

## **Toward responsible sourcing:**

### **Suppliers' chemical management**

When we learned about a methanol incident associated with a third-tier supplier, LG Electronics took immediate action to address this serious situation. LG carried out inspections of methanol usage at all of our supplier locations and implemented follow-up measures including discontinuing the use of methanol and replacing it with a safer alternative. We identified 69 suppliers that were handling methanol, and audited their chemical management programs in 2016. At the same time, LG issued an official notice to all suppliers communicating LG's new policy prohibiting the use of methanol.

LG's supplier risk management program typically only manages first- and second-tier suppliers; however, through this case we recognized the importance of addressing such issue with sub-tier suppliers. With tens of thousands of sub-tier suppliers, it is very challenging to actively manage all risks. So we have taken measures to strengthen the CSR risk management capabilities of first- and second-tier suppliers primarily through increased training. For example, in 2016, more than 100 CEOs from major suppliers received training from LG on hazardous chemical management. And in 2017, 105 CEOs will receive additional training in 2017. Through this effort we hope sustainability activity will be integrated in the management of suppliers as a basic element ultimately.

In addition, we also identified high-risk suppliers in terms of all hazardous chemicals usage. For those 145 high risk suppliers, a new cooperative program was started in 2016 with support of the government (Ministry of Employment and Labor and Korea Occupational Safety and Health Agency). This program consists of chemical risk assessment and technical/training support. In 2016, 56 mobile phone suppliers got support through this program, with 112 suppliers expected to join in 2017.

To prevent recurrence, we've updated our manual/checklist for hazardous chemical management and we've distributed an updated supplier code of conduct which includes criteria for strengthened chemical management. In addition, LG's supplier contract standard and irregular penalty standard have been strengthened in terms of chemical management. Also LG now includes chemical management criteria in our regular supplier assessment programs.