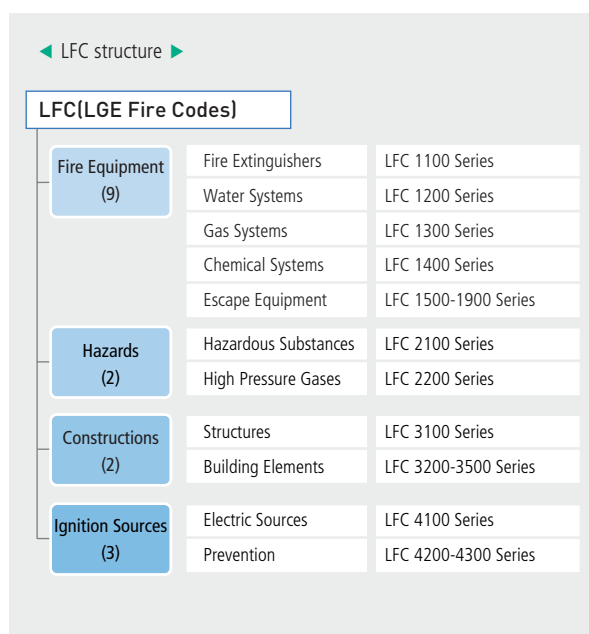
[ [Advanced Disaster Prevention System](#) ] Each workplace at LG Electronics operates a disaster prevention center, which suppresses fire at its early stage, monitors and removes fire hazards, and inspects fire fighting equipment.

The centers have fire trucks and well-trained professional staffs. Training and drills are regularly held to minimize the losses from fires as well as natural disasters such as typhoon and floods.

LG Electronics has not only complied with local fire laws but also applied LG Electronics Fire Codes (LFC), which was developed by adapting international fire standards such as National Fire Codes and Factory Mutual, for LG Electronics' sites.

LFC stipulates the installation of fire safety equipment including sprinklers at the level of advanced countries so that fire prevention and control can be achieved more consistently and systematically. We applied the codes to every workplace in Korea and those overseas. English version and Chinese version have been distributed to this end.





LFC mandates the installation and maintenance of fire safety equipment such as sprinklers to satisfy international fire standards. The regulation is aimed at reducing fire risks and carrying out fire prevention and control in a more systematic and effective manner. The LFC is translated into English and Chinese and are applied at all LG Electronics sites worldwide.

Under the LFC, new and renovated LG sites are required to be equipped with the automatic fire sprinkler system. The existing buildings are also installing firefighting equipment, going beyond the requirement stipulated in the domestic law. We have invested more than KRW10 billion in sprinkler system installation in our major buildings since 2003.

[ Assessment of risk management at workplaces ] All workplaces of LG Electronics are regularly assessed for their performance of EESH as well as disaster prevention. For this, self-assessment is carried out and close assessments are made by internal and/or external experts. The results of the assessments are used as basic data for various activities to enhance the safety level in workplaces.

In particular, they are used to determine the fire insurance premium, thus linking the EESH management with economic effects. Sites having good EESH performance spend less in terms of insurance premium, and the saving is reinvested in EESH activities.

[ Introduction of advanced fire control technologies ] Fire equipment in new or expanded buildings or structures is installed in accordance with LFC and international standards. In addition, aggressive investment has been made in advanced technologies for safety management. These technologies are not just introduced as they are, but properly modified for our workplaces to ensure their availability and effectiveness.

Where normal fire control technologies are not effective due to abnormally high fire risk or special processes, Performance Based Design (PBD) is applied to prevent accidents and to minimize the damage even in case of accident. In PBD, fire modeling and escape simulations are made to improve fire equipment and fire control measures.

When designing a sprinkler system, for example, the fire modeling is carried out to determine the distribution of heads and the discharge per head optimizing the sprinkler system for the place where it will be used. In addition, the escape simulation is used for building design to minimize the injury of employees.



Fire drill



Fire drill



Fire safety training



Evacuation simulation

# ENVIRONMENT-FRIENDLY PRODUCTS

LG Electronics is taking steps to reduce the use of hazardous substances, raise energy efficiency, and promote recycling to provide environment-friendly products for our customers.

## STRATEGY FOR DEVELOPMENT OF ECO-FRIENDLY PRODUCTS

In line with the global trend to develop eco-friendly products to meet a range of environmental challenges and secure advanced production technology, LG Electronics has finalized the development strategy with the following goals: ban the use of hazardous substances in products, adopt lead-free technology in all products and improve the recycling rate.



LG Electronics not only uses stricter guidelines for hazardous materials than those established by the EU, but also prohibits all of its suppliers from using hazardous substances in their products, such as raw materials, packaging materials, batteries, and so on. Starting with the inspection of components on delivery, LG Electronics makes every effort throughout the entire manufacturing process to verify that its final products are free of hazardous substances and do not harm people or the environment. Following are the substances prohibited to use.

### ◀ List of Level A-I substances (The six hazardous substances specified in RoHS) ▶

Classification	Substance
Heavy metals	Lead and its compounds
	Cadmium and its compounds
	Mercury and its compounds
	Hexavalent chromium and its compounds
Brominated flame retardants	PBB (Polybrominated biphenyls)
	PBDE (Polybrominated diphenyl ethers)

### ◀ List of Level A-II substances (Restricted substances in accordance with national laws and international conventions other than RoHS) ▶

Classification	Substance
Chlorinated organic compounds	Polychlorinated biphenyls (PCB)
	Polychlorinated naphthalenes (PCN)
	Polychlorinated terphenyls (PCT)
	Short-chain chlorinated paraffin (SCCP, C10~13)
Asbestos	
Specified organic tin compounds	
Formaldehydes	
Nickel and its compounds	
Arsenic and its compounds	
Specific azo compounds	
Ozone layer depleting/global warming substances	

## HAZARDOUS SUBSTANCES MANAGEMENT

### Overview

LG Electronics declared it would eliminate the six hazardous substances specified in the EU's RoHS Directive from all its products in July 2005. In order to accomplish this objective, LG Electronics established hazardous substance management standards and deployed environmentally friendly production systems. In addition, the company is well aware that joint efforts are essential. Through its Green Program, LG Electronics prohibits the use of hazardous substances in all its products including packaging materials and batteries.

## ◀ List of Level B substances (To be supervised and reduced) ▶

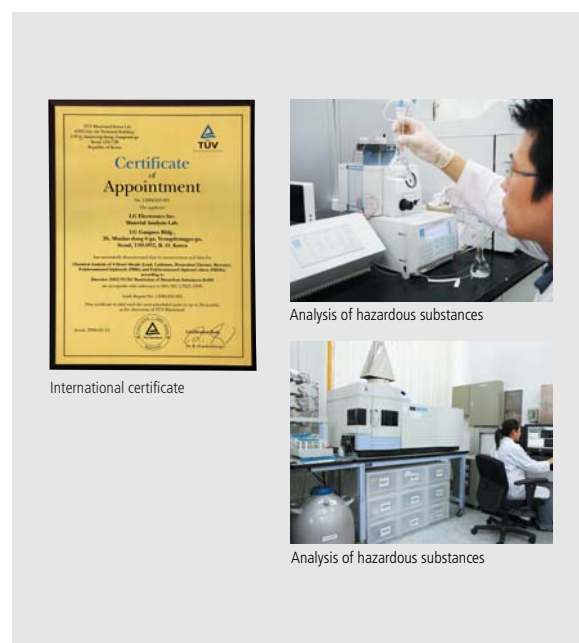
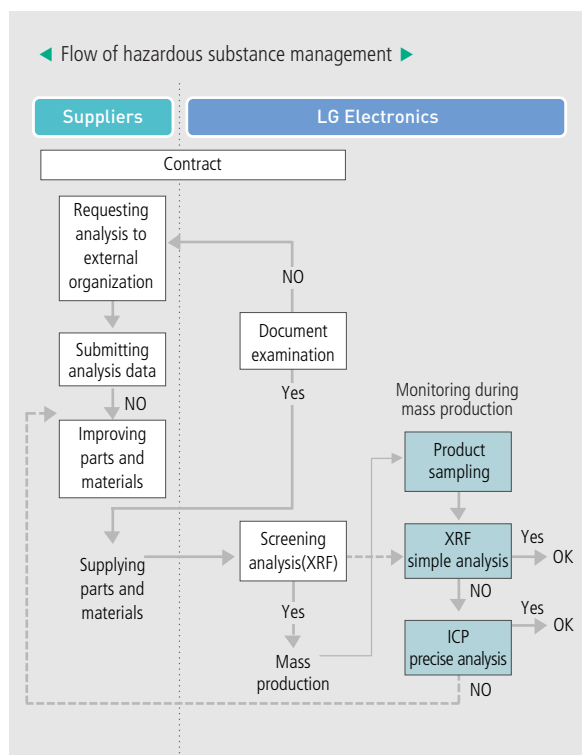
Classification	Substance
Substances to be supervised and reduced	PVC, Polyvinyl chloride
	Phthalate
	Beryllium and its compounds, Including alloy
	Antimony and its compounds, Including alloy
	Selenium and its compounds, Including alloy
	Palladium and its compounds
	Bismuth and its compounds, Including alloy
	Other chlorinated flame retardants
	Other brominated flame retardants (PBB and PBDE excluded) (Ex.: TBBP-A, etc.)

**Hazardous substance content verification system**

LG Electronics operates a hazardous substance content verification system to check if the parts and materials from outside sources contain hazardous substances. The company has installed XRF (X-ray Fluorescence) equipment in its foreign and domestic workplaces and subsidiaries to check whether or not its products or parts and materials contain hazardous substances. Parts and materials which seem to contain such substances as a result of screening analysis should be analyzed precisely in the hazardous substances analysis lab. In addition, the company monitors the products and parts that may contain hazardous substances in the mass production process whenever necessary.

**Hazardous substances analysis lab**

The Quality Management Team, located at LG Electronics' headquarters, runs a lab fully equipped with precision analysis instruments such as ICP, IC, GC-MS, FR-IR to analyze hazardous substances to accurately measure levels of hazardous substances. The team has developed and standardized methods to analyze and test hazardous substance content in products as a response to environmental regulations. The lab, certified as an official lab by the UL (Underwriters Laboratories) in February 2005 and by TÜV Rheinland in May 2006, has gained recognition for its ability to accurately analyze hazardous substances. In addition, the company participates in the assessment done by external organizations like Agency for Technology and Standards to guarantee the quality of in-house tests while it enhances the reliability of internal analyses through regular assessment of skills, education, workshops and six sigma activities.

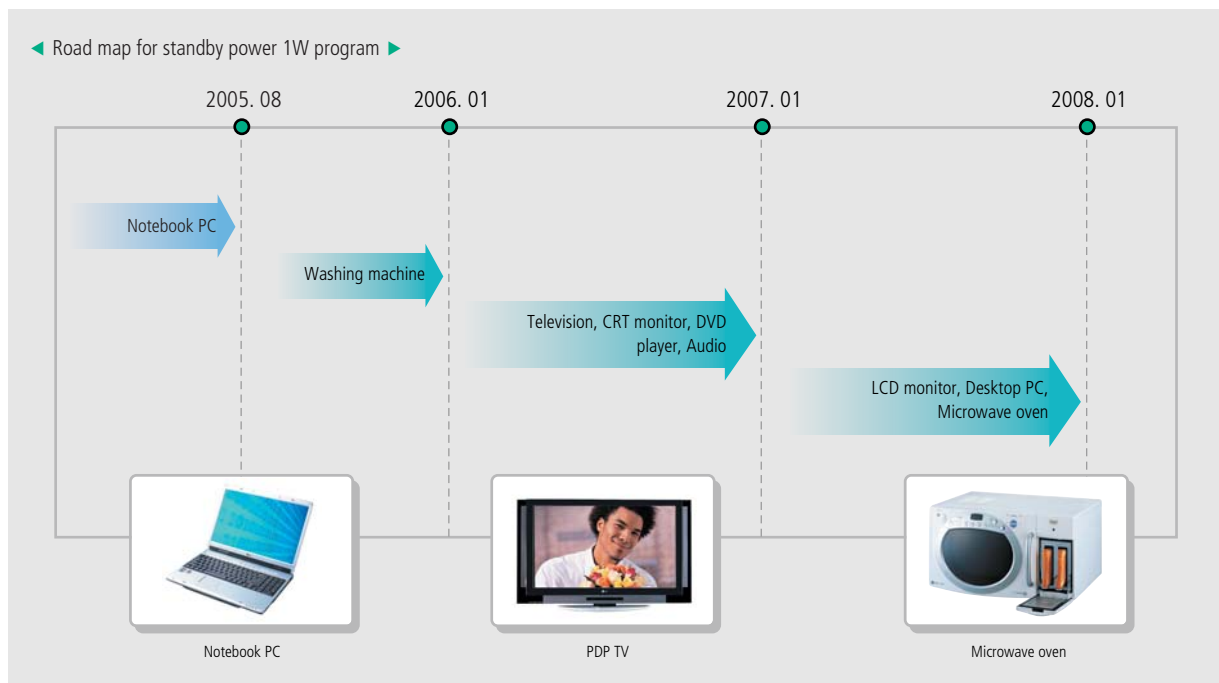


## ENERGY EFFICIENCY

It is very important to enhance energy efficiency in that it not merely leads to cost reduction but can solve environmental problems such as global warming and exhaustion of natural resources. LG Electronics designs electronics products to minimize their power consumption to not only boost energy efficiency, but also to reduce standby power which means the power consumed while an appliance is plugged in but not in use. Our plan to reduce standby power to one watt or lower has been set up since August 2005. We already designed many products which satisfy that standard. Our efforts to raise energy efficiency play an important role in improving the image of our products.

### ■ What is Energy Saving Label?

It is a voluntary agreement that encourages manufacturers to adopt a stand-by power saving mode and minimize stand-by power consumption in their products. The label assures the energy saving function of an appliance and is attached to products that satisfy government standards for high energy efficiency. The product with the label has 30 to 50 percent higher energy efficiency than other products. LG Electronics has been certified with the energy saving label for its major product categories including TVs (217 units), computers and monitors (331 units), microwave ovens (131 units), DVD players and cell phone chargers.



