



Creating

2008 AMOREPACIFIC Sustainability Report

a beautiful life



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## Report Summary

### 1. Purpose

This, the first annual AMOREPACIFIC Sustainability Report, was issued to provide all stakeholders with a better understanding of what we are doing to protect the environment and improve the quality of people's lives. This Report also provides an opportunity for us to obtain your feedback and reflect it in our way of doing business. As such we aim to grow AMOREPACIFIC as a company that contributes to the ongoing development of society. In the interest of open and constant communication with you, this Report will be published every year.

### 2. Standards Followed

The 2008 AMOREPACIFIC Sustainability Report has been prepared in accordance with the G3 guidelines offered by the Global Reporting Initiative (GRI).

### 3. Period Covered

This report covers AMOREPACIFIC's activities from January 1 to December 31, 2008. Data from 2006 and 2007 have been included for comparative purposes, and some activities and performance results from 2009 have been added as well.

### 4. Scope

This report presents the activities and performance results of the AMOREPACIFIC Head Office, the R&D Center, Human Resources Development Center, regional offices, SCM division. Basic information is offered on subsidiaries, both overseas and domestic. We will maintain an open line of communication with the public by providing details of our programs, now underway according to sustainability management action plans, in future Reports.

### 5. Report Data Review

An outside agency examined this report to verify the accuracy and enhance the credibility of the contents.

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WE SUPPORT

We support the UN Global Compact and have made disclosures of our efforts to comply with the ten principles of the Compact in this report.

# Creating a beautiful life

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# The AMOREPACIFIC Beauty Philosophy



*As a company we aspire to help people enjoy a more beautiful and healthier life. Our focus is on the manifestation of true beauty, where the internal and the external are in harmony. We are spreading AMOREPACIFIC's philosophy of beauty aiming for a more beautiful world where every person can find his/her own color and fragrance by blossomy individual beauty and health.*



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## CEO Message

### To Our Stakeholders

AMOREPACIFIC has grown steadily as Korea's leading cosmetics company thanks in large part to your ongoing support over the past 64 years. Today, we are expanding globally as an "Asian Beauty Creator." We apply our in-depth understanding of nature and people to introduce the beauty secrets of Asia to the entire world. Our efforts to harmonize people and nature are also intended to develop AMOREPACIFIC as a "sagacious corporation that aspires to make a happier future for everybody." This Sustainability Report allows you to examine our corporate philosophy and activities and determine for yourself how well our mission is being fulfilled.

Sustainability has remained a corporate priority since our foundation in 1945. Our corporate philosophy stresses that we earn our customers' respect and trust by offering the best from nature, applying technology with care and ensuring products with top quality. Materials were in chronic short supply when we started out, forcing us to conserve and be innovative. That practice has continued to this day, becoming the guiding principle for sustainable management.

In this spirit, we carefully researched indigenous Asian botanicals such as camellia oil, red ginseng, bamboo sap, and extracts from green tea for use as high quality ingredients in our products. We proclaimed our unconditional responsibility toward environmental protection in 1993 and adopted environment-friendly approaches to all aspects of our business, from raw materials and production technologies to supply networks, products, package design and packaging materials. Since taking part in the UN Global Compact in 2007, we have become more committed to fulfilling our role as a global citizen with full support for the ten principles of UNGC.





Moreover, AMOREPACIFIC Founder Sung-Hwan Suh believed firmly in corporate social responsibility, asserting that the enterprise exists within society and must prosper in concert with customers and society. The philosophy of sharing is deeply rooted in the AMOREPACIFIC corporate culture. Our CSR programs, which target mainly women, are driven by the involvement of our employees, who learn the joy of sharing and progressing together in a spirit of gratitude.

In the future, we will continue to practice sustainable management by pursuing a harmonious balance among nature, people and corporate enterprise. "Nature" is where our business activities begin, and we will continue to research and innovate in order to minimize the environmental impact of all our products and work processes.


We strive to grow as a sustainable operation in which "people" are of central importance. To this end, AMOREPACIFIC is being developed as a company that employees can be passionate about, that partners want to work with and that customers respect and trust. Our corporate mission is to be the "Asian Beauty Creator," promoting Asian beauty to the global audience. Our source of inspiration in this quest is the phrase *Illohyanggak* (一爐香閣) "From a single censor to an incense hall." It describes the act of cultivating the individual mindset to generate a great fragrance. In this spirit, we will work to create a magnificent synergy among nature, people and AMOREPACIFIC as we advance to make the world a more beautiful place for all.

**Kyung-Bae Suh**, President & CEO  
AMOREPACIFIC Corporation




## Introduction

# AMOREPACIFIC is a global player that makes beauty come to life




*AMOREPACIFIC, established in 1945,  
has continued to lead the Korean cosmetics market  
by providing innovative products  
and exceptional customer satisfaction.*

*Over the past 64 years we have acquired keen insight into our customers  
and the capabilities to develop superior products. Our powerful brand name  
and dominant market position are driving our steady growth.*



*Today AMOREPACIFIC is emerging  
as the "Asian Beauty Creator" on the global stage.  
Our mission is now to help people everywhere realize  
their perpetual dreams of beauty and good health.*



# We are providing our global beauty customers with new value

## Sustainable Development Milestones

**Feb. 2009**  
Named "most respected company in Korea"  
(by Korea Management Association)

**Nov. 2008**  
Received Presidential Prize for Sustainable  
Management  
(from Ministry of Knowledge & Economy)

**Oct. 2008**  
Received Green Management Prize  
(from Korea Management Association)

**Sept. 2008**  
Ranked 1st in domestic customer satisfaction  
(Korea Productivity Center)

**Dec. 2007**  
Received Korea Sustainable Management Prize  
(from Korea Economic Daily)

**Nov. 2007**  
Joined UN Global Compact

**Oct. 2007**  
Received Korea Value Creation Company  
Prize  
(from Korea Economic Daily)

**Jul. 2007**  
Qualified for Ecocert certification

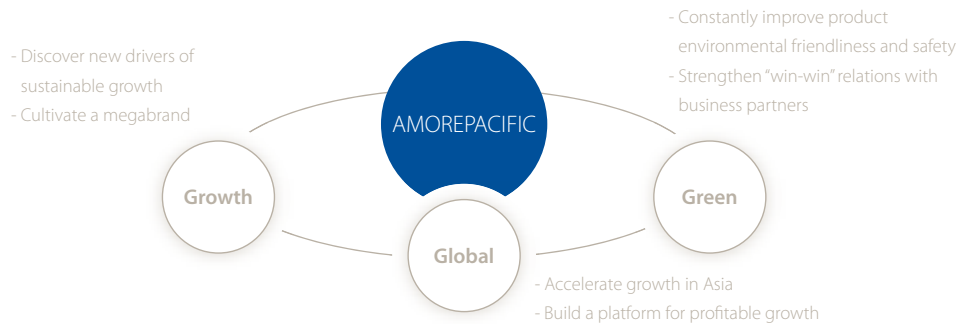
## Introduction to AMOREPACIFIC

### Vision for 2015

AMOREPACIFIC is determined to become a "global total care provider of beauty & health" and a top-class global company by building up mega brands.

### Direction of mid-/long-term Strategy

We will continue to uncover drivers of future growth, applying our Asian beauty secrets to develop products that satisfy global demands, and expand our global market position. In the process, we will lay the groundwork for sustainable growth. At the same time, we will grow as a respected company that acts responsibly by minimizing environmental impact and focusing on the needs of all stakeholders.