## IMPROVING PRODUCT RECYCLABILITY

Reusing or recycling waste products is imperative in conserving the earth's resources and minimizing electronic waste generation. The worldwide demand to reduce environmental impact is growing and to address this pressing issue, LG Electronics is continuing its research into facilitating recycling of its products.

### Eco-design that incorporates recyclability

Our approach to environmental stewardship incorporates every stage of the product life cycle, starting from product concept and design. Relying on three major design strategies to make recycling easy and efficient, our product developers use tools such as checklists and improvement guidelines to evaluate products and find ideas to make our products environmentally sound.

#### ◀ Strategies and tools for improving recyclability ▶

##### 3 major design strategy for improved product recyclability

- Design that considers easy identification of and accessibility to parts
- Design that considers easy disassembly of parts
- Design that considers reusability of materials

##### Designer tools for improved product recyclability

- Eco-friendly design guidelines for improved recyclability
- Checklists for evaluating recyclability
- Evaluation sheet on recycling rate & recovery rate

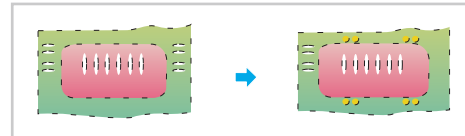
#### ◀ Design guidelines for accessibility of disassembly tools ▶

- Components that need pre-treatment before disassembly must be designed to offer better accessibility

##### ▶ Cases of improvement in accessibility



→ In order to disassemble marked component, accessibility to parts have been improved as shown in the picture on the right



• Fasteners are not visible

→ • Arrows show the locations of fasteners

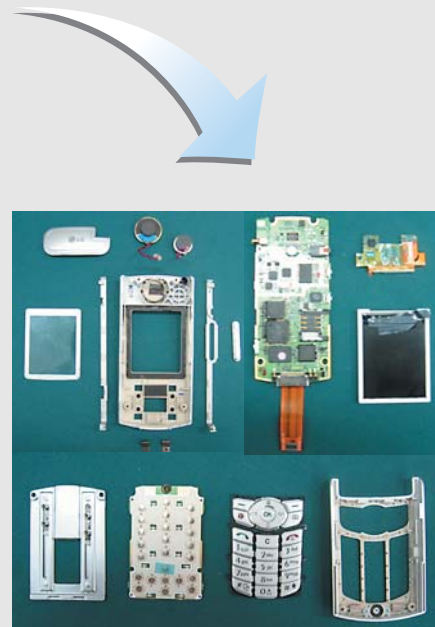
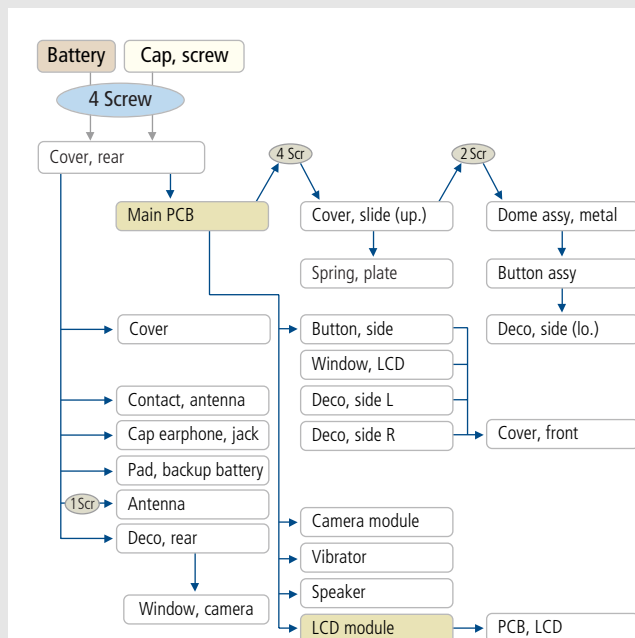
• Difficulty in accurately positioning disassembling tool

→ • Enable positioning of disassembling tools

• Unable to discern the type of fastener used

→ • Able to know the type of fastener used (snap-fit)

#### ◀ Fishbone diagram ▶



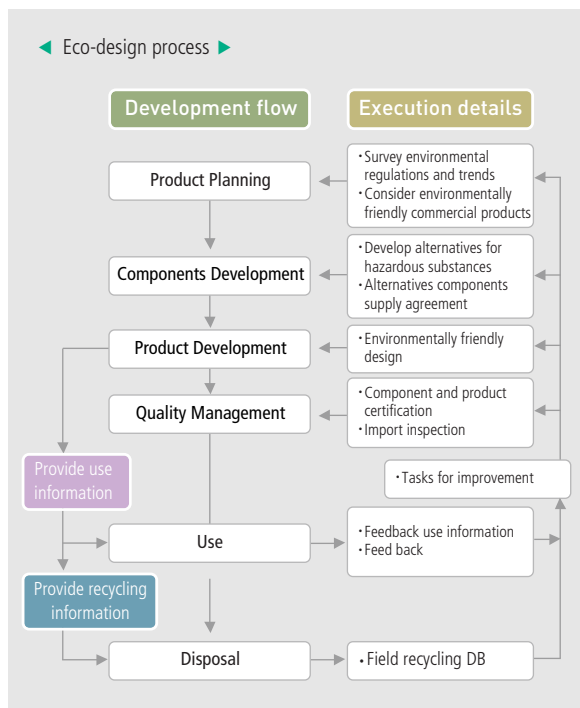


## ECO-DESIGN

Eco-design is an environmentally-friendly technique to minimize the environmental impacts of products by taking into account not only the cost and quality, but also environmental aspects in all life cycle stages (e.g. material acquisition, manufacturing, transportation, use, and disposal). Since establishing environment-friendly product design guidelines in 2003, LG Electronics has combined the product design process with the new eco-design process which includes a series of activities such as preparing eco-design checklists for designers and establishing eco-design guidelines.

### Integration with product development process

LG Electronics' product development process is unique in that after each process, experts from related departments conduct inspections to identify problems and make appropriate corrections before moving on to the next phase. We apply the same procedure to improve the environmental quality of our products. To this end, we have created major task checklists to secure environmental soundness of our products in every development phase. Designers check to make sure that the product meets all requirements before handing it over to the next development phase.

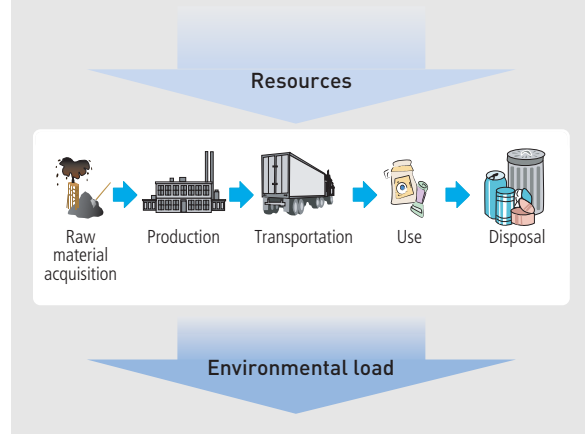


### Web-based Eco-Design System

LG Electronics has developed and is using a web-based Eco-Design system which enables product developers to execute a series of eco-design processes within the identical systematic framework. By offering quick and easy access to evaluation tools for the entire development process and recycling, the system facilitates analysis of environmental soundness of a product. In addition, developers can get ideas for product improvements by searching for information on environmentally-friendly products or eco-design guidelines in the web-based system. Linked to SIMS (management system for international standards), GCMS (management system on partner firm information) and LIMS (computer system to request analysis of hazardous substances), it operates as an efficient environmental portal system for LG Electronics products.

#### ◀ Life Cycle Assessment ▶

To conduct eco-design, LG Electronics introduced the Life Cycle Assessment (LCA) ten years ago. Through LCA, we evaluate environmental load quantitatively throughout a product's life from raw material acquisition through production, transportation, use and disposal. By doing so, we draw an optimal way to improve products from the environmental aspect with minimum amount of effort.

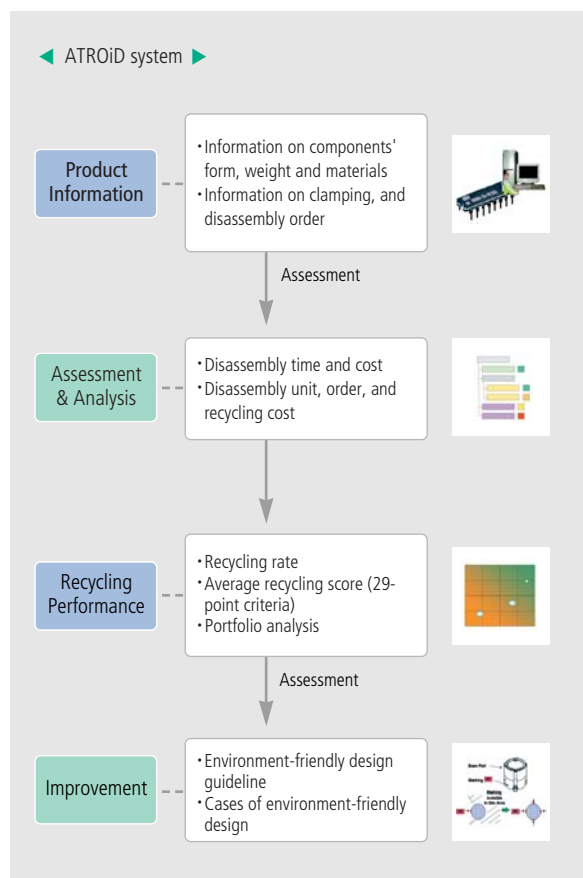


#### ◀ Web-based Eco-Design System ▶



## ATROiD

In 1996, LG Electronics developed ATROiD, the first Korean eco-design software, in collaboration with Germany's Technical University Braunschweig. ATROiD was created to reduce the environmental effect of recycling and burying waste products. ATROiD helps designers with assessing the impact of their proposed design on disassembly and recycling at the earliest design stage, and also gives them improved ideas.



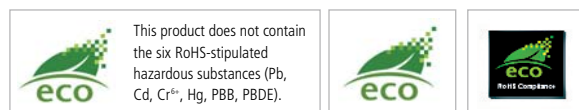
## ECO-MARK

### LG Electronics Eco-Mark

As part of efforts to promote environment-friendly products, LG Electronics introduced its Environment Self-Declaration. Under the Self-Declaration, the company developed its own eco-mark symbol and established environmental standards which reflected domestic and overseas environmental regulations as well as customers' needs for eco-friendly products. All products of LG Electronics are assessed according to the Eco-Index, the company's own environmental standard. Products that satisfy the standard are labeled with the Eco-Mark. The label also provides detailed information about the environmental friendliness of those products.

### ◀ Eco-Index ▶

Category	Details
Hazardous substances	Six hazardous substances, PVC, Other brominated flame retardants, VOC, Refrigerant
Energy	Standby power, Power consumption, Greenhouse gas
Resource consumption	Weight reduction, Recycling materials used, Water consumption
Recycling	Number of materials, bolts, parts etc.
Others	Information on recycling, Noise etc.



### Environmental Label Certification (Environmental labeling)

The environmental mark and the Environmental Declaration of Products (EDP) address the need for heightened environmental vigilance on products and services. They also serve the purpose of promoting supply and demand of products and services with minimized impact on the environment through accurate and prompt communication of relevant information. LG Electronics is striving to uphold our commitment to effectively deliver eco-friendly products to customers and to meet the highest degree of integrity.

### Environmental Labels (Type II)

The Eco-Labeling program operated by Korea Eco-Products Institutes encourages environmentally sound production and consumption by awarding the label to products with reduced environmental impact. It is also an effective way for companies to inform consumers of a product's environmental soundness.



Under the law to promote procurement of green products, the government and public agencies are obliged to purchase environmentally-friendly products. LG Electronics has won the Eco-Labeling certification for its air cleaners, power-saving computers and air conditioners. We plan to expand the product pipeline to include TVs and other appliances.



◀ Eco-labeling in 2005 ▶

Computer monitor	Desktop PC	Notebook PC	Air conditioner	Air cleaner
10	11	17	12	11

**Example of eco-friendly product**

LG Electronics has developed and is applying many types of environmentally-friendly components that go into our products. We are also working to enhance product efficiency through eco-design to minimize the impact on our natural surroundings. With these efforts, we not only manufacture products that meet international environmental standards, but also enhance our brand value by setting up technological barriers.

◀ Drum washing machine, TROMM ▶



### Example of eco-design

[ Air-conditioner ] LG Electronics is receiving the spotlight in Europe, where there is high interest in environmentally-friendly products, with its air-conditioners, the 'Multi V' and 'MPS (Multi Power System) inverter system. These are system air-conditioners that use a new eco-friendly refrigerant and high-efficiency inverter. The MPS employs the new refrigerant R-410A which does not damage the ozone layer. Efficiency is boosted with the use of several small compressors, as opposed to the previous use of a single compressor, so that compressors operate as necessary depending on the load. The new inverter system was completed using the Whisen proprietary technology. Operating costs can be reduced by up to 60% compared to air-conditioning/heating devices with a single-speed compressor.

The new inverter method allows for optimal control of a single large compressor. It is based on the multi compressor technology, which comprises a DC inverter compressor and several high-efficiency single-speed compressors. The adoption of this technology has enabled precise control depending on the cooling/heating load, leading to ultra energy-efficient heating and cooling.

#### ◀ New inverter method ▶



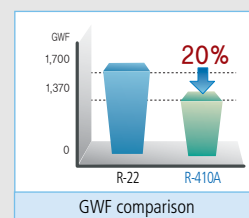
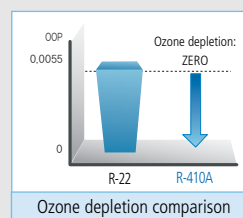
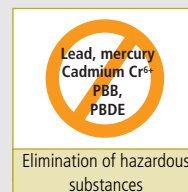
MPS (Multi Power System) is an energy-conserving system capable of optimal operation at each level of fan speed. To ensure optimal operation depending on the indoor and outdoor temperatures and to reduce unnecessary energy usage, the outside unit contains multiple compressors.



#### ◀ First A/C in Korea to use alternative refrigerant and eliminate hazardous substance ▶

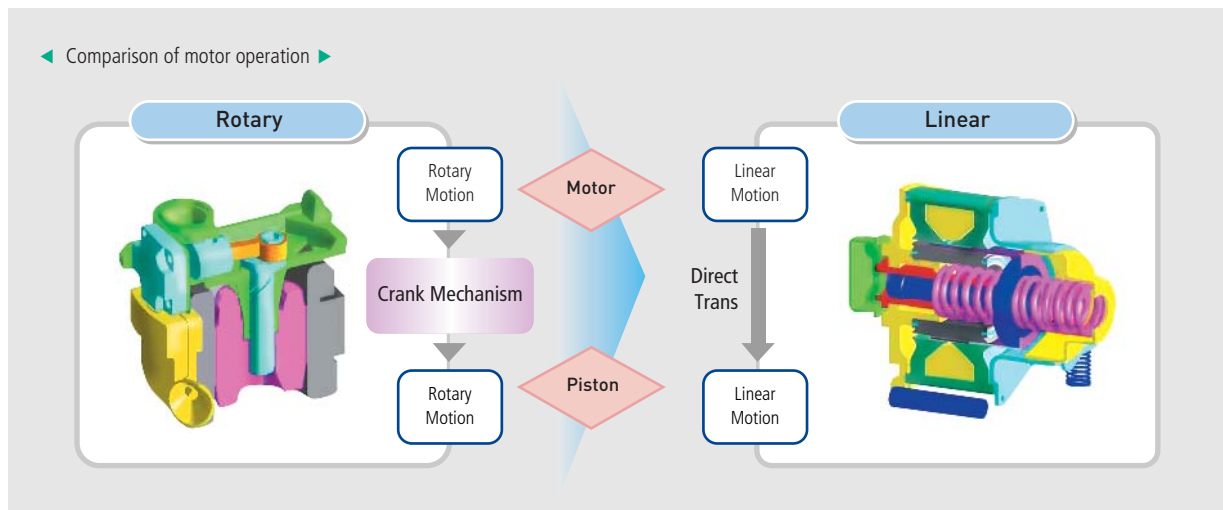


The use of the alternative refrigerant R-410A, which does not harm the human body or environment, and the elimination of lead, mercury, cadmium and hexavalent chromium enhance efficiency and safety while contributing to energy saving and environmental preservation.



[ Refrigerator ] LG Electronics developed the world's first refrigerator with a linear compressor to achieve a maximum 30% boost in energy efficiency. In addition, the noise produced when the compressor either starts or stops running has been reduced, as well as the noise during operation. The refrigerator features a linear compressor, removing the need for a crank mechanism to convert rotary motion into reciprocating motion. The result is a reduction in noise and energy consumption, and consequently less environmental impact.

Moreover, LG Electronics refrigerators employ an eco-friendly foaming agent (cyclopentane). Cyclopentane does not destroy the ozone layer and has virtually no effect on global warming. Recently, the insulation function has been radically enhanced by reducing the cell size of the insulating material, polyurethane foam. Insulation has improved by 12.5% and the energy consumption of freezer/refrigerator has been lowered by 7%.



### Products free of hazardous substances

Hazardous substances contained in electrical and electronic equipment have been receiving much attention in recent years. In the EU, the Restriction of Hazardous Substances (RoHS) Directive went into effect on July 1, 2006. The RoHS Directive restricts the use of six hazardous materials (lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE)) in the manufacture of electronic and electrical equipment. The US, Japan and China are also moving to adopt similar regulations. The move to restrict the use of hazardous substances is an irreversible trend, and LG Electronics is focusing on R&D to keep pace with these developments.

For instance, LG Electronics has switched to smokeless materials that are lead-free to solder components on a printed circuit board (PCB). Cr<sup>6+</sup> coating has been replaced by aluminum and tin coating, while brominated flame retardants PBB and PBDE have been replaced by inorganic flame retardants.

LG Electronics has acquired third-party certification for RoHS compliance from TÜV Rheinland for four products: LCD TV (May 2006), air conditioner (March 2006), mobile handset (March 2006), and drum washing machine (March 2006). Under this certification system, a third party assessment is used to verify that an entire product, not just certain components, made by an electrical/electronic product maker satisfy the requirements of the EU's RoHS Directive.

In the case of washing machines, the certification was obtained not for just one model, but all models in the TROMM series. Components that go into all of the models were inspected for RoHS compliance. For all four mentioned product categories, LG Electronics was the first in the world to acquire third-party certification for RoHS compliance. Hence, the image of LG products as being environmentally-friendly will be enhanced not only in Europe, but the entire world. The certification also helps enhance LG as a premium brand.



32-inch LCD TV



Wall-mounted air conditioner



Chocolate phone



TROMM series



## ECO-FRIENDLY MANUFACTURING PROCESS

LG Electronics is striving for process efficiency by realizing a clean working site and lower energy use, through the reduced output of pollutants.

### ENERGY AND WASTE

Fossil fuels remain the prime source of energy and are responsible for causing global warming and atmospheric pollution such as acid rain and photochemical smog. As the use of non-polluting energy sources has yet to become widespread, LG Electronics is doing its part to protect our earth by minimizing the waste and use of energy and water through measures such as recycling wastewater.

Although the release of various pollutants has risen due to our increased production volume, we are continually making efforts to reduce the discharge of pollutants compared to sales. We also have in place strict in-house standards regarding pollutant emissions (under 50% of legal standards) in all of our anti-pollution facilities. The basic cause of increased pollutant discharges lies in inefficient manufacturing management.

LG Electronics is promoting the economizing and reuse of resources to reduce discharges of waste matter compared to production volume. In particular, with our process for operational innovation, we are studying the optimal management points of environment-related facilities and applying them to the way we do business. Each manufacturing site also presents its own ideas for reducing waste matter, which are then shared within the company in various environment-related training courses and improvement activities.

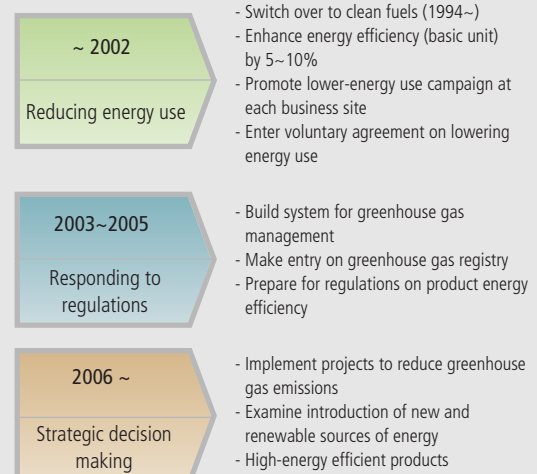
LG Electronics aims to ensure clean business sites by improving the work process and reducing pollutant emissions. We also continue to make our worksites safer by investing in areas that are deemed potentially dangerous. Our environment-related spending is made so that pollutant materials are recycled and do not end up as secondary

environmental pollutants. Safety-related costs are mainly for maintaining facilities to prevent accidents, while health-related spending is devoted to maintaining the health of our employees. For more information on data and investment/costs related to management of energy and pollutant emissions, please refer to pages 92~93.

### Improving process efficiency through energy saving measures

LG Electronics continues to promote a campaign to economize energy used during the manufacturing process. As of the end of 2005, energy use (basic unit) was managed at the 1.24TOE/KRW100 million level. Additionally, there are plans to start a project to decrease emission of greenhouse gases based on pertinent regulations which are fast becoming reality.

#### ◀ Plan for reducing energy costs ▶



UT facility



Wastewater management



Recycling center



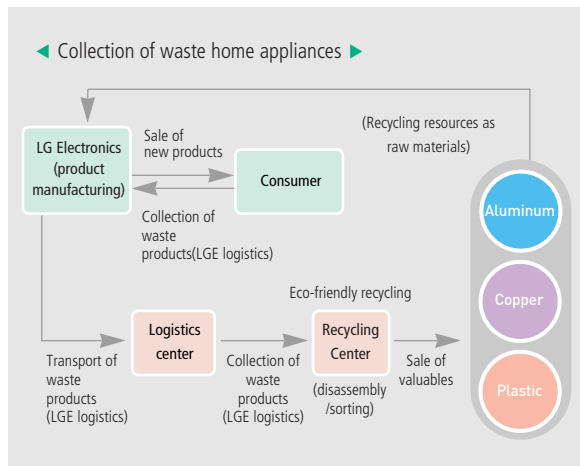
Clean fuel

## RESOURCE MANAGEMENT

### EPR (Extended Producer Responsibility)

LG Electronics is dedicated to building a resource-recycling society, which is crucial to sustainable development that aims for balance between economic development and environmental preservation. We collect waste electronic goods from consumers and break them down in an environmentally friendly manner to be re-used as copper, aluminum and plastic.

LG Electronics has been an active proponent of the EPR system since its introduction in 2003 and has assumed the role of chairing company of the Association of Electronics Environment (AEE: chairman Young-Kee Kim). With 47 member firms, the Association's main activities include recommending rational policies and systems, in addition to building and improving collection systems. All this is based on trust among member companies and a close cooperative relationship with recycling firms.



### ◀ 2006 joint recycling event with private firms, government and military ▶

- Collected and recycled waste electronic goods and provided free A/S for home appliances in Shinan-gun, Jeollanam-do
- Participation by Minister of Environment, Mokpo City mayor, Mokpo waters defense headquarters, AEE, NGOs, etc.
- Helped build a collection system in islands experiencing difficulties in collection/recycling of waste goods
- Promised regular collection/recycling

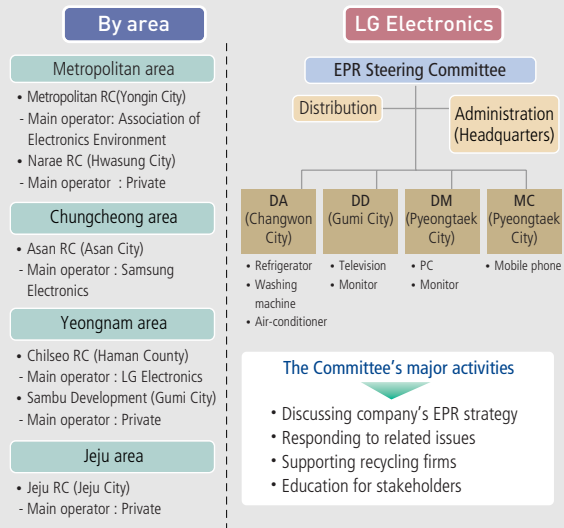


Loading waste electronic products onto naval vessel



Signing ceremony to collect/recycle waste electronic products

### ◀ EPR (Extended Producer Responsibility) scheme ▶



### ◀ Waste electronic goods collection and recycling system ▶

#### ■ Major activities of AEE

- Collection, treatment and recycling of waste electronic goods
- Conducting fact-finding research and providing information on recycling
- International cooperation on environment and recycling



#### ■ AEE collection and recycling of waste electronic goods'

- Collection via reverse sales routes and local governments
- 3 recycling centers operated by members, 7 treatments centers operated by other private firms



#### ■ LG Electronics' Chilseo RC

- Handling capacity: 250,000 units/year
- Completed date: August 29, 2001
- Location: Chilseo Industrial Complex in Chilseo-myeon, Haman-gun, Gyeongsangnam-do

### ◀ PR learning center for recycling electronic goods ▶

- Constructed PR learning center for recycling electronics goods inside RC (Yongin) near Seoul to use for environment-related education in July 2004

#### ■ PR learning center

- Visits by environmental NGOs, research institutes, etc.
- Visits by students (elementary/middle/high schools, university)



## SUPPORT TO OVERSEAS WORKPLACES

LG Electronics has provided 33 overseas plants with necessary EESH support.

### ◀ Supporting Plan ▶

Target	Supports	Training	Certifications
Legal Compliance (1998~2000)	<ul style="list-style-type: none"> <li>Support system established</li> <li>Basic inspection of all plants completed</li> </ul>	<ul style="list-style-type: none"> <li>EESH guidelines</li> <li>EESH Core-person</li> <li>Risk prevention training</li> </ul>	<ul style="list-style-type: none"> <li>ISO 14001 certification</li> </ul>
Prevention activities (2001~2004)	<ul style="list-style-type: none"> <li>Audits and supports given to necessary plants</li> <li>Independent audit systems for plants in China</li> </ul>	<ul style="list-style-type: none"> <li>EESH organization in overseas plants</li> <li>Manuals(in local languages)</li> <li>EESH training / pilot test (local cultures considered)</li> <li>Risk prevention training expanded</li> </ul>	<ul style="list-style-type: none"> <li>ISO 14001 certification</li> <li>EESH system started</li> </ul>
Managerial achievements (2005~ )	<ul style="list-style-type: none"> <li>Intensive audits and supports</li> </ul>	<ul style="list-style-type: none"> <li>EESH training provided</li> <li>Sample monitoring on EESH management</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive EESH system implemented</li> </ul>

### ◀ Supporting activities ▶

- Each overseas plant is supported by the Environment & Safety Group of each division (e.g. MC, DD division etc.).
- Headquarters supported 33 overseas plants for fire safety.
- Plants in China have been provided with special support by headquarters' EESH experts from 2005.



### ◀ Education ▶

- Enhancing overseas EESH level through education for employees in charge
- Date: 2006.2.22~2.24, 3.1~3.3
- Place: India and China
- Participants: 72 EESH persons of overseas plants



### Disaster prevention at overseas business sites

LG Electronics provides regular technological guidance and assessments for those overseas business sites which have relatively outdated disaster prevention management systems and facilities such as those in China and Southeast Asia. In this way, the company helps to secure the safety of workers and minimize property loss.