### AMOREPACIFIC Way

We instituted the AMOREPACIFIC Way in 2008 as a set of core values and code of conduct for employees worldwide to share and follow in their roles as the "Asian Beauty Creator."

This credo covers the five core values of openness, innovation, proximity, sincerity and challenge. "Openness" is the belief that true innovation and growth occur only when communication is taking place with those outside the organization. "Innovation" is the passion to introduce new things to the world at all times, and "proximity" refers to the willingness to remain at the customers' side in order to serve them. By "sincerity" we mean a commitment to performing every task, no matter how small, to the very best of our abilities. Finally, "challenge" expresses the spirit of never being satisfied with the status quo.



## Major Brands & Products

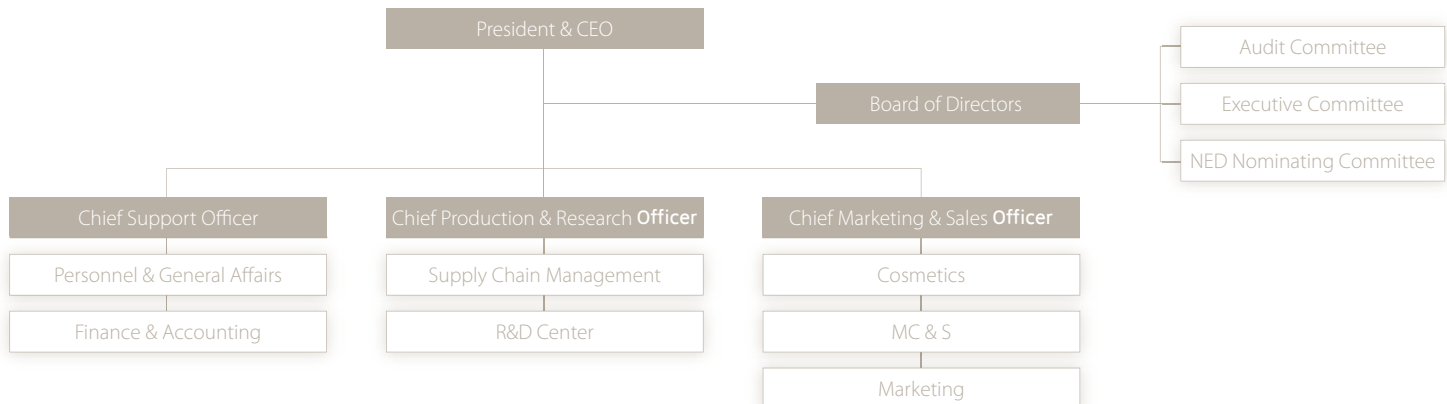
### Cosmetics



### Mass Cosmetic & Sulloc



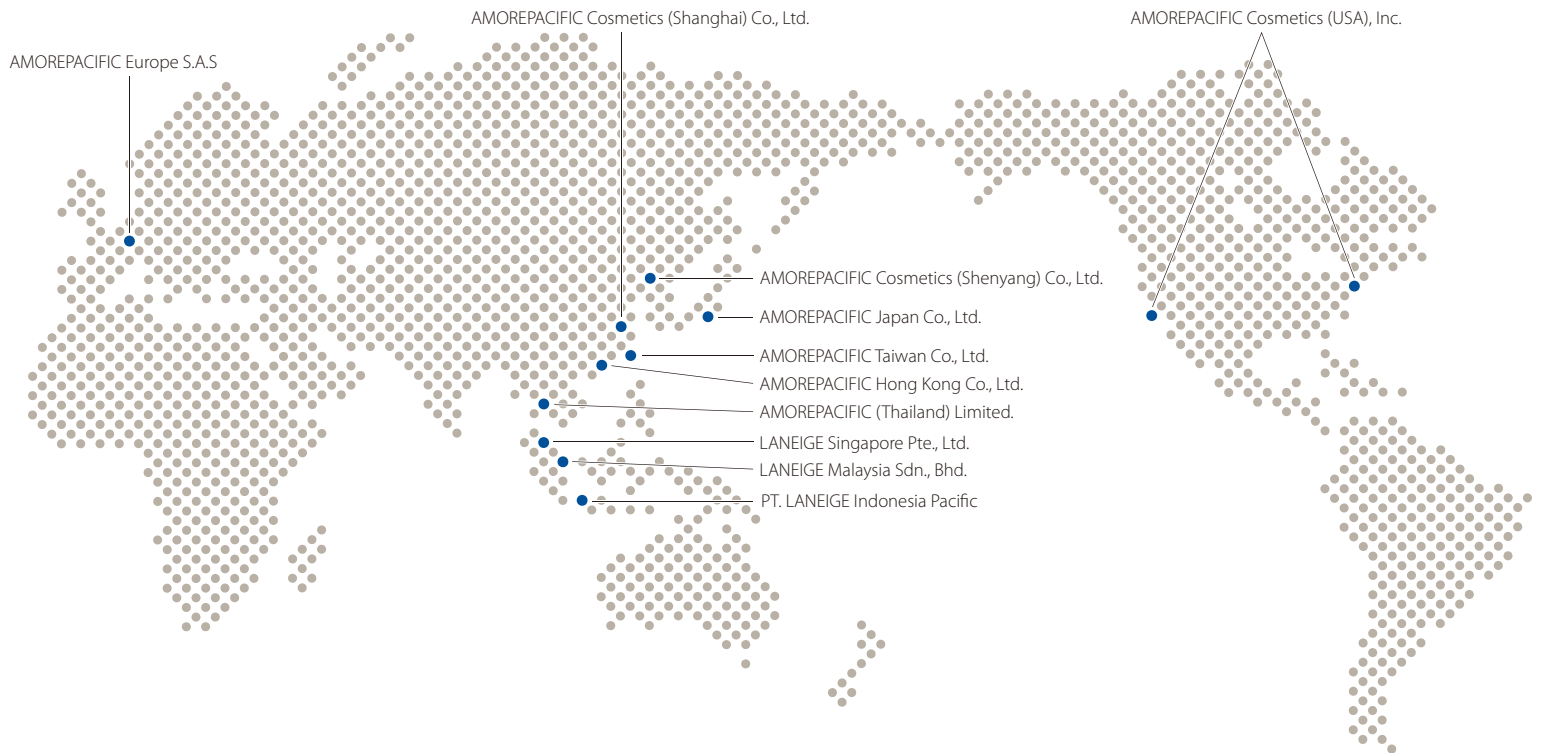
## Organizational Chart





## Business Sites

### Overseas Operations



### Domestic Operations



### Domestic Workforce (persons)

Dec. 2008  
Total 3,557

♂ ♀ = 20  
Male Female

Men 1,434

885

362

187

Administration  
2,577

Production  
617

R&D  
363

Women 2,123

1,692

255

176



## We have built a transparent governance structure for competing globally

### Corporate Governance Structure

AMOREPACIFIC was restructured under a holding company in June 2006 in order to bring the governance structure in line with global standards and to focus core competencies on the beauty and health businesses. At the same time, management was made more accountable and individual units became more specialized with stronger core competencies.