For two months from October 2004, the company conducted a detailed assessment of disaster prevention systems at each of its 33 overseas business sites through professional local and overseas consulting companies. Where problems were identified, short- and long-term plans were established to correct them, resulting in a considerable improvement in overall safety levels.

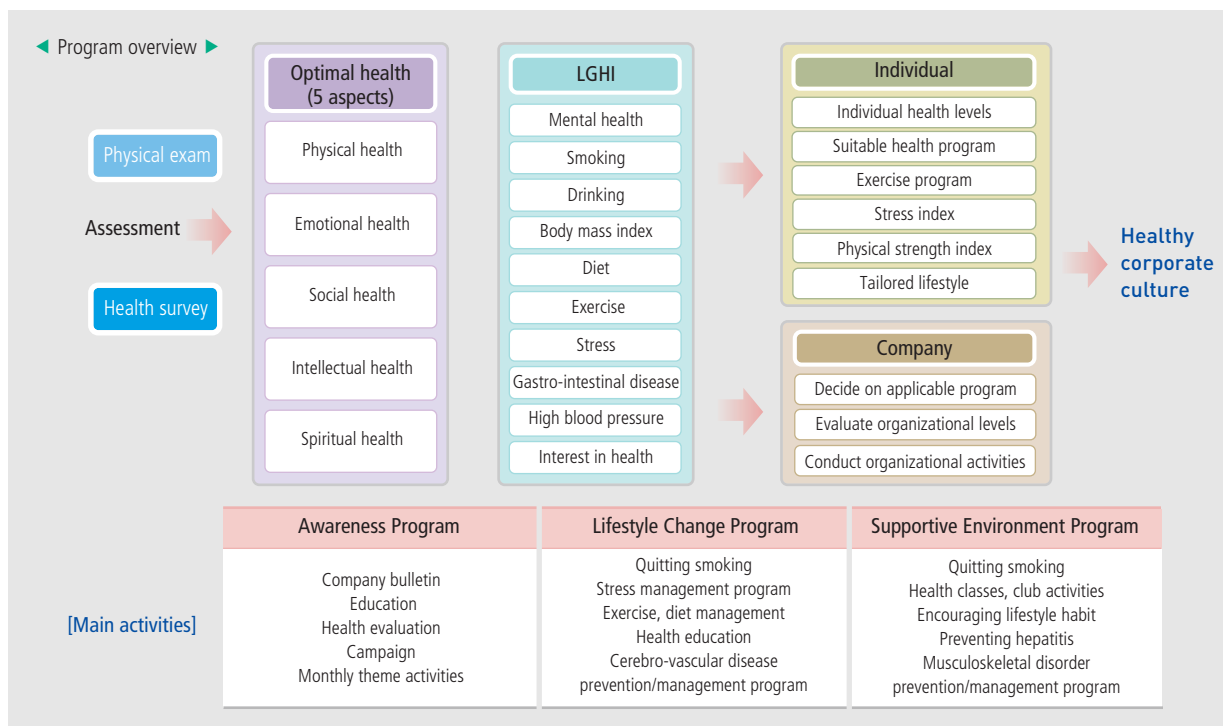
# OCCUPATIONAL HEALTH

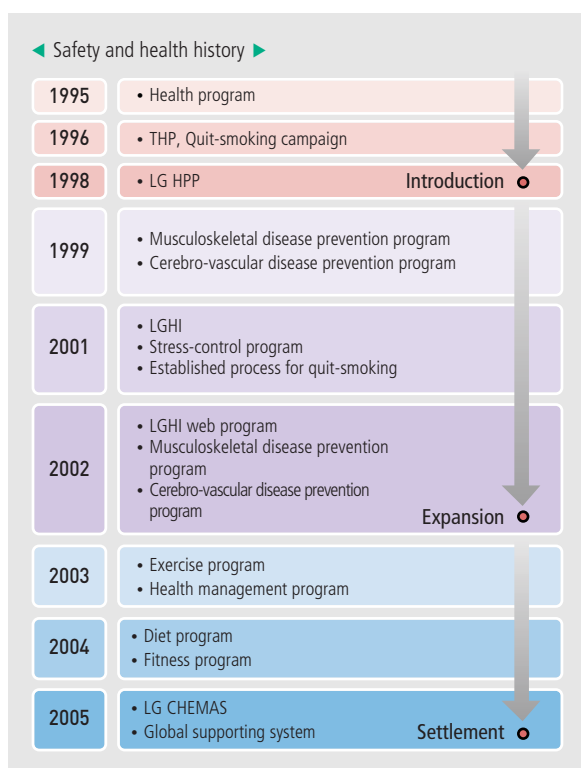
To promote the health of our employees, LG Electronics operates a diverse range of health-management programs and various activities at each business site to improve the working environment.

## OCCUPATIONAL HEALTH MANAGEMENT ACTIVITIES

All of the company's domestic business sites continue to maintain certification for health and safety management system (OSHAS 18001). By establishing separate in-house health and safety regulations, our working conditions adhere to stricter standards than local and overseas laws. Additionally, each business site has its own Occupational Safety and Health Committee where representatives of

workers, employers and safety and health managers discuss and resolve related issues. LG Electronics has been applying the LGHI (LG Health Index) for health management throughout the company. Developed in 1998 at the Gumi plant, the program has been upgraded to its current 2.5 version and was adopted by all business sites in 2004. The company has introduced various programs to safeguard employees' health including one for the prevention of cerebro-vascular diseases. The LGHI is constantly updated to provide a range of timely information on health issues to all employees.





※ THP: Total Health Promotion  
HPP: Health Promotion Program  
LGHI: LG Health Index  
LG CHEMAS: LG Comprehensive Health Management System

## HEALTH PROMOTIONAL ACTIVITIES AT BUSINESS SITES

At LG Electronics, various activities are available to promote the health of employees. Each business site is equipped with machines such as body composition analyzers in order to better manage employee health. The analyzer calculates the amounts of fat, inorganic matter and proteins inside the body to determine the possibility of various diseases. Based on the data, company health officials prescribe a dietary and exercise program. Consultation services to prevent stress are offered through the popular Sharing Minds Room program. The Sharing Minds Room provides not only personal consultations but also occupational stress consultations through psychological examinations.



Consultation after body composition analysis



Sharing Minds Room



CPR training



Fire safety training at Innovation School

## ACTIVITIES TO IMPROVE WORKING ENVIRONMENT

Each business site is actively carrying out measures to prevent musculoskeletal disorders and reduce noise pollution as part of efforts to improve the working environment. Through on-site analysis, each site prepares a plan for improvement, which is then shared with on-site personnel. After a testing period, the improvements are fully adopted. The following are examples of actual improvements.

### Musculoskeletal disorders

[ Negotiations to come up with improvement plan ]

- Problem: - Bending over at the waist while taking out parts from lower end of truck  
- Expending too much energy when taking out parts due to friction
- Improvement: Install lift to match level of work to waist level of worker, eliminating the need to bend over

### Noise

Managers and on-site employees of the refrigerator business (of the DA division) engage in activities every year to improve the working environment by reducing noise. Although the legal limit for noise levels is 90dB, the company enforces a level of 85dB and if there are any sites that surpass this limit, they take measures to lower the noise level. The refrigerator business managed to achieve a reduction of 2~4dB by installing an air emission noise reduction cover.

### Cardio-Pulmonary Resuscitation (CPR)

All accident prevention center and on-site employees at business sites underwent CPR training and a related contest. The training equipped on-site employees with the skills to respond to any heart-related diseases that may occur and help make a safer working environment.



# ENVIRONMENTAL PARTNERSHIP

Committed to creating environmentally-friendly products, LG Electronics is implementing the Green Program with business partners and communicating our environmental activities to all stakeholders.

## GREEN PROGRAM

LG Electronics is well aware that joint efforts are essential to the reduction of hazardous substances. Through its Green Program, LG Electronics purchases environmentally-friendly raw materials and parts. LG Electronics and its partners vow to provide environmentally conscious products to customers and take environmental responsibility as a global company in the global market. The Green Program aims to:

- Comply with national and global hazardous substance-related regulations and provide environmentally-friendly products to customers.
- Prevent the use of hazardous substances, reduce environmental loads and improve environmental performances from raw material and part production phase.
- Enhance environmental consciousness at LG Electronics and our suppliers

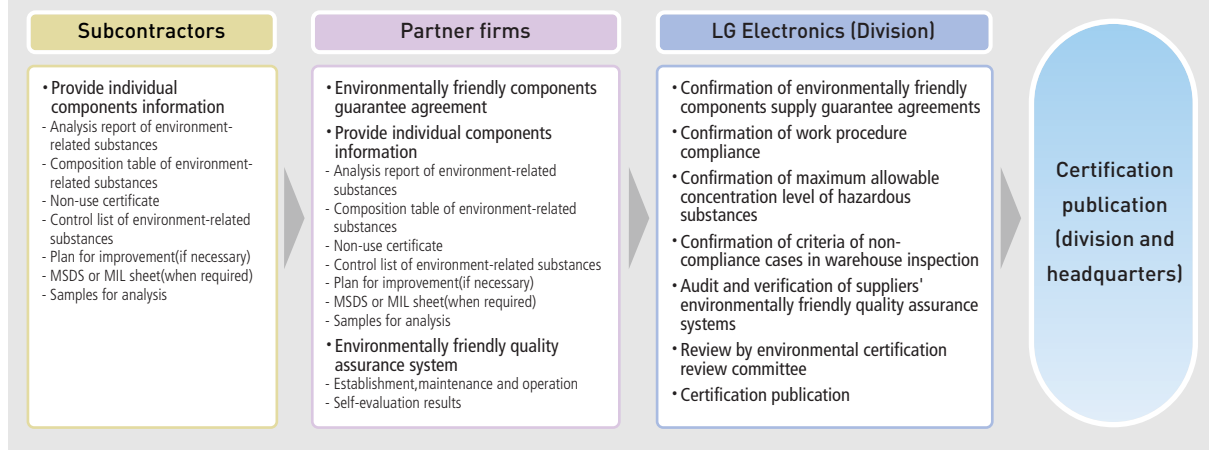
The Green Program targets domestic and overseas firms supplying LG Electronics with products, parts, raw materials, and supplementary materials. To obtain Green Program certification, a company must score more than 80 points, including 42 points earned in compulsory categories. The Green Program consists of Environmental Management System, Environment-related Substance Management System, and Materials and Products Management System.

Target firms must submit related documents for review and certification as shown in the following figure. In addition, LG Electronics distributes related materials such as 'Manual for Preparation for Environmental Regulations' and 'List of Level A-I Substances (the six hazardous substances specified in RoHS)' to partner firms through on-line and off-line channels so that they can apply to our Green Program.

### ◀ LG Electronics' Green Program certification criteria ▶

Description	Environmental Management System	Management System		Effective Term	
		Environment -related substances	Materials and products	Follow-up control	Renewal examination
Total	30 points	40 points	30 points	—	—
	100 points				
Certification criteria	Over 80 points (42 from compulsory items)			1 year	2 years
Target firms	All firms supplying products, parts, raw materials and supplementary materials to LG Electronics.				

### ◀ Green Program certification procedure ▶



## INTERNAL AND EXTERNAL COMMUNICATION

### Activities for regional communities

[ Campaign to collect old mobile phones ] As the disposal of mobile phones at home could cause environmental problems, LG Electronics conducted an employee-wide campaign to collect old mobile phones which are no longer used so that they could be collected in a safe method and useful resources retrieved.

[ Health promotion activities ] The company promoted various activities to encourage healthier living among employees. In particular, employees who managed to reduce the most amount of body fat were awarded with gold prizes.

[ CPR Contest ] LG Electronics equips employees with the skills to respond to health emergencies such as heart attacks, breathing problems and strokes. Through the company-wide CPR contest, employees are encouraged to improve their first aid techniques to that of professional lecturers.

[ Drills for toxic substance leaks ] Business sites conduct various drills in readiness of any accidents. Particularly as chemicals-related accidents could result in major damages to the surroundings, safety is considered paramount and employees are kept updated on the best way to respond immediately to any accidents through the various drills and exercises.

[ Environmental experience classrooms ] Each business site operates an experience classroom so that regional elementary school students and consumers can better understand and see for themselves eco-friendly activities. Training and communication channels have also been set up for public officials from related local governments.

- Environment experience classroom for elementary schools (2~3 times/year)
- Environment experience classroom for housewives (1~2 times/year)
- Study tour by environment-related official trainees
- Visits by various environment-related officials organized by regional environmental offices (1 time/year)

### Awards

[ Transparent Management Grand Prize ] In January 2005, LG Electronics won the grand prize at the first Transparent Management Awards presented by Korea's five representative economic organizations, for its excellence in BOD-led management, independent audit committee, ethical management, value-added labor-management relations, social contribution and eco-friendly management.

[ No Accident Award from Indonesian Government ] Our Indonesian affiliate, LGEDI, received the 'No Accident Award' from the Indonesian government for three consecutive years, further enhancing the image of LG Electronics as a company committed to employees' safety and health. The award was given to LGEDI among over six hundred companies in Indonesia for having 'no accident' for 40,012,386 hours.

[ UNESCAP Environmental Minister Meeting, corporate forum presentation ] LG Electronics gave a presentation under the theme of 'Toward Sustainable Growth' at a corporate forum in March 2005 sponsored by UNESCAP, ADB, Ministry of Environment and the Federation of Korean Industries. The company presented its strategy and model examples of CSM. The presentation attracted much attention from domestic and international stakeholders.

[ Most Respected Company in Korea ] In June 2004, IBM BC, an international business consulting organization, selected LG Electronics as the best company in the environmental management category in a survey of the '30 Most Respected Companies in Korea.'