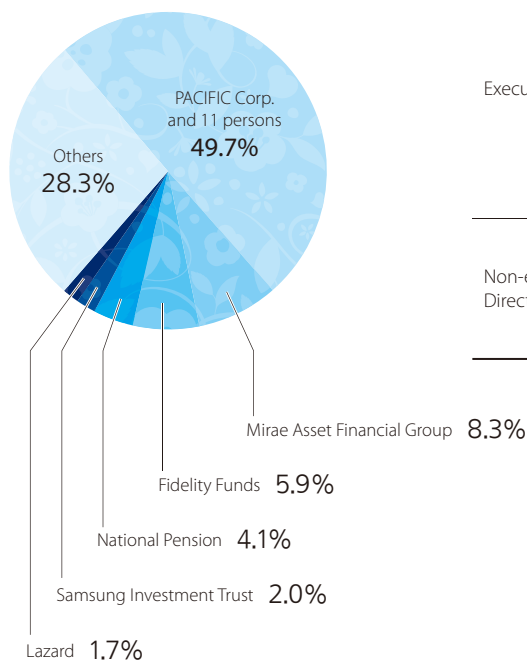
#### BOD Composition & Operation

The AMOREPACIFIC Board of Directors has nine registered members. Six are executive directors who work for the company, and three are non-executive directors (NEDs). Each executive director was recommended for his position by the chief of his organizational unit. The NEDs are professionally qualified in management or accounting and have extensive experience working outside AMOREPACIFIC. They are nominated to serve as NEDs by a special committee, and their nomination must be approved by vote at the general shareholders' meeting. The NEDs attended every regular and extraordinary BOD meeting conducted during 2008, and their professional opinions are reflected in the decisions made by the Board.

The Audit Committee, Executive Committee, and Nominating Committee for Non-executive Directors convene under the auspices of the BOD to improve overall decision-making efficiency. These committees discuss and decide on key issues, and their conclusions are subject to Board approval. For the benefit of shareholders, all final decisions by the Board of Directors are disclosed to the Korean government's Financial Supervisory Service and Korea Stock Exchange.

### Major Shareholders

(Based on common stockholdings at the end of 2008)



### Current Board of Directors (2009)

	Director Name	Responsibilities	Position
Executive Directors	Kyung-Bae Suh	Overall Management	CEO, BOD Chairman
	Sang-Bae Shim	Production and R&D	Exec. Committee
	Dong-Hyun Bae	Business Support	CFO, Exec. Committee NED Nominating Committee Member
	Young-So Kwon	Sales & Marketing	Exec. Committee
	Chang-Soo Yang	Marketing	Exec. Committee
	Hak-Hee Kang	R&D	Exec. Committee
Non-executive Directors	Lee-Seok Hwang		Audit Committee Chairman
	Jae-Yong Song		Audit Committee, NED Nominating Committee
	Joo-Young Jung		Audit Committee

# A Global Player & Asia's Most Respected Beauty Company

## Sustainable Management System

### Sustainable Management Vision and Strategic Directions

AMOREPACIFIC today is building the platform for the next 100 years of doing business. A new system was introduced in 2008 to upgrade the way in which we pursue our sustainable management objectives. We also established a vision for our new sustainable management program: to be a global player and Asia's most respected company of global beauty products by 2015. We have established five strategic directions in which to pursue this vision and identified core tasks for reaching our objectives.

### Operational Apparatus

The Sustainable Management Committee has been created to provide the last word on our new policy. The Committee establishes the strategies for practicing sustainable management and ensures the strategies are maintained so that the entire company remains on the same course. In the process, the various organizational units are encouraged to work closely together. Meanwhile, we established the Sustainable Management Office to serve as an internal and external communication channel, and we formed the Sustainable Management Working Group, which consists of the key people who are responsible for sustainable management implementation.



## 5 Strategic Directions

### Make Safe Products & Innovate for Sustainability

Continue to improve product safety and innovate for sustainability, thereby earning customer trust and creating growth opportunities.

### Reduce Environmental Impact Companywide

Minimize environmental impact along the entire value chain and raise eco-efficiency.

### Be a Place where People Want to Work

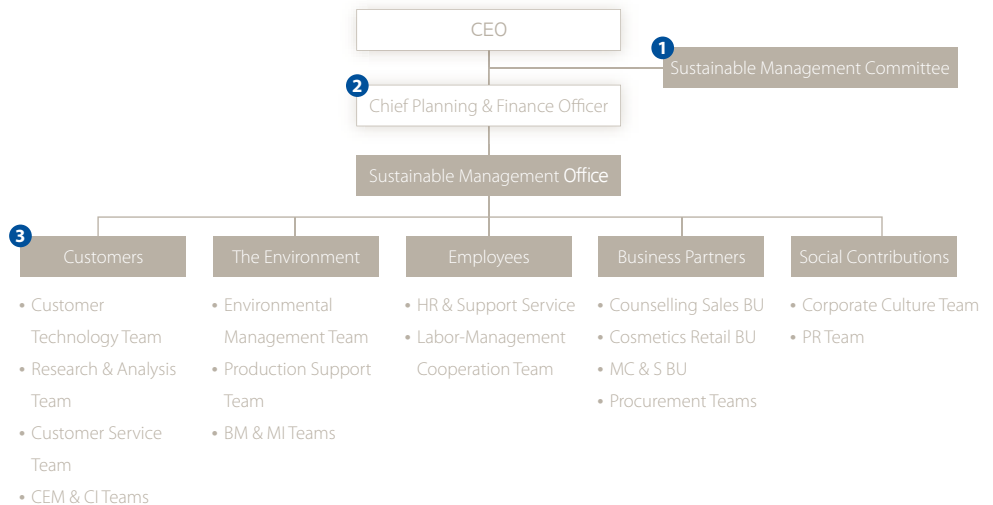
Continue to improve working conditions and ensure employees can balance their work with their personal lives for greater satisfaction and a higher quality of life.

### Prosper alongside Business Partners

Treat all business partners fairly and build long-term relationships with them.

### Make Meaningful Contributions to Society

Foster the image of a socially responsible company by engaging in community service programs that are ongoing and significant.



- Sustainable Management Committee: Final Decision Maker**
  - Offers the directions in which sustainable management is to go
  - Reviews and decides key issues
- Sustainable Management Office: Control Tower**
  - Establishes strategies to practice sustainable management companywide and identifies the required actions to take
  - Manages projects for advancing the sustainable management program
  - Serves as communication channel with the outside and oversees the issuance of reports
- Sustainable Management Working Group: Policy Implementer**
  - Implements tasks to advance sustainability management
  - Reports on progress and issues to be resolved
  - Helps to publish the Sustainable Management Report