[ Energy Saving Prize ] In November 2005, the Seoul Plant of Mobile Communications Division was awarded the 'Presidential Prize' for its energy saving operations at the Energy Saving Promotion Awards organized by Korea Energy Management Corporation.

[ Environmental Management Awards / Energy Winner Awards ] LG Electronics' 60-inch PDP TV won the grand prize for Green Marketing at the Environmental Management Awards jointly presented by the Ministry of Environment and Maeil Business Newspaper in June 2004. The 42-inch PDP TV received the 'Ministry of Environment Prize' at the Energy Winner Awards in November 2004.



CPR contest



Environmental experience classroom



UNESCAP Environmental Minister Meeting



Receiving Indonesia's 'No Accident Award'



**Promise<sup>3</sup>**



All the comforts we can imagine...

We have made immense strides over nearly half a century.  
Each step forward has built LG Electronics into a familiar name across the globe.  
We continue to create value and enhance quality of life with innovative ideas.  
We seek more than mere profits.  
Our wish is to create a world of prosperity for all.

# ECONOMIC PERFORMANCE

Driven by ongoing efforts to build a company capable of sustainable development even in the face of tough obstacles, LG Electronics continues to produce meaningful results.

## OPERATING PERFORMANCE IN 2005

The business environment was challenging in 2005 due to appreciation of the Korean won, continuous decline of average selling prices of our major products, and raw material price hikes. We proclaimed 'emergency management' and exerted every effort to enhance productivity and reduce costs. Still, some businesses suffered setbacks in terms of sales and profitability.

The tough business environment kept us from posting another year of sales growth in 2005. Sales for the year decreased 3.6%YoY to KRW23.77 trillion. Operating profit and net profit dropped 26.8% YoY and 54.5%YoY to KRW914.6 billion and KRW702.8 billion, respectively.

What is encouraging is that we obtained the foundation for sustainable growth. In the midst of an unfavorable business climate, we obtained several achievements as follows: First, the earnings contribution of premium products increased. Second, our brand recognition strengthened to give us a firm footing for global marketing. Third, we bolstered our R&D and technology capabilities by employing many qualified researchers and established an advanced R&D center for mobile handsets in the metropolitan area. Fourth, we enhanced the overall quality of our products including PDP module. And finally, we improved the level of our global customer service by establishing a global service system.

TDR (Tear Down and Redesign), our innovation program, has become embedded in our corporate culture. It is a task-oriented innovation program and has a direct influence on management performance. In addition, we introduced the EPR-based system to reorganize our management and administrative process.

As mentioned above, the most meaningful achievement in 2005 was that we paved the way toward sustainable growth by overcoming crisis with confidence. This experience strengthened our resolve to become a global top-3 electronics and telecommunications firm even in the face of the toughest of obstacles.

## FINANCIAL PERFORMANCE AND DISTRIBUTION

### Financial performance

#### ◀ Summary income statement ▶

Description	(unit: KRW billion)		
	2004	2005	%YoY
Sales	24,659	23,774	-3.6%
Gross profit	5,924	6,111	3.2%
Operating profit	1,250	915	-26.8%
Recurring profit	1,860	741	-60.1%
Net profit	1,546	703	-54.5%

LG Electronics suffered a 3.6% sales decrease in 2005, posting KRW23.77 trillion due to steep won appreciation and expansion of overseas production. Domestic sales for the year rose 8.3%YoY to KRW5.51 trillion led by hot weather-driven air-conditioner sales, strong demand for flat panel display products such as PDP TVs and LCD TVs as well as PC sales increase. However, export sales fell 6.7%YoY to KRW18.26 trillion due mainly to expansion of overseas production, a strong won and lower average selling prices of major products.

MC division's sales fell 0.3%YoY to KRW9.46 trillion due partly to its poor performance in the first half of the year. Price decline of major products was another culprit. However, the division showed recovery toward the end of the year on the back of success of the black label phone (also known as chocolate phone) and strong 3G exports.

DD division recorded KRW5.12 trillion in sales, up 2.8% from a year earlier. The division suffered slight erosion in profitability on account of falling price of LCD TV. But moving forward, the division is expected to maintain robust growth. Shipments of PDP TVs and LCD TVs are on the rise and demand is strong for LCD modules given the growing popularity of large-size display products.

DM division suffered a 16.4% decline in sales, posting KRW3.18 trillion in 2005, owing to an overall decrease in selling prices of IT products coupled with lethargic demand for some products. Accordingly, profitability deteriorated as well. However, we expect the division's profits will improve gradually as premium products including DMB PDA are set to show healthy growth.



DA division's sales decreased 5.8%YoY to KRW5.85 trillion, while operating profit rose 5.5%YoY to KRW472.6 billion. The main culprit behind the setback in sales was weak export revenues resulting from the won's appreciation. However, robust sales growth of our air-conditioners, which has led the global market for six consecutive years, and favorable demand for premium products including commercial air-conditioners, contributed to the earnings growth of the division.

For the company as a whole, recurring profit and net profit slid 60.1%YoY and 54.5%YoY to KRW741.4 billion and KRW702.8 billion, respectively in 2005. The reasons behind the reductions were steep won appreciation and equity method loss by price fall of LCDs. Among them, the most critical factor was net equity method loss which increased by KRW608.7 billion.

Total assets increased by KRW802.2 billion to KRW14.04 trillion in 2005. Current assets decreased by KRW125.5 billion to KRW3.99 trillion as inventories fell. On the other hand, fixed assets grew by KRW92.8 billion to reach KRW10.05 trillion as investment assets and tangible assets increased. Investment assets were boosted by greater equity securities of affiliates, while tangible assets went up as property and equipment increased substantially.

## Distribution

### [ Shareholders and investors ]

#### • Interest expenses

An increase in foreign borrowings coupled with a rise in Libor was attributable to higher interest expenses, which rose to KRW200.3 billion in 2005 from KRW198.8 billion in 2004. Net interest expenses (interest expenses minus interest income) rose by KRW22.1 billion to KRW143.7 billion in 2005.

#### • Dividend

The company policy is to maintain a stable level of dividend payment. For the past three years, the dividend yield for each year has stayed between 20% and 30% on the basis of face value (face value of LG Electronics stock: KRW5,000).

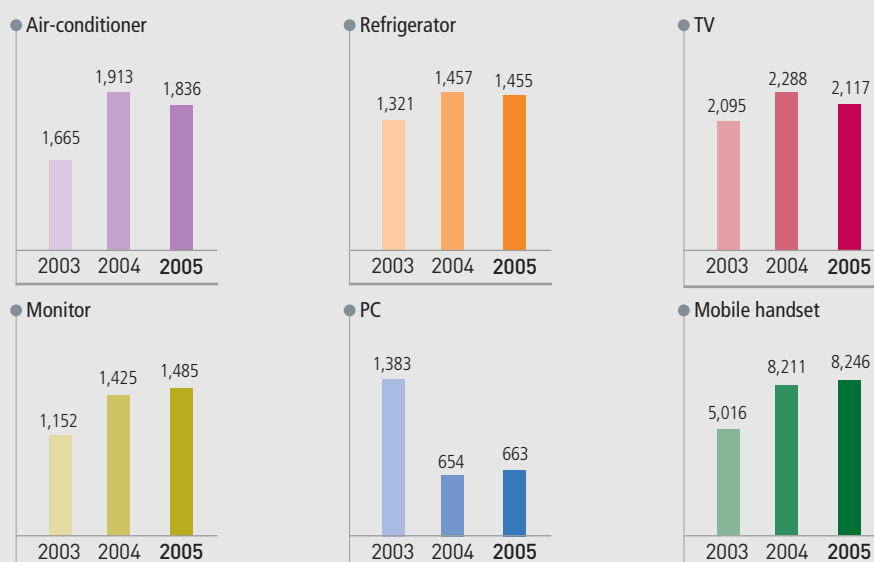
## IR activities

Our basic principle is to 'provide useful information to investors in a timely and transparent manner so as to help them make informed decisions on investment.'

- Usefulness: provide information satisfying investors' needs
- Reliability: fully provide company information without fallacy and bias
- Timeliness: provide information promptly
- Equality: provide information to all investors without discrimination

LG Electronics carried out a number of IR activities. These included quarterly conferences, non-deal road-shows, two theme conferences, 13 conferences organized by securities firms, and about 700 one-on-one meetings.

◀ Sales trends by product ▶ (unit: KRW billion)



## Plans for 2006



[ **Blue Ocean management** ] In the five core scopes of management, i.e., product, business model, work, system and people, we will strengthen our organization based on value innovation, through which we will strive toward our goal of being one of the global top-3 in the electronics and telecommunications industry by 2010.

### [ **Three management policies** ]

- Customer-oriented management
  - Customer-oriented management means that we will position LG as a premium brand in products such as PDP TVs, LCD TVs and mobile phones in the major markets, giving due consideration to regional characteristics. In addition, it means that we will create customer value through product quality, function, and design that stands apart. To this end, we will carry out all processes from product planning to customer service from the customers' viewpoint.

- Strong technological competitiveness
  - We will concentrate our efforts on securing cutting-edge technologies. First, we will do our best to reduce the costs of core components such as DTV soc and PDP modules to create the foundation for high profitability. Second, we will enhance proprietary technologies such as time machine, XD engine, and next-generation DVDs. Third, we will reinforce our capability in high value-added and core R&D areas. Moreover, we will employ and foster capable R&D personnel to prepare for future businesses.
- Operational excellence
  - We will accelerate innovative activities across the company in order to create consistently stable performance without being affected by external developments such as fluctuation in raw material prices, high oil price, and currency movements. We will promote high efficiency by shortening the lead time from production to sale, bolster our global SCM for optimal inventory levels, and reduce fixed costs via a budget management system.

### [ **Three major tasks** ]

- Strengthening business capabilities
  - In the mobile handset business, we will penetrate into the large distribution channels in Europe and other major regions with mega-hit models that appeal to end-users. In the case of smaller markets in Asia, Middle East, Africa and CIS, we will directly target our marketing toward customers using a differentiation strategy adequate to each region.
  - We will strengthen our market dominance in North America and Europe and secure a profit base by selling large-size premium products such as PDP TVs and LCD TVs. In the air-conditioner business, we will expand our commercial air-conditioner sales by building on our success as the world's leading seller of home air-conditioners for six consecutive years.
- Enhancing brand value
  - We will step up company-wide brand management and focus on global marketing issues.
- Getting new businesses on track and developing future businesses
  - We will concentrate on exploring new and promising businesses. We plan to foster next-generation displays, robot, and mobile communication as the future growth drivers.



Germany IFA 2005



CYON new product launch



Handset research center



Unveiling of refrigerator using eco-friendly coolant

## FINANCIAL RISK MANAGEMENT

LG Electronics is responding to uncertainties in the business climate with proactive risk management to ensure stable operations and consistent performance. We are moving beyond the emphasis on managing financial risk. From the standpoint of CSM, we are pursuing risk management in all facets of our operation and applying global standards.

We are minimizing risk through various systems and processes. Risk management is taking hold as an important element in our business activities as we aspire to create corporate value on the basis of stability and consistency.



### Financial risk management activities

Risk type	Risk factor	Risk management activity
Market risk	<ul style="list-style-type: none"> <li>FX fluctuation (KRW/USD, JPY/USD, euro/USD, etc.)</li> <li>Interest rate fluctuation (CP, corporate bond, Libor, etc.)</li> <li>Share price fluctuation (LGE and invested companies)</li> </ul>	<ul style="list-style-type: none"> <li>Constant monitoring of domestic and overseas financial market trends</li> <li>Financial management committee, consulting with financial institutions</li> <li>Constant monitoring and regular reporting of marketable securities valuation</li> <li>Implement FX management rules and policy</li> <li>Set up regulations on acquiring, managing and disposing of marketable securities</li> <li>IR activities</li> </ul>
Business risk	<ul style="list-style-type: none"> <li>Early detection of business issues (profit, cost, competition, etc.)</li> <li>Investment review process and review items</li> </ul>	<ul style="list-style-type: none"> <li>Implement change management plan</li> <li>Set up Plantopia and risk warning system</li> <li>Working-level committee for overseas investments</li> <li>Business feasibility review task</li> <li>Clearly state discretionary power related to investment process</li> </ul>
Operational risk	<ul style="list-style-type: none"> <li>Credibility of financial data</li> <li>Operational process efficiency</li> <li>Compliance with related regulations</li> </ul>	<ul style="list-style-type: none"> <li>Pursue complete automation for settlement of accounts (domestic and overseas)</li> <li>BPM (Business Process Management)</li> <li>Internal audit</li> <li>Control Self Assessment</li> </ul>
Credit risk	<ul style="list-style-type: none"> <li>Recoverability of trade receivables (won and foreign currency-denominated)</li> <li>Credit standing of client firms (domestic and overseas)</li> <li>Default possibility of client firms</li> </ul>	<ul style="list-style-type: none"> <li>Strict review of terms for domestic and export sales and management of overdue trade receivables</li> <li>Strengthen credit insurance and internal management</li> <li>Manage export orders in accordance with export insurance ceiling</li> </ul>
Liquidity risk	<ul style="list-style-type: none"> <li>Error in cashflow plan</li> <li>Insufficient current ratio or cash holding</li> <li>Credit line by bank and by raising method</li> </ul>	<ul style="list-style-type: none"> <li>System for managing cashflow plan and results</li> <li>Cashflow management by each business unit from global standpoint</li> <li>Pursue improvement in working capital to enhance global cashflow</li> </ul>
Legal risk	<ul style="list-style-type: none"> <li>Possibility of dispute or lawsuit due to insufficient legal review</li> <li>Possibility of contingent liability related to dispute or lawsuit</li> <li>Disclosure violation</li> </ul>	<ul style="list-style-type: none"> <li>Legal system and seal management system</li> <li>Strengthen global legal risk management and execution</li> <li>Devise regulations on disclosure activities and set up internal control system</li> </ul>
Tax risk	<ul style="list-style-type: none"> <li>Oversight in tax reporting between headquarters and subsidiaries</li> <li>TP (transfer price) issue</li> <li>Possibility of anti-dumping suit</li> </ul>	<ul style="list-style-type: none"> <li>Conduct tax review before signing agreements</li> <li>Implement regulations/guidelines on TP activities</li> <li>Half-yearly monitoring of anti-dumping issues by product and by region</li> <li>Regular assessment program</li> </ul>