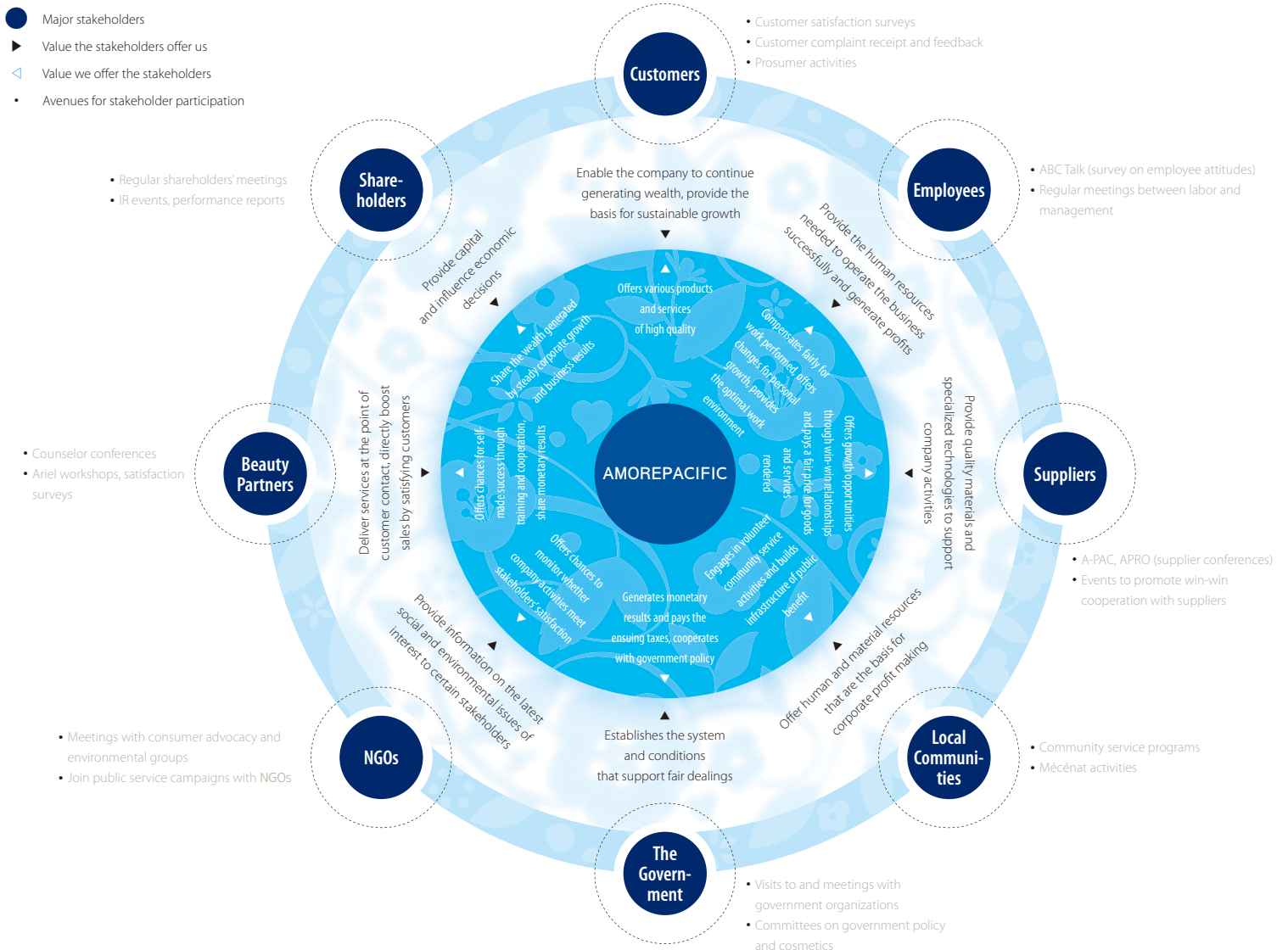
# Active Communication with Stakeholders

## Stakeholder Participation

We understand that we need the interest and support of all stakeholders, both internal (employees) and external, in order to grow as a global player in the beauty business. We consider stakeholder involvement in our activities to be important, and we are committed to responding to stakeholder expectations and concerns.

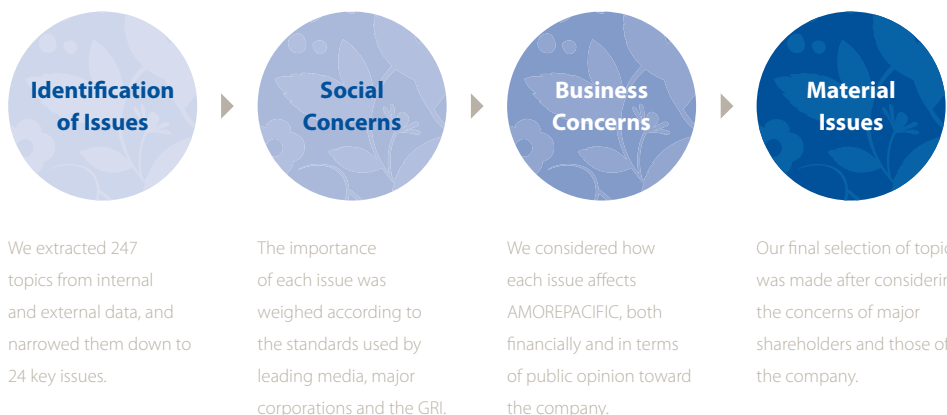
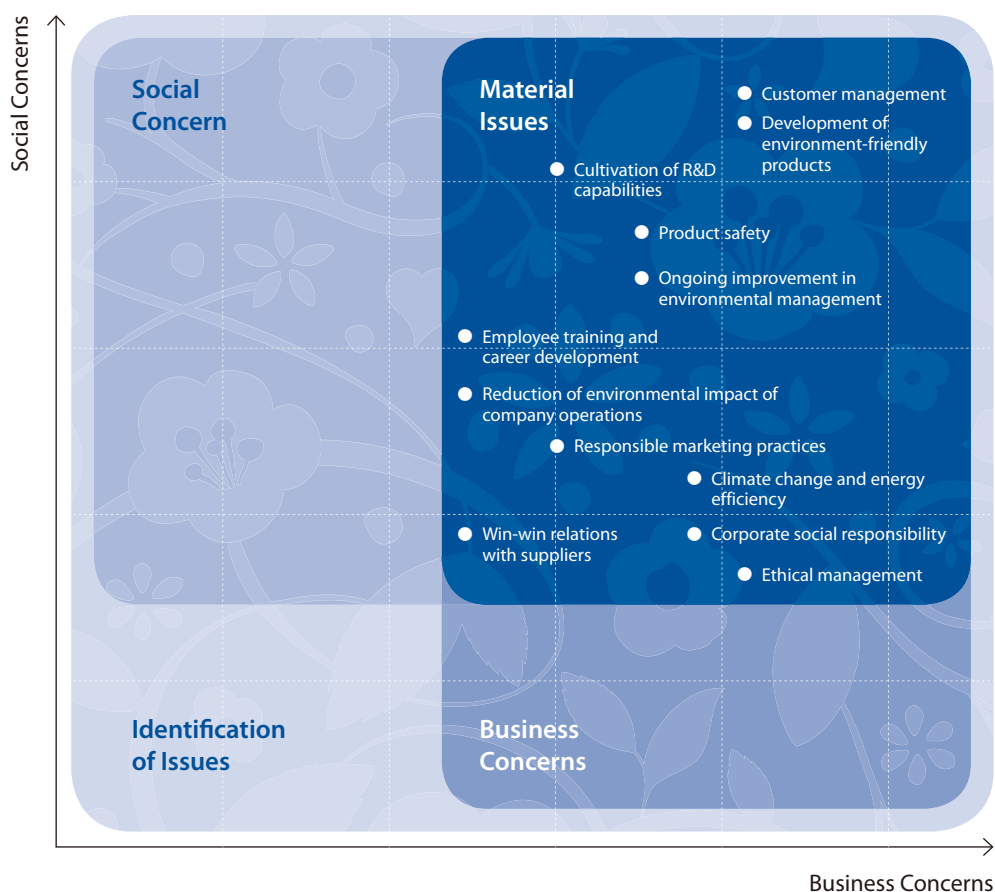
### Framework for Stakeholder Participation

Our stakeholders can be classified generally as customers, employees, suppliers, local communities, the government, NGOs, beauty partners, and shareholders. We communicate to each group in a variety of ways. In the future, communication will be stepped up even more as part of our efforts to be the company that stakeholders can count on. The following graphic describes who our major stakeholders are, the relations we share with individual stakeholders, and our major communication activities with them:



### Key Issues for AMOREPACIFIC

In conjunction with the 2008 Sustainability Report, we have ascertained the issues that internal and external stakeholders consider important. These issues have been objectively analyzed to establish our priorities. The topics covered in this report were selected because they are of concern to all stakeholders.