Product showroom in Changwon



Shipment center



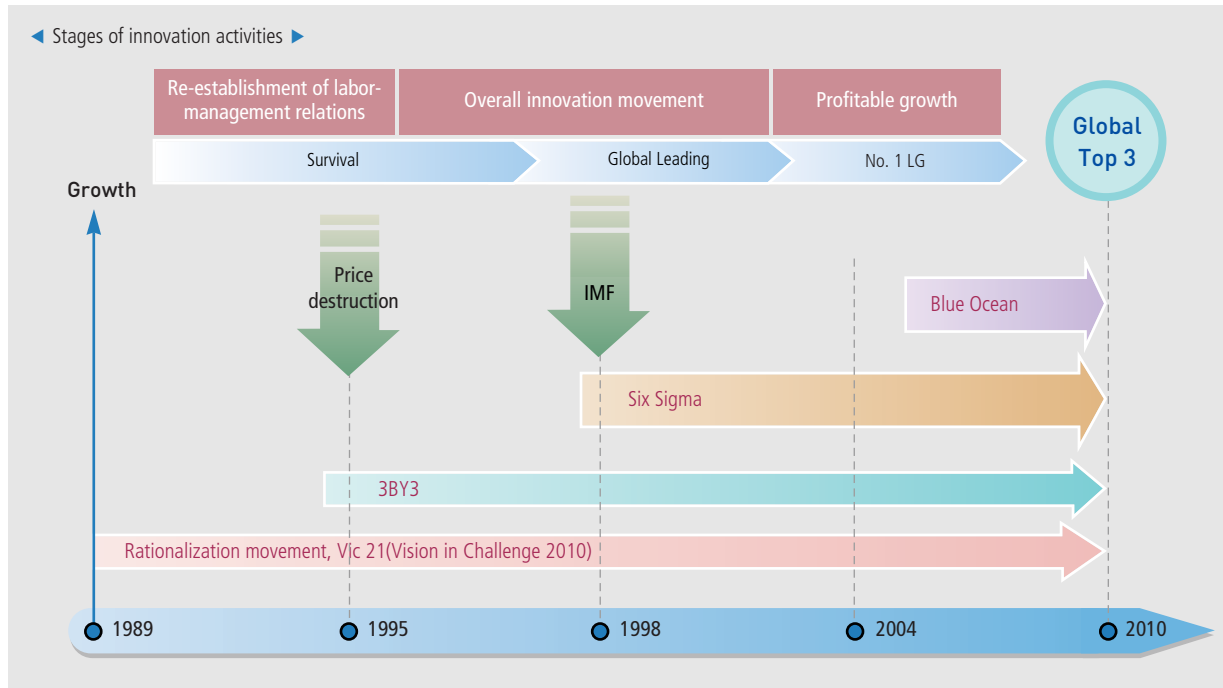
Brand marketing



LG production engineering research center

## INNOVATION

LG Electronics is improving management efficiency and paving the way for sustainable growth through innovation activities.



## MANUFACTURING

The TPS (Toyota Production System) movement was started with the aim of restoring the mentality that every employee is the true owner of the company by beginning with the smallest things. It was later expanded to not only include 5S which keeps the site clean, orderly and well-maintained, but also saying "good morning" to each other to confirm the unity of colleagues. This served to reaffirm the belief that if each person can think "Let's do it! We can do it! Let's try it!" the company will become more competitive.

Under the motto of "Do not accept, make or send out any defaults," LG Electronics is pursuing zero-default production through its 100PPM activities which entail '6 tools' including successive/repeated checks. As a result of the movement to eliminate squandering, productivity has been elevated at the manufacturing sites. Such success in innovation continues to power our ongoing innovation drive.

1995 witnessed fierce competition between domestic consumer electronics makers. In the midst of product price cuts, rising raw

material costs and sharp foreign exchange fluctuations, on-site innovation gave us the confidence and resolve to overcome difficulties coming our way. Under slogans such as "Let's finish it in one go!" "Even if 5% is impossible, 30% is possible!" "Grab the big piece!" we implemented the FI-10 (Factory Innovation 10) system. FI-10 involved ten key items including TDR (Tear Down and Redesign) and 'Basic Order T5S' and transformed each and every member of the company, from the CEO to field workers, to become a leader of innovation.

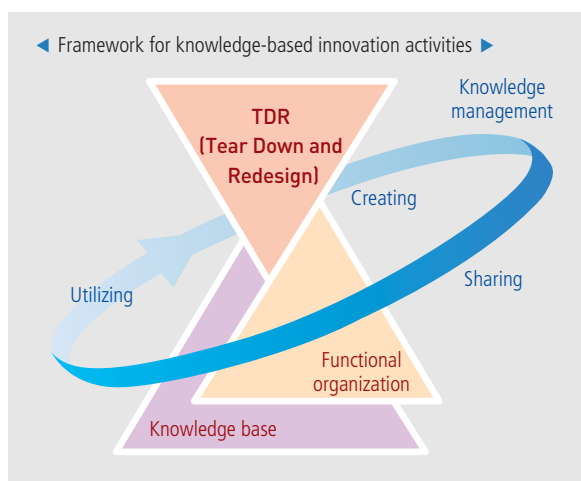
Our 100PPM activities, which were designed to detect defaults and problems at the production site, and six sigma management, which eliminates default factors, were introduced from 1996 to great success. We introduced our six sigma methodology to public institutions such as the Prosecutors' Office and Ministry of Government Administration and Home Affairs as well as private companies including POSCO, Korean Air and Doosan Heavy Industries and Construction. By holding seminars, we are doing our role to ensure that six sigma management takes root in the Korean industry.

## KNOWLEDGE MANAGEMENT

### Pursuing knowledge management

After declaring knowledge management as a company-wide initiative in 1998, LG Electronics has been pursuing an organic relationship between its business strategy, innovation activities and knowledge management, reflecting the CEO's management philosophy. By defining knowledge management as 'quickly sharing and applying knowledge created through innovation activities to promote business results and achievements,' the company is striving to speed up innovation by creating and sharing best practices, securing key capabilities by accumulating and employing intellectual property, and improving operational productivity.

The CKO (Chief Knowledge Officer) system which places a CKO at each division enables systematic knowledge management activities. Under the system, each division establishes its own KM (Knowledge Management) strategy and corresponding system to enable the operation of appropriate KM activities.



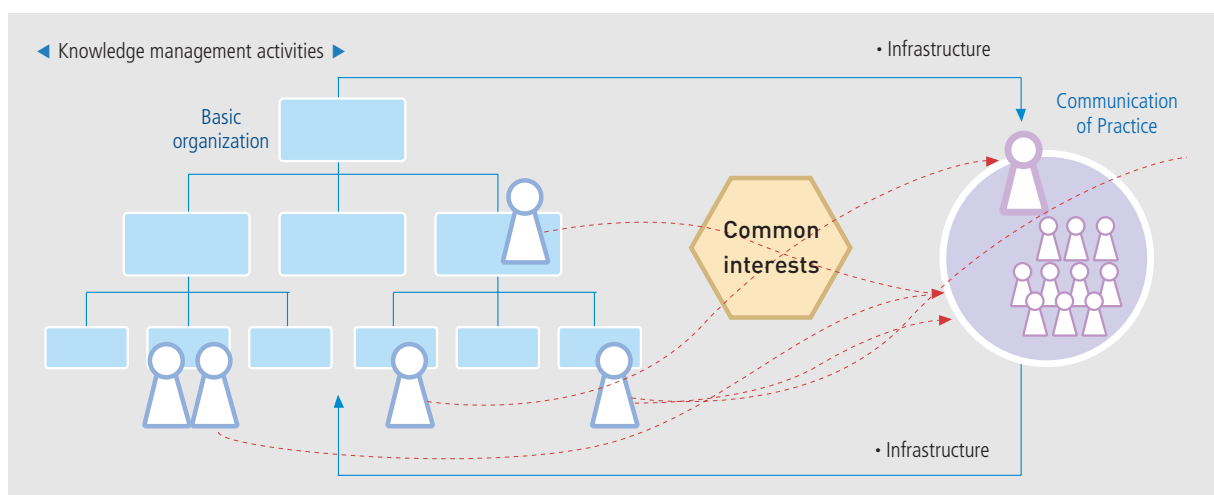
### Knowledge management activities

The first is best practices, discovered through TDR and other innovation activities such as '1 person, 1 project.' By recording processes that improve operations or innovative methodologies, anyone can learn by example and expect the same improvements or achievements.

The second is creating and sharing knowledge through CoP (Community of Practice) activities. CoP is a group of experts whose aim is to create, share and accumulate key knowledge and capabilities; they are people who carry out similar projects and who share similar interests. CoP activities establish the direction of activities which are in line with strategies and business results through the sharing and diffusion of knowledge, acquiring and developing knowledge capabilities, and forming links among organizations and between members.

Lastly, the company is building an in-house e-learning system so that employees can quickly learn the best practices created through knowledge management activities. By providing methodological knowledge, the company is reaping the benefits through enhanced employee abilities and faster operational speeds. The improved strength of the employees and the company has been recognized externally as well. LG Electronics won the Knowledge Management grand prize in 2002 awarded by Maeil Business Newspaper and Booz Allen Consulting Company. From 2003 to 2005, we won the 2003 Asian MAKE (Most Admired Knowledge Enterprises) awards for our knowledge management practices.

Our reputation as a leading knowledge management firm has made us a target for benchmarking of numerous firms. We are embracing this role and sharing our experiences with public institutions such as the Prosecutors' Office as well as domestic and foreign private firms including POSCO and Rolls Royce.





## R & D

To reach its goal of joining the global top-3 electronics and telecommunications companies by 2010, LG Electronics is pursuing R&D with a concentration on the following areas to develop new high-growth products and secure key parts and technological capabilities.

In the growth businesses such as digital TVs, mobile phones and PDP panels, we aim to use the process of selection and concentration to develop 'no.1 products' and solidify our key technology capabilities. As for the core business areas in which we are leading the market including home appliances and digital AV equipment, we will secure leadership with mainly premium products. In the new growth areas, we will strengthen our R&D and leverage our technological abilities.

In new business areas such as home network, telematics and mobile AV, we will use our digital technology to develop integrated products in response to the convergence of technology and products. In addition, we will encourage development of new products through cooperation with service providers.

To achieve our goals, we will continue with efforts to staff our 30 or so R&D centers in Korea and abroad with highly qualified professionals. Moreover, we will also reinforce our R&D system centering on supporting local businesses in strategic areas such as China and India. Related to standardization and new products, we will work to secure global R&D capabilities by pursuing strategic alliances with major firms worldwide. In particular, to create a unique LG Electronics style and identity, the company plans to focus on increasing its design R&D, and secure basic and key technologies for future businesses.



32-inch LCD TV



Chocolate phone



Wall-mounted air conditioner



Super Multi DVD Writer

### [ Domestic R&D centers ]

Name	R&D fields	Location
LG Electronics Institute of Technology	Basic research in electric/electronic areas (materials, information technology, ASIC, etc.)	Seoul
Research Institute of Production	Production technology	Pyeongtaek
Digital Media Research Center	Optical storage technology, digital AV technology and product development	Seoul
Digital Storage Research Center	Optical storage and next generation storage systems and related components	Bundang
Digital TV Research Center	Digital TV/ASIC and product development	Seoul
System IC	SoC (Systems on Chip) technology and system IC development	Seoul
Digital Display Research Center	Next generation display device and application technology (PDP, projection, etc.)	Seoul
S/W & Solution Center	S/W platform, S/W technology development	Seoul
Digital Appliance Lab	Core components for home appliance and technology/product development	Seoul
Design Management Center	Product design R&D and proposing product concepts through customer studies	Seoul
Quality Lab	Quality, standards, environment-related evaluations/analyses/development support	Seoul
Display Product Lab	TV product development (digital TVs, flat TVs, etc.)	Gumi
Digital Appliance Changwon Lab	Development of home appliance with new functions	Changwon
Mobile Communication Lab	Mobile handset development	Seoul
Mobile Telecom New Technology Lab	Future mobile telecom key technology development	Anyang
Media Lab	Home AV, mobile device, car AV, PC, security product development	Pyeongtaek

### [ Overseas R&D centers ]

Name	R&D fields	Location
Triveni Digital	Digital TV-related technology development	New Jersey, US
LGEDA	Design development for American regional sales models	New Jersey, USA
LGTC	European technology collection/analysis	Aachen, Germany
LCEDM	Design development support in Europe	Milan, Italy
LGSI	Software development	Bangalore, India
LGEDC	Design development support in China	Beijing, China
LCETC	Analysis of Japanese electronic firms' technology and R&D	Tokyo, Japan
LGEDJ	Design development support in Japan	Tokyo, Japan
LGTCM	CIS technology collection/analysis and software development	Moscow, Russia
LGTCI	Israeli technology collection/analysis	Herzlia, Israel
Yantai Lab	Development of mobile handsets for Chinese market	Yantai, China
Tianjin Lab	Home appliance-related technology development	Tianjin, China
China R&D Center	Mobile handset/digital TV original technology development and design	Beijing, China
Zenith	Digital transmission-related technology development	Chicago, USA

## PATENTS

LG Electronics is emerging as a company with global patent competitiveness by actively implementing an innovative patent strategy to realize its vision of ranking among the top-3 global companies.

### Patent strategy

LG Electronics' patent strategy is to expand the value of its patent assets by securing patents for next-generation technologies, pursuing strategic cross-licensing, and improving net royalty income.

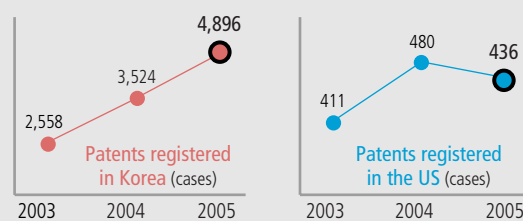
First, increasing the value of patent assets by securing patents for next-generation technologies will form the foundation for LG Electronics' drive to join the global top-3. It will also protect LG Electronics' unique rights from patent disputes. To this end, active patent development activities are taking place for strategic patents on key technologies and products from the planning stage (for products and leading technologies) to the R&D stage.

To keep up with rapid advances in technology, we are striving to build future competitiveness by playing a leading role in establishing technology standards. There is heated competition to possess standard technology in the area of multimedia convergence which includes mobile, optical storage and display products. LG Electronics continues to reinforce itself by securing rights to these standard technologies which are on par with those of advanced companies.

The second strategy is to pursue cross licensing agreements. With our technological capabilities reaching global top standards and our growing product reputation on the global market, we are facing a growing number of patent disputes and lawsuits. In response, the company is using its secured patent assets to pursue strategic cross licensing with companies that have filed patent lawsuits to induce a win-win situation for all and good will competition.

The third is to improve our net royalty income. By improving our situation with patent earnings and expenditures, we are attempting to remove business risks and ensure that our business activities can proceed smoothly.

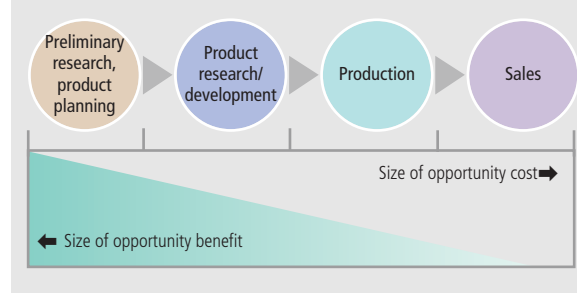
◀ Patent rights secured by LG Electronics over past 3 years ▶



### Patent development activities

The process of applying for a patent to obtain a patent usually takes two to five years. For this reason, our patent development activities are carried out years before the actual launch of a product, from the stages of preliminary research and product planning.

◀ Timing of patent rights and opportunity costs ▶



From the stages of preliminary research and product planning, LG Electronics secures patent rights to new and key technologies that will go into making the products. To strengthen our rights, we secure additional application patent rights to supplement the basic rights during the development stage. In this way, LG Electronics forms a network of patents to sufficiently cover product rights before the launch of the product in question. Patent rights and patent networks secured in this early stage not only protect product rights later on, but play an important role in improving LG Electronics' royalty balance when disputes arise.

## CODE OF ETHICS

We, at LG, share and believe in two key corporate philosophies - 'Creating value for customers' and 'Management based on esteem for human dignity.' Based on these philosophies and under the spirit of our Management Charter, we strive to promote autonomous management along with its accompanying responsibilities. Our interest is in upholding the principle of free market economy which embodies the spirit of free and fair competition. As we are committed to attaining our goal of becoming a world-class global player, we will continuously pursue mutual benefits with our interested parties on the basis of mutual trust and cooperation. We hereby resolve to adhere to our enacted code of ethics as a standard for value judgments and moral conducts.

### Chapter 1 Responsibilities and Obligations to Customers

We highly regard the opinions of our customers in the belief that they form the very basics of our business. We seek to secure unconditional trust from our customers by continuously providing them practical values.

#### 1. Respect for Customers

We value the opinions of our customers and validate their real needs at all times. Therefore we regard our customers as the primary standard for our decisions and conducts.

#### 2. Creating Value

- (1) We work to create value for our customers for it is through customer satisfaction that we build the foundation of our prosperity.
- (2) We continuously create practical values that fully benefit and satisfy our customers.

#### 3. Providing Value

- (1) We are always truthful to our customers, and are bound to keep our promises.
- (2) We offer top quality products and services to our customers at reasonable prices and respond to their requests with speed and accuracy.

### Chapter 2 Fair Competition

Our global business activities conform to relevant laws and regulations of the host nations. At the same time, we employ only fair and just means in securing our competitive advantage in the global market.

#### 1. Pursuit of Free Competition

- (1) We uphold the principle of the free market economic system. Therefore we pursue free competition and earn our customers' trust through top quality products and services.
- (2) We compete fairly and capably with our competitors, but do not intrude upon their interests, or exploit their weaknesses.

#### 2. Compliance with Laws and Regulations

We conduct our domestic and overseas business activities in strict accordance with local laws and regulations, and with respect for local business customs.

### Chapter 3 Fair Transactions

All business transactions will occur based on the principles of fair competition with equal opportunities for all entities to participate. We build trust and cooperative relationships through fair and transparent transactions. Such relationships are built with a long-term perspective for mutual growth.

#### 1. Equal Opportunity

- (1) We offer equal opportunities to all qualified companies seeking to become our business partners.
- (2) All applicants are registered and selected in a rational manner following a fair and objective evaluation process.

#### 2. Fair Transaction Procedures

- (1) All business transactions are conducted under equitable circumstances. The terms and procedures of the transaction are to be sufficiently discussed between parties involved.
- (2) The use of prominence in position to execute an unjust transaction is forbidden.
- (3) Information required for a transaction is exchanged through appropriate procedures in a timely manner. Transaction results are evaluated on a regular basis where complementary measures are mutually taken.

#### 3. Support and Aid for Business Partners

- (1) We support the long-term growth of our dealers and vendors by enhancing their competitiveness through technological and managerial assistance. We share the profits derived from business innovations.
- (2) We pursue cooperation with our dealers and vendors in a mutual effort to promote a healthy trading environment and maintain a fair trading system.

## Chapter 4 Basic Ethics for Employees

LG employees establish correct values, based on honesty and fairness, by equitably performing tasks as appointed by the company and through continuous self development.

### 1. Basic Ethics

- (1) LG employees take pride in their company and always maintain an honest and fair attitude.
- (2) LG employees keep a high standard of morality and continuously strive to maintain their personal dignity and the company's honor.

### 2. Completion of Duty

- (1) LG employees faithfully accomplish their duties in compliance with the visions and policies of the company.
- (2) Assigned duties are carried out in the best possible and fairest manner while observing relevant laws and regulations.
- (3) LG employees protect and preserve company property and do not divulge confidential information gained during employment.
- (4) LG employees exert themselves in enhancing work efficiency through open communication and cooperation with colleagues and related departments.

### 3. Self Development

LG employees formulate their respective ideal image of an exemplary employee and constantly strive to conform to the image through continuous self development.

### 4. Fairness in Performance

- (1) LG employees carry out their duties based on honesty and fairness, seeking to foster a sound business culture.
- (2) While performing their duties, LG employees do not accept any form of financial benefit from interested parties that may obstruct fair judgment.
- (3) LG employees do not participate in any immoral or unethical behaviors as prescribed by social norms in performing their duties to the company or in their personal lives.

### 5. Avoidance of Conflict with Company Interests

- (1) LG employees avoid any individual behaviors or relationships that are in conflict with company interests.
- (2) LG employees do not use company property to pursue their personal interests without prior permission.

## Chapter 5 Corporate Responsibilities to Employees

LG endeavors to respect the human dignity of its employees and provides fair treatment based on their abilities and performances. LG also strives to foster creativity among its employees.

### 1. Respect for Human Dignity

- (1) LG treats each employee with trust and affection and places a high value on individual human dignity.
- (2) LG takes great efforts to help employees attain pride and personal fulfillment by instilling a sense of ownership in their jobs.
- (3) LG establishes fair regulations and educational guidelines necessary for employees to perform their duties.

### 2. Fair Treatment

- (1) LG offers equal opportunities to all its employees based on their abilities and talents.
- (2) LG applies fair measures to evaluate abilities and performances of its employees, and rewards them accordingly.

### 3. Promoting Creativity

- (1) LG makes the utmost efforts to promote a working environment conducive to creative thinking and autonomous behaviors.
- (2) LG develops and manages its human resources on a long-term basis and gives active support to cultivating employees' abilities.
- (3) LG creates a mature organizational culture that highlights mutual trust, understanding and respects for personal lifestyles.

## Chapter 6 Responsibilities to Society and Country

LG contributes to national welfare and social development through rational business expansion providing stable growth as a corporation and protecting stockholder's interests.

### 1. Rational Business Development

- (1) LG conducts its business with respect to the social values at home and abroad.
- (2) LG promotes its business expansions based on stable corporate growth.

### 2. Protection of Stockholder Interest

LG protects its stockholders' interests by earning healthy profits through effective management.

### 3. Contribution to Social Development

LG contributes to national and social development through job creation, tax payment, and promotion of cultural and welfare programs.

### 4. Environmental Conservation

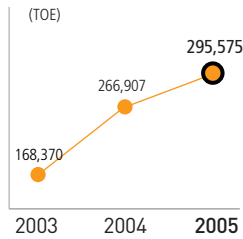
LG strives to prevent environmental pollution and employs all measures necessary to conserve precious natural resources.

## ENVIRONMENTAL DATA

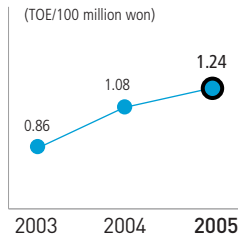
### Energy

\* Total energy use is the sum of power, gas, steam and oil use.

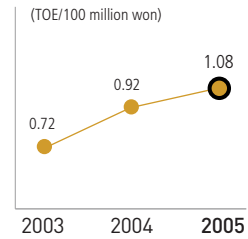
#### Total Energy Use



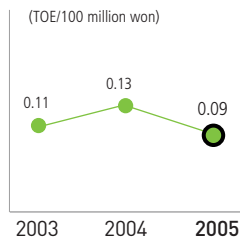
#### Total Energy Use (Basic unit)



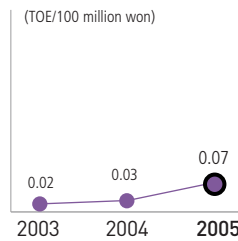
#### Power (Basic unit)



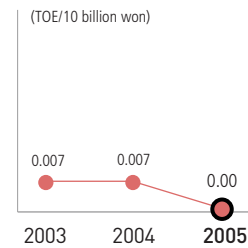
#### Gas (Basic unit)



#### Steam (Basic unit)

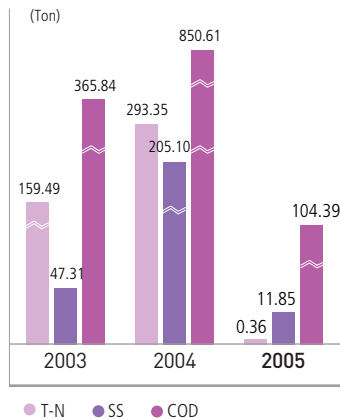


#### Oil (Basic unit)

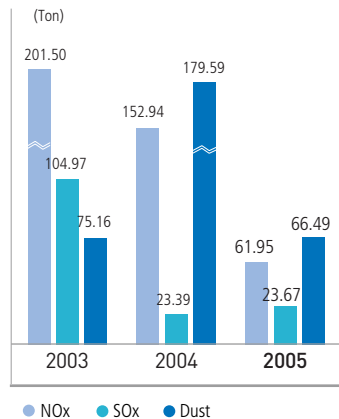


### Environment

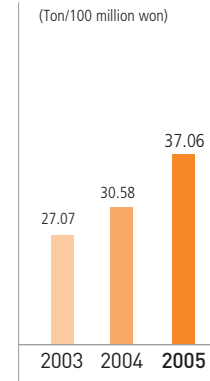
#### Major Water Pollutant Emissions



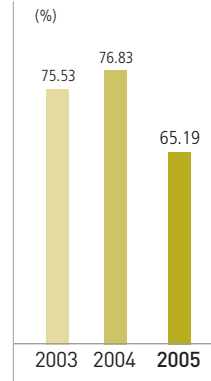
#### Major Air Pollutant Emissions



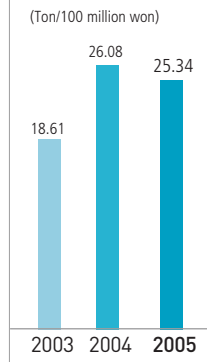
#### Water Usage (Basic unit)



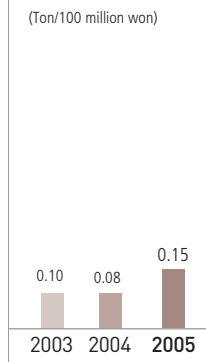
#### Recycling Rate



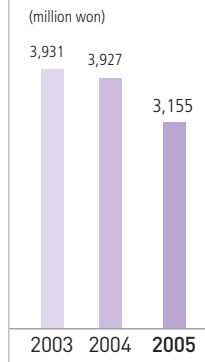
#### Load of Wastewater (Basic unit)



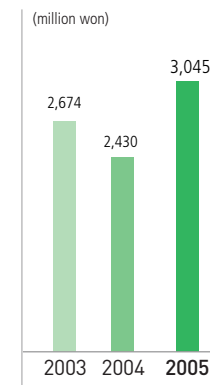
#### Load of Waste (Basic unit)



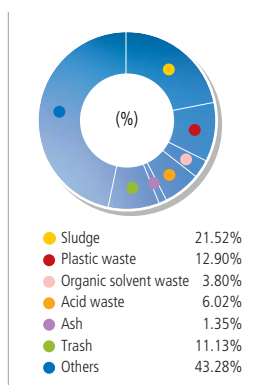
#### Cost of Water/Air Pollutant Disposal