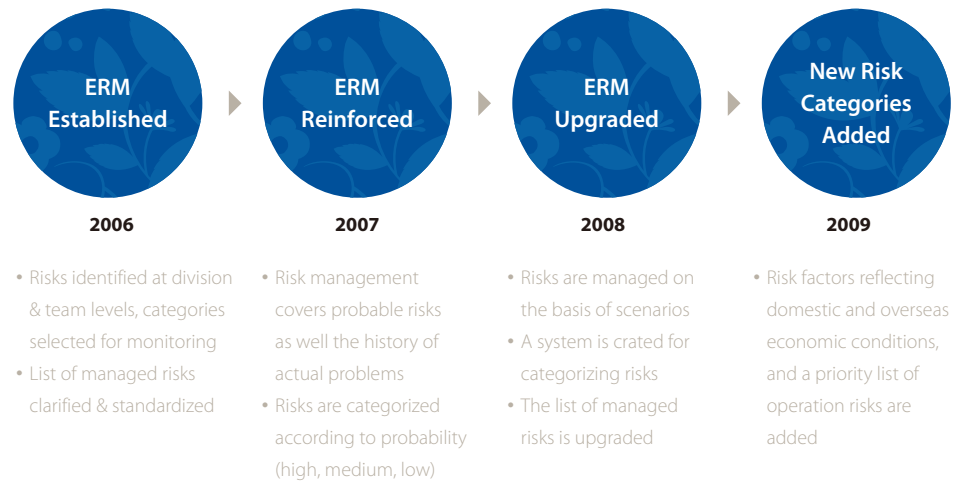
## We have intergrated our system to manage risk effectively

### Risk Management

The rapidly changing business environment and multiplication of social and environmental issues have required a companywide approach to manage risks. Thus, AMOREPACIFIC has been working on effective ways to predict and manage risk since the second half of 2005. The focus has been on monitoring anticipated as well as actual risk. Moreover, our corporate-level Risk Management Committee provides the platform for adopting the right measures at the right time through rapid communication between top management and the related organizational units.

#### Risk Management by Year

	2006	2007	2008
Potential risks managed	98	119	123
Actual problem occurred	29	47	71



**Note:** ERM stands for "enterprise risk management," a companywide approach

In 2008 we reinforced the company's abilities to prepare for risks and respond when actual problems occur. We established a risk categorization system that includes social and environmental issues. The risk prevention and management system was integrated companywide. In the future, we will continue to build our risk management system. Consumer interests and needs will be segmented and the political, economic and social situations in overseas regions will be reflected in step with our global expansion.

## We are engaged in sound corporate activities through transparent ethical management

### Ethical Management

AMOREPACIFIC announced a new ethical management policy in September 2003. The policy is developed to achieve sound company goals through clear awareness of business ethics and proper business practices. As the same time, we aim to fulfill our corporate social responsibilities and contribute to social development as a corporate citizen. This policy represents a new set of standards and prerequisites for carrying out the business activities that enable us to realize the AMOREPACIFIC corporate mission. Applied programs are in place for the employees to get used to the ethical business practices.



Blue Book, a manual on ethical business practices

### New Code of Ethics & Stronger Training on Ethics

We have built the infrastructure for effective ethical management. A Code of Ethics has been implemented, and all employees have signed a pledge to abide by it. We have also established an organization, with the Corporate Ethics Committee at the center, to ensure compliance, and we are running various training programs and awareness campaigns on proper ethical conduct. The Blue Book, a manual of business ethics, has been published to help our employees do the right thing when faced with an ethical dilemma. Online training programs (“Ethical Management is Global Competitiveness” and “Beautiful Company, Ethical Leader”) have been developed for all employees, and a campaign is launched each year to encourage employees to refrain from giving or accepting gifts in work-related situations. An online channel is also available for whistleblowers who witness irregularities that occur despite the ethics training and various other preventative activities. Moreover, the ethical management is being expanded beyond the AMOREPACIFIC Head Office to include suppliers and overseas subsidiaries.



Poster promoting ethical management

### Participants in Ethical Management Training, 2006-2008 (persons)

	2006	2007	2008
Ethical Management is Global Competitiveness	2,852 (91.0%)	2,982 (90.4%)	3,156 (88.7%)
Beautiful Company, Ethical Leader	-	699 (19.7%)	705 (19.8%)
Total Workforce	3,134	3,297	3,557

Note: The training is mandatory for all members of middle and upper management.

### Voluntary Compliance with Fair Trade Policy

Our employees are taught the corporate commitment to fair trade practices, and they voluntarily adhere to this policy while doing their jobs. We monitor their compliance constantly to prevent and detect violations to company rules. As a result of the efforts, the Korea Fair Trade Commission gave AMOREPACIFIC’s voluntary compliance program an “A” rating in 2007. In 2008, the company hired a law firm to perform a legal audit and identify areas that need corrections. We also revised the handbook on voluntary compliance and updated our training program to reflect changes in the retail environment and Korea’s fair trade laws. Employees can also log onto a new website to get answers to questions about fair trade issues. We surveyed all employees in 2008 to ascertain their awareness of the voluntary fair trade compliance program, and their feedback is being used to reinforce any weaknesses.



Sticker for the campaign to refrain from giving and receiving gifts

# AMOREPACIFIC remains at the center of change

*Customers and markets are constantly transforming. We stay ahead of these changes so that our growth today can be maintained tomorrow. We have the people and systems that we need to succeed in the global market, and we pursue customer-oriented innovations to grow and advance. In the process we aim to be the Asian Beauty Creator that is embraced worldwide.*





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## Sustainable Growth

# We continue to grow through challenge and innovation

*AMOREPACIFIC continued to grow  
and advance despite the difficult economic conditions  
created by the global downturn in 2008.*

*Ongoing investment and innovation allowed us to bolster  
our market leadership and competitiveness,  
which in turn accelerated our growth.*

*Moreover, our business divisions analyze their respective markets quickly  
and respond proactively to changes.*

*We develop products that reflect customer needs,  
laying a solid platform for major global markets.*





## We built a platform for new growth by responding rapidly to markets and customer needs

### Major Accomplishments

#### Cosmetics

The global economic crisis dampened overall consumption, yet our global sales of cosmetics rose 17 percent year on year and our market position grew stronger. We responded rapidly to a changing clientele and raised brand value by expanding the types and functions of our current megabrands and by introducing new products and brands. Meanwhile, unique innovations to AMOREPACIFIC sales channels have brought strong market leadership and elevated competitiveness.



AMOREPACIFIC: a global brand that presents traditional Asian beauty to the modern consumer

Domestic sales of luxury cosmetics rose 8 percent year on year during 2008. This improvement was due to our expanding product types and functions in the Sulwhasoo and Hera lines of as well as greater recognition of the AMOREPACIFIC brand. Sulwhasoo sales remained on a steady growth track, topping KRW500 billion for the year. We also introduced the Sulwhasoo Jungyang line for men, expanding our customer base and furthering our leadership in the market for cosmetics derived from herbal medicines.



Sulwhasoo: delicate Korean herbal medicine aesthetics that embody the wisdom of beauty

New additions to the Hera line included Renewal serum and the Derma solution line in an innovative package that include cosmetics as well as applicators, heightening the “young luxury” brand image. Sales outlets for the AMOREPACIFIC brand were expanded, particularly at luxury department stores. The Time Response Line products were reinforced, enhancing the brand image and broadening the customer base.