#### Cost of Waste Disposal



#### Composition of Waste

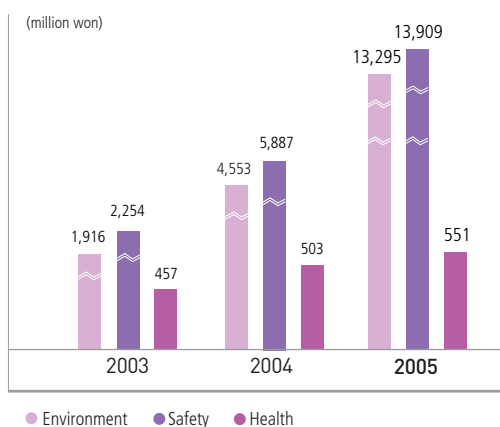


\* Recycled amount is excluded

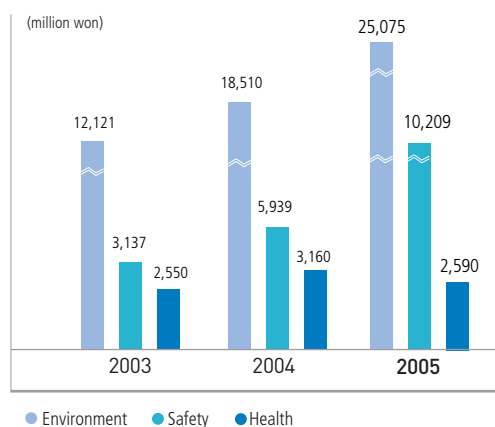


## Investment and Cost in EESH

## ◀ Investment ▶



## ◀ Cost ▶



## FINANCIAL DATA (Non-consolidated basis)

## ◀ Stability ▶

Category	2003	2004	2005
Current ratio	74.1%	82.9%	76.5%
Debt-to-equity ratio	221.8%	163.8%	127.8%
Total borrowings to total assets	33.6%	28.2%	23.5%
Interest expenses to operating profit	5.1x	6.3x	4.6x

## ◀ Profitability ▶

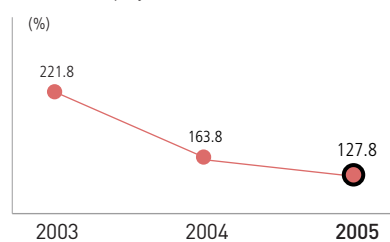
Category	2003	2004	2005
Operating profit margin	5.3%	5.1%	3.8%
Net profit margin	3.3%	6.3%	3.0%
ROA	6.2%	12.6%	5.2%
ROE	20.4%	36.3%	12.6%

## ◀ Growth and Turnover ▶

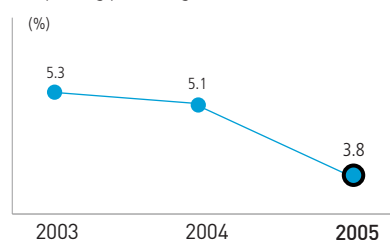
Category	2003	2004	2005
Sales growth	8.5%	22.2%	-3.6%
Operating profit growth	3.3%	17.7%	-26.8%
Total assets growth	11.3%	17.4%	6.1%
Assets turnover	1.9x	2.0x	1.7x

※To compare our 2003 results appropriately with the previous year, we have used pro forma full year 2002 numbers from January 1st to December 31st 2002. It should be noted that our company underwent a demerger in April 2002, and our official financial statements are based on a nine-month period from April to December 2002. And the sales on raw materials(outsourcing related) and PC Buy & Sell in 2002 are excluded for like-for-like comparisons.

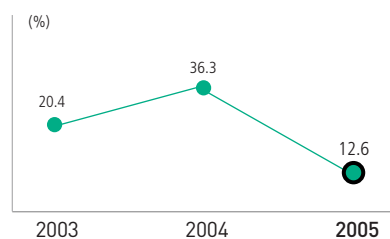
## ◀ Debt-to-equity ratio ▶



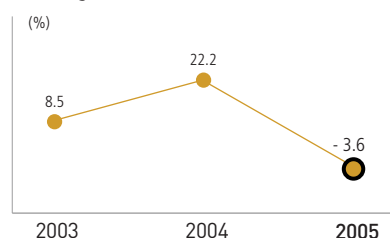
## ◀ Operating profit margin ▶



## ◀ ROE ▶



## ◀ Sales growth ▶



## ASSURANCE REPORT

To the readers of the LG Electronics Sustainability Report 2005

### INTRODUCTION

We have been engaged by LG Electronics to review specified information in the LG Electronics Sustainability Report 2005 (further referred to as The Report). The Report is the responsibility of the company's management. Our responsibility is to issue an assurance report on specified information in relation to the scope described below.

### CONTEXT AND SCOPE

In The Report LG Electronics describes its efforts and progress in relation to sustainability and reporting. Our engagement was designed to provide the readers of The Report with:

■ **Reasonable assurance on whether**

- the data on financial performance, as specified in the section 'Work undertaken and conclusions' are properly derived from the 2005 Non-Consolidated Financial Statements of LG Electronics;

■ **limited assurance on whether:**

- the data on the LG Electronics total energy consumption, total wastewater discharge and total waste disposal from the domestic operations of ten business sites of Mobile Communications(MC), Digital Appliances(DA), Digital Display(DD) and Digital Media(DM) divisions are reliable;
- the information in the following sections of The Report is fairly stated:
  - Social Contribution (pages 40 to 47);
  - Supporting Our Business Partners (pages 50 to 53);
  - Environment-friendly Product (pages 64 to 72);
  - Eco-friendly Manufacturing Process (pages 73 to 75).

'Fairly stated' means that the report properly reflects the information contained in the underlying sources such that it is consistent with the source information. Reasonable assurance is a higher level of assurance than limited assurance, which is reflected in the nature and depth of the work performed.

To obtain a thorough understanding of the financial results and financial position of LG Electronics, the reader should consult the LG Electronics audited Non-Consolidated Financial Statements for the year ended 31 December 2005.

### STANDARDS AND CRITERIA

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. Amongst others this standard requires that:

- the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in The Report, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence;
- when providing limited assurance, which is a lower level than reasonable assurance, a negative form of conclusion is used.

There are no generally accepted standards for reporting sustainability performance. LG Electronics applies its own internal sustainability performance reporting criteria, derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative.

### CONSIDERATIONS AND LIMITATIONS

Environmental, health, safety and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

## WORK UNDERTAKEN AND CONCLUSIONS

### ■ Financial data

We have reconciled the data on financial performance for the year 2005 listed below, with the audited 2005 Non-Consolidated Financial Statements of LG Electronics.

- Sales, Operating profit, Net income on page 6 and 82;
- Total shareholders' equity on page 6;
- Interest expenses, Interest income and Net interest expenses on page 83.

Based on the above, the data on financial performance, as specified above are properly derived from the 2005 Non-Consolidated Financial Statements of LG Electronics, for which the independent auditors issued an unqualified audit opinion dated January 21, 2006.

### ■ Total energy consumption, total wastewater discharge and total waste disposal

For the reliability of the data on the LG Electronics total energy consumption, total wastewater discharge and total waste disposal for the year 2005 we conducted:

- visits to LG Electronics Main Office, seven domestic operations out of ten business sites of Mobile Communications(MC), Digital Appliances(DA), Digital Display(DD) and Digital Media(DM) divisions;
- reviews of:
  - the data reported by the sites;
  - the systems used to generate, aggregate and report these data;
  - the internal controls at site level;
  - the calculations made at corporate level.

Based on the above, the data on the LG Electronics total energy consumption, total wastewater discharge and total waste disposal for the year 2005 do not appear to be unreliable.

### ■ Specific sections

For the information in the sections of The Report, as specified in the section 'Context and scope' we conducted:

- a review of the systems and processes used to generate this information;
- a review of internal documentation and intranet sources;
- interviews with staff responsible for the information.

Following our review we discussed changes to the draft Report with LG Electronics, and reviewed the final version of The Report to ensure that it reflected our findings.

Based on the above, the information in the sections: Social Contribution, Supporting Our Business Partners, Environment-friendly Product, Eco-friendly Manufacturing Process in The Report does not appear to be unfairly stated.

## COMMENTARY

Without affecting the conclusions presented above, we would like to draw readers' attention to the following:

A thorough attention is required for standardization of data generation, aggregation and reporting scheme due to variety of the product range from each division of LG Electronics. In this sense we recommend LG Electronics to pay more attention to manage sustainability performances at divisions systematically through creating empowered Corporate Sustainability Management (CSM) team. The main focus of The Report is the operations in Korea. As LG Electronics' operations include consolidated activities outside Korea, we recommend LG Electronics to extend the scope of its sustainability report to consolidated activities where LG Electronics owns a majority share. We have discussed our observations regarding the reporting process outside the scope of our assignment with LG Electronics management. We found them receptive to our comments regarding the report and the reporting process.



6 September 2006  
KPMG Samjong Accounting Corporation

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## | Contact information |

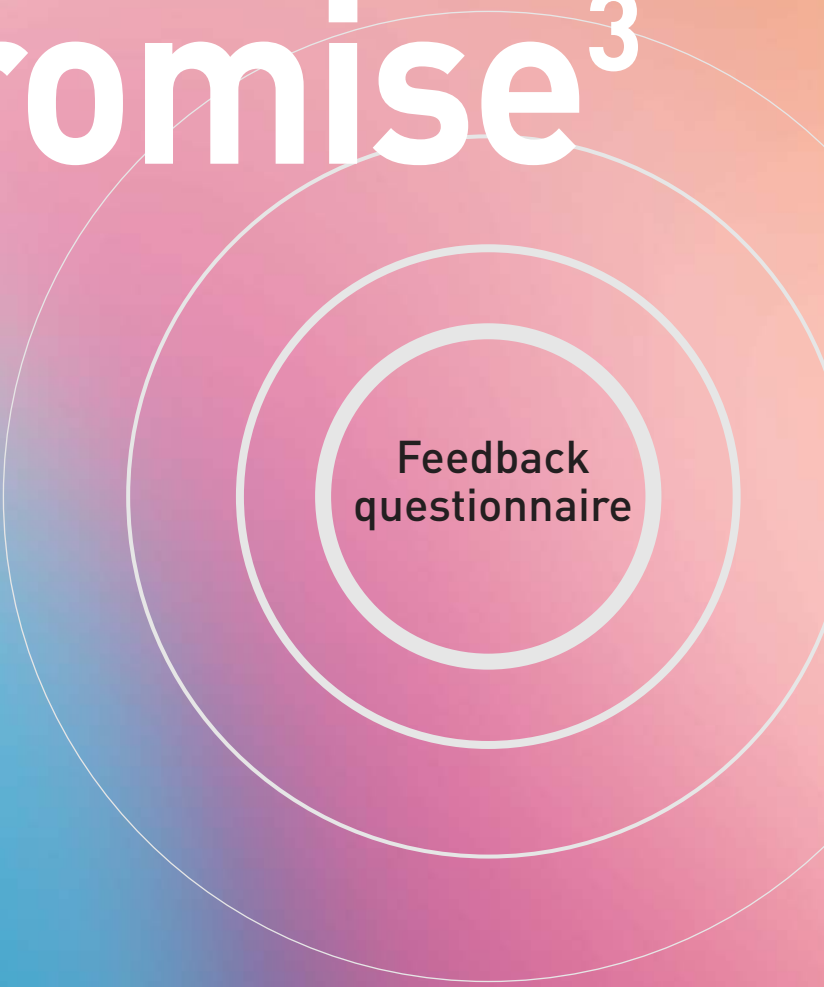
Various departments of LG Electronics contributed to preparing this report to ensure the accuracy of information provided herein. Led by the CSM Task, the management strategy, human resources, labor-management, environment and safety, quality and purchasing, communications, investor relations departments assisted with the report. Each of the divisions also gave their input. LG Electronics will continue with efforts to provide accurate information via the Sustainability Report. We look forward to feedback and constructive criticism from all our stakeholders.

Please send all comments on this report via the contact details provided below.

**CSM Task, LG Electronics** LG Twin Towers, 20 Yeoido-dong, Yeongdeungpo-gu, Seoul 150-721, Korea  
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Sustainability Report **2005**

# Promise<sup>3</sup>

Three concentric circles are positioned on the right side of the page, centered vertically. The innermost circle is the smallest, followed by a medium-sized circle, and then a large outer circle. The text 'Feedback questionnaire' is centered within the innermost circle.

**Feedback  
questionnaire**

## Feedback questionnaire

Please take a few minutes to fill in this feedback questionnaire to tell us what you think about our first Sustainability Report. Your valued opinions will be reflected in improving future editions.

### 1. To which of the following groups do you belong?

- ☐ Employee    ☐ Civic group    ☐ Shareholder and financial institution    ☐ Local resident  
☐ Customer    ☐ Academia    ☐ Partner firm    ☐ Other: \_\_\_\_\_

### 2. What specific information were you looking for and for what purpose did you read this Report?

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### 3. How credible was the Report's information in the following areas?

- |                   |             |                                |                                |                                |                                |                                |             |
|-------------------|-------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------|
| Management system | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| People            | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| Planet            | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| Prosperity        | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |

### 4. How would you rate the Report on the following items?

- |                        |             |                                |                                |                                |                                |                                |             |
|------------------------|-------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------|
| Clarity of information | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| Design                 | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| Overall satisfaction   | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |

### 5. How satisfied were you with LG Electronics' activities in the following areas?

- |                   |             |                                |                                |                                |                                |                                |             |
|-------------------|-------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------|
| Management system | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| People            | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| Planet            | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |
| Prosperity        | ◀ Very poor | <input type="text" value="1"/> | <input type="text" value="2"/> | <input type="text" value="3"/> | <input type="text" value="4"/> | <input type="text" value="5"/> | Very good ▶ |

### 6. Do you have any additional opinions on LG Electronics' activities or Sustainability Report?

If so, please specify.

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### 7. Please provide your address and contact details if you would like to receive future editions of our Sustainability Report.

- Name: \_\_\_\_\_ ■ Telephone number: \_\_\_\_\_  
■ Address: \_\_\_\_\_  
■ Company: \_\_\_\_\_ ■ e-mail: \_\_\_\_\_