V=B Program, the “inner beauty” brand designed for healthy beauty, reached “megabrand” status in 2008 with sales topping KRW100 billion. Contributing to the strong showing was the popular new S'lite Slimmer DX.



Hera: the promise of radiant beauty

Door-to-door sales rose 6 percent year on year, as more than 32,000+ “counselors” (agents) working for AMOREPACIFIC have received upgraded training to improve their skills and had a more diversified product lineup to sell. We upgraded the counselors’ sales model to raise their income, improved their communication with us, and enhanced the customer relationship management (CRM) program. A solid business platform was thus created so the company and the counselors can grow together.

Department store sales were 14 percent higher in 2008, marking the second straight year for robust growth. This success was due to heightened CRM activities and improved services. We steadfastly maintained our position as Korea’s top selling cosmetics brand at department stores amid intense competition from foreign brands.



IOPE: natural life science that breathes within the skin



Laneige: the science of water and light for young Asian women

Sales of premium cosmetics rose 31 percent over the previous year. The business was boosted by the launch of the Hannule brand and the expansion and upgrade of function line in the IPOE and Laneige brands.

Hannule is a new brand that targets the premium herbal medicine segment, and the influx of young buyers of herbal medicine products has provided a platform for increased growth. Meanwhile, the IOPE acquired a cosmeceutical cachet with the introduction of the innovative Plant Stem Cell line, the first Korean-made skin care products to contain plant stem cells. Best-selling additions to the Laneige line include Sliding Pact EX as well as Laneige Hydra Solution, associated with a Himalayan glacier. We also expanded our premium lines and increased the number of Laneige sales counters at department stores to elevate the stature of a global premium brand targeting the youth segment. This move attracted an influx of new buyers in their 20s.

Aritaum was launched in 2008 as a specialized franchise that strengthens the leadership of AMOREPACIFIC in the specialty store channel. Aritaum shops are former HUE Place shops that have been converted to carry only AMOREPACIFIC products. The initial launch was begun in September, and a total of 890 Aritaum shops were opened nationwide within just three months.

Aritaum customers receive a total beauty package that includes customized counseling services and solutions for individual skin types in a store environment. Thus, Aritaum has moved beyond concept of the specialized franchise to lead the transition and upgrade of specialty stores as well as profitable growth. This is a business model that allows customers, shop owners and AMOREPACIFIC to all win.



Aritaum, a specialized franchise that provides total beauty packages



Ryoe: a premium hair care brand developed from traditional herbs (Oriental herbal medicine ingredients)



Sulloc Green Tea: from the pristine snow-covered slopes of Mt. Halla

### Personal Care and Green Tea Products

One of our priorities over the past three years has been to develop our personal care and green tea businesses into mainstay categories and brands. Specifically we have worked on increasing our market share within these segments and raising profitability. Despite difficulties from a steep rise in raw material prices in 2008, we launched specialty products and pioneered new niche markets to satisfy customers and elevate our market leadership.

Our sales of personal care and green tea products rose 5 percent year on year in 2008 amid adverse business conditions. Ryoe, the herbal hair care brand, helps to boost personal care product sales and establish a firm position in the specialty shampoo segment. Happy Bath, Korea's most popular body cleansing brand, enjoyed brisk sales growth after baby care and sun care products were added and the body moisturizer line was expanded. New special-purpose items were inserted into our Median brand, a mainstay in the oral care segment. The specialty "H" line was newly introduced, while our Fresh line saw steady growth. As a result, we achieved a strong sales growth of more than 20 percent in the oral care market.

Our green tea sales fell along with the overall contraction of the Korean green tea market. However, we expanded O'sulloc Tea Shops in department stores and discount stores to sell our Sulloc brand. We also introduced a premium teabag. These are part of ongoing efforts to turn this segment around.

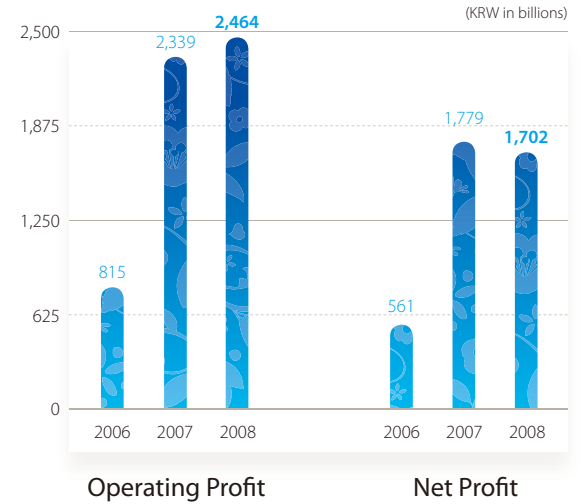
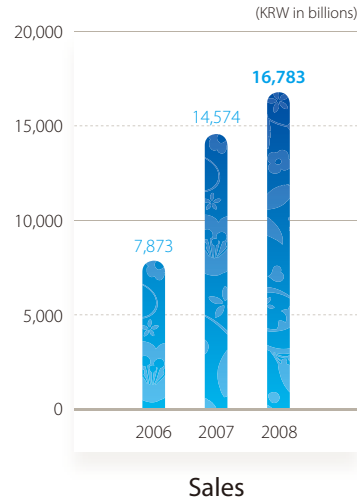


O'sulloc Tea House: popularizing green tea consumption

We maintained our steady growth despite the slowdown from the global economic crisis

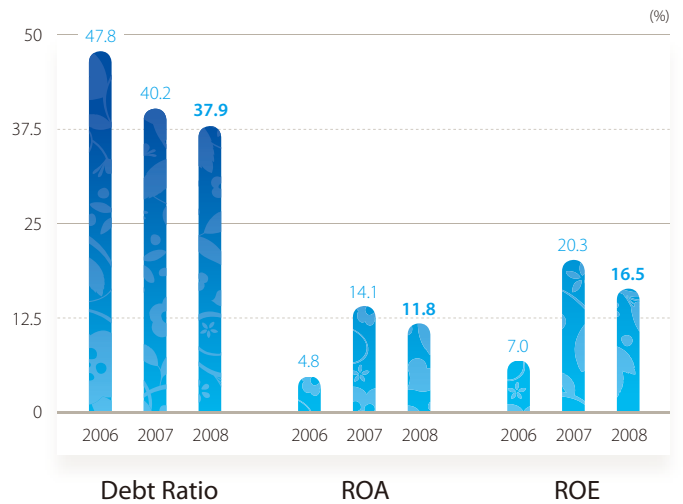
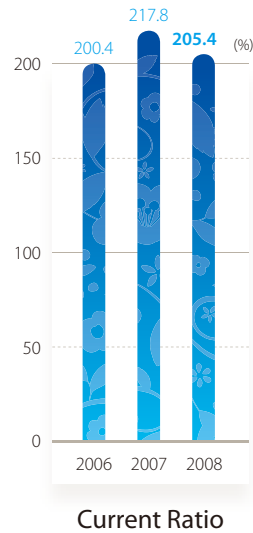
**Note:** AMOREPACIFIC became a newly listed company in June, 2006, after splitting from PACIFIC Corp., the holding company. The figure indicates the funds spend on R&D after the split.

### Economic Performance



### Sales by Division (KRW in billions)

	2006	2007	2008
Cosmetics	6,547	12,491	14,601
Personal Care & Green Tea	1,410	2,490	2,618
Consolidation & Other Adjustments	-84	-407	-436
<b>Total after Consolidation</b>	<b>7,873</b>	<b>14,574</b>	<b>16,783</b>



### Sales by Region (KRW in billions)

	2006	2007	2008	
Domestic	Domestic Sales	6,998	13,309	14,931
	Exports	117	261	382
Overseas	842	1,411	1,906	
Consolidation & Other Adjustments	-84	-407	-436	
<b>Total after Consolidation</b>	<b>7,873</b>	<b>14,574</b>	<b>16,783</b>	

### Economic Value Creation & Distribution (KRW in billions)

Stakeholder	2006	2007	2008
Employees *	1,279	2,238	2,540
The Government **	317	752	826
Local Communities	21	23	26
Creditors	11	17	23
Shareholders	325	345	345
The Company	236	1,447	1,496
Beauty Partners	1,579	2,834	3,139
<b>Distributed Economic Value</b>	<b>3,768</b>	<b>7,656</b>	<b>8,395</b>

\* These figures combine the cost of fringe benefits, retirement benefits and salaries, which include the cost of sales and S&A expenses.

\*\* These figures represent taxes and dues, which includes consolidated income taxes, the cost of sales and non-operating expenses.

**Note:** When calculating economic value distribution, the profit or loss from discontinued businesses was not factored into the amount distributed to stakeholders.



## We are creating new value for diverse stakeholders

### **Allocation to Employees**

Our employees receive economic value in the forms of salaries, retirement benefits and fringe benefits. Our system of compensation is linked to the company's performance results, while incentives are provided according to unit performance. The internal circumstances among different job positions are also taken into consideration. The amount of money that employees receive continues to increase with the growth in corporate profits.

### **Allocation to the Government**

We pay the government the taxes, duties and subsidies that are due. The money paid as government subsidies is mainly in the form of support for government research projects or income tax credits received from investment into our own production facilities, HR development or research.

### **Allocation to Local Communities**

AMOREPACIFIC financially supports programs that promote women's health, welfare and cultural activities through community foundations and specially requested funds. In addition, we remain faithful to our corporate culture of sharing by operating systems and providing support for our employees' voluntary community service activities.

### **Allocation to Shareholders**

We focus our core competencies on improving operational performance, and maximizing shareholder returns remains a top priority. Therefore, we improved our governance structure by adopting a holding company system in 2006. Our efforts to increase shareholder value are ongoing, as greater profitability over the long term leads to higher dividend income and dividend payouts.

### **Allocation to Beauty Partners**

We recognize that long-term, mutually-beneficial relationships with our beauty partners provide the basis for sustainable growth. We pay them incentives for their financial performance as well as reward them through training programs.

### **Future Plans**

At AMOREPACIFIC the global economic slowdown is seen as an opportunity for rapid advancement. In step with changing markets, we have pursued aggressive growth strategies throughout Asia and in other emerging economies while building a luxury brand image in the advanced markets. We continue to strengthen our global business platform, expand operations, and maintain profitable growth. At the same time we fulfill our role as a responsible corporate citizen that earns the respect of customers and the general public alike.

## Global Growth Strategy

# We aspire to be a global Top 10 cosmetics company by promoting Asian beauty to a global audience

*Our global business is the critical key for growing  
and diversifying value in the future.*

*We have established a global business model  
while developing the human resources  
to be a global player that  
promotes Asian beauty worldwide.*

*Thus, we are providing the world with access to Asian beauty  
while advancing toward our goal of being  
the Asian Beauty Creator.*





### Global Business

The global expansion of AMOREPACIFIC's business has been in two general directions: (1) the advanced markets, focusing mainly on France, the US and Japan; and (2) growth markets, particularly China, Hong Kong and Singapore. This global drive has enabled us to present brands that represent Asian beauty to customers around the world. As of the end of 2008, we were operating 11 overseas subsidiaries and 2 factories outside Korea, selling five brands in 16 countries. We are also in the process of expanding into strategically important new markets such as India, laying the groundwork for new growth.

### Objectives

The global financial crisis has slowed the growth in the demand for cosmetics in North American and Western Europe. On the other hand, the growth in cosmetics sales is expected to accelerate in Asia, Latin America and other emerging markets. Therefore, most of the global players in the beauty industry are concentrating on expanding into these regions and competition is intensifying there.

Given this backdrop, AMOREPACIFIC is pursuing a two-pronged approach to global business, which will drive future growth. On the one hand, distinctive brands are being cultivated in the advanced markets to maximize the company's luxury image and raise the brand premium. On the other hand, the sales volume in Asian and other growth markets is being increased aggressively to provide an opportunity for advancement.

The period between 2006 and 2008 was spent developing global brands with the focus on Asia. The emphasis between 2009 and 2011 will be on building a platform for profitable growth. This platform will be used for expanding into individual regions, enabling AMOREPACIFIC to rank among the global Top 10 by 2015.

#### ■ Stages of Global Business Expansion





## We are strengthening our ability as a global player by developing a business model and global manpower

### Strategic Direction

#### A Global Business Model

AMOREPACIFIC is establishing a global business model that can be applied to maximize synergy among operations around the world. As a first step, we are standardizing work processes and building the necessary support systems for integrated operational control. Cooperation is being strengthened among operational units worldwide, and the decision-making process is being both simplified and clarified, improving organizational flexibility. Moreover, a global marketing and sales platform has been established to convert marketing strategies that have centered on the domestic market to those with a global perspective. We have also integrated the R&D processes, and a global network has been built to secure innovative ideas and new technologies.

We have implemented a globally-integrated support system and are making greater use of global procurement to improve cost competitiveness and responsiveness to customer demands. We are also unifying our corporate culture through a drive called "United AMOREPACIFIC" to ensure the success of our transition to the global business model. In this spirit, we have increased the number of intra-organizational personnel exchanges.

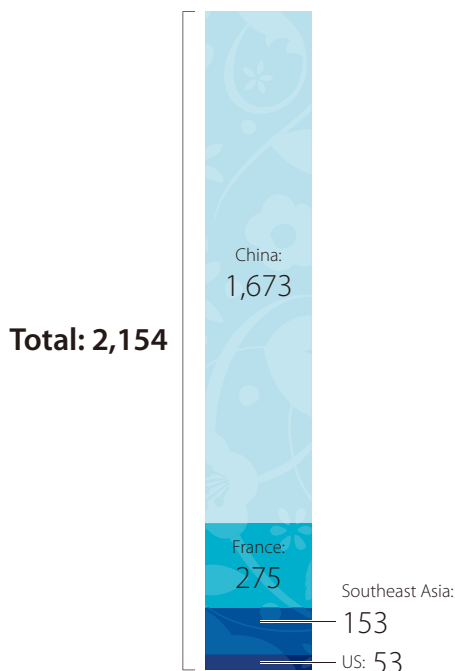
#### Implementation of a Global Business Model

- Improve operational efficiency and generate synergy from a global perspective
- Realize the "United AMOREPACIFIC" ideal by establishing a global corporate culture



#### Personnel by Region

(as of December 2008)



#### Development of Global Human Resources

Our global business operations are led by a system that includes four regional headquarters in addition to the Head Office in Korea. Each business division has been organized into units for Europe, the US, Greater China (China, Hong Kong and Taiwan), and Southeast Asia (Singapore, and Thailand, in particular). This structure facilitates regional strategy formulation and communication with the Head Office.

Management at AMOREPACIFIC understands that the people who work on the front lines are the most important asset the company has. Therefore, we put greater emphasis on hiring locally than on dispatching people from the Head Office to overseas operations.

## Our record growth in Asian markets has solidified our growth platform

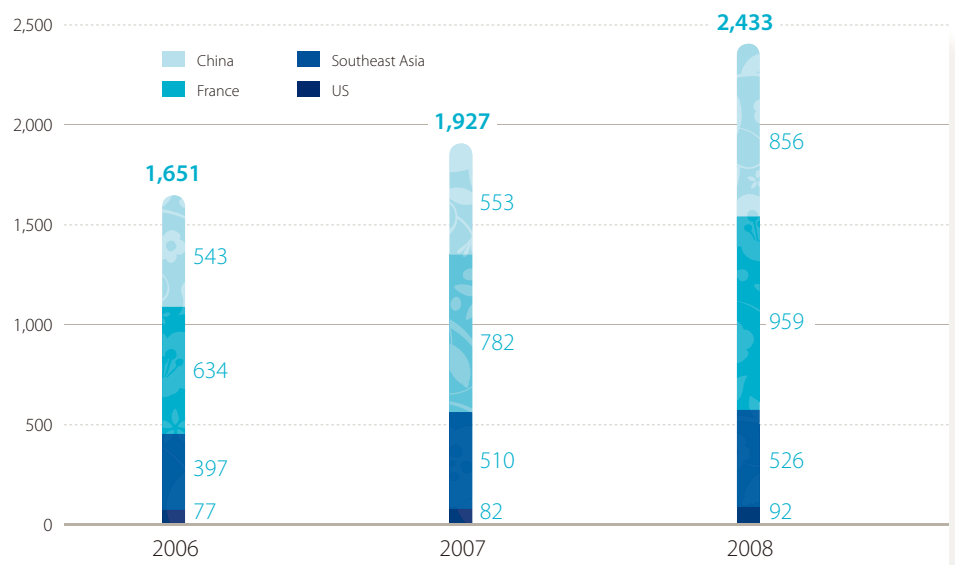
### Major Achievements

China is at the heart of our globalization drive. Our Chinese operations passed the break-even point in 2007, and the groundwork for profitable growth is now in place. Our China business, led by the Laneige and Mamonde brands, saw sales total KRW85.6 billion in 2008, up 55 percent year on year, while profits more than quadrupled. We achieved record-breaking, double-digit growth in overall Asian sales for the year.

In 2009, the Laneige brand, with its outstanding marketability and great popularity in Asia, went on sale at Duty Free shops in Singapore, one of Asia's leading destinations for Duty Free shoppers. The Laneige brand image was also heightened by a successful launch of the premium make-up line in Hong Kong and China.

Meanwhile, the number of exclusive shops and department store counters for the Mamonde brand was increased in 2008, and this segment moved past the break-even point, helping to expand the China business and improve its profitability. We also expanded the Head Office training program for sales representatives working around Asia, and we stepped up CRM activities.

■ Sales by Region (KRW in billions)



Note: These figures are the sales at all overseas subsidiaries, less internal transactions

## We have also demonstrated our capability for continued growth in the advanced beauty markets

### Major Achievements in Advanced Markets

France, Japan and the US rank among the world's most important and advanced beauty markets. All the world's brands can be found in these markets, and brand competitiveness is naturally very important. Of course, the sales outlets play a key role in heightening the local influence of the brand. We have already launched products under the flagship "AMOREPACIFIC" name in the US and Japan, and the potential for profitable growth has been proven at the high end of the global market. Our performance here is steadily improving and helping to accelerate our business growth in Asia as well.

We restructured our business in France and the US for greater efficiency and bolstered our luxury brand image. Our French business organization was streamlined to focus on perfume, laying the foundation for profitable growth. The underperforming product lines were discontinued and the business is now led by the Lolita Lempicka brand, which is gaining strength as a global name. As such, the French market now serves as a platform for making further inroads into North America and Asia.

The US economy slowed down and consumer sentiment fell in 2008. In this market, however, the "AMOREPACIFIC" name has gained greater recognition as a luxury cosmetics brand, providing the basis for continued growth in sales revenue. Sales of competing brands fell while the distinctive "Asian Beauty" brand value of AMOREPACIFIC was established sufficiently to sustain sales growth in such luxury department stores as Bergdorf Goodman and Neiman Marcus.



AMOREPACIFIC shop in New York City's Soho district



Sulwhasoo sales counter at the Sebu Department Store in Hong Kong



## We are growing as a beauty brand that impresses a global audience

### Global Brand Portfolio & Direction of Brand Development

Water Sleeping Pack, Water Bank Essence and other hit Laneige products are now being enthusiastically sought by women customers at 243 high-end shops and department stores in nine Asian countries. The launch of these items took place in France in 2009.



Buyer of "AMOREPACIFIC" brand products at the Isetan Department Store in Japan

The popularity of the Mamonde brand has spread rapidly in China, and by the end of 2008 these products were carried at 200 department stores and 1,513 exclusive shops nationwide. Our goal is to have Mamode products available at an additional 100 department stores and 600 more shops in China within the next two years. In the process, Mamode will emerge as a global brand at the forefront of the mass market.

Lolita Lempicka perfume went on sale in France in 1997 and is now being sold in more than 70 countries. In addition to the "F" and "L" perfume lines, we launched a new product under the Lolita Lempicka name in 2009 to satisfy a wider range of customers.

The AMOREPACIFIC brand, which promotes "true Asian beauty," has demonstrated its value in the world's leading markets. The US luxury stores Bergdorf Goodman and Neiman Marcus and Japan's leading retailers Isetan and Hankyu now all have sales counters for these products. Isetan Department Store recognized Amore Pacific has the brand with the fastest sales growth in 2008. This achievement is expected to put AMOREPACIFIC on the shelves of four more Japanese luxury department stores, including Takashimaya, in 2009.



Laneige brand products now on sale at Sephora stores in France



Lolita Lempicka perfumes on sale in a French shop

## Development of an Innovative Corporate Culture

# We are changing and innovating to be “the first and the best”

*Since our establishment, we have continue to write new chapters in the history of the beauty and health business by striving to be the first to do something new and the best at what we do.*

*We adopted our door-to-door sales program in 1964, providing more Korean women with a chance to work. Our makeup campaign in 1971 helped to promulgate new beauty trends in the country.*

*In 1993 we announced our policy of unreserved responsibility toward the environment, and confident of our superior quality, we launched a campaign allowing dissatisfied customers to switch cosmetic products.*

*Subsequent innovations by AMOREPACIFIC include the automated ordering system and human resources innovation system.*



## We offer our customers new kinds of value through the innovation of our products and services

### Strategic Directions

We recognize that ongoing innovation for customers is an important platform for continued corporate growth. Our business approaches are being redesigned from the customers' perspective, and our priority is on providing products and services that satisfy customer needs. The innovation activities at AMOREPACIFIC are being implemented in three strategic directions: (1) create innovative value, (2) enhance operational effectiveness, and (3) nurture a corporate culture of innovation.

### Major Activities & Results

#### Value Creation from Innovation

##### ■ Innovative Products for New Business Opportunities

"V=B Program" is a line of "inner beauty" products that promotes healthy good looks. The latest addition to this line is S'lite Slimmer DX, which activates enzymes that break down body fat. This is the first diet product that has been officially recognized by the Korean Food & Drug Administration as being effective in reducing body fat, including in the abdominal area.

Ryoe (呂娥) is a premium shampoo line that was developed from herbal medicine to ease customer distress over hair loss. Customers have been fully satisfied by the safety of the product and the sensation that it gives during use. Ryoe rapidly gained the spotlight in the herbal shampoo segment, thanks to our reliable expertise and diverse retail channels.



V=B S'lite Slimmer DX

##### ■ Aritaum: A Franchise Shop for AMOREPACIFIC Brands

In 2008, we began transforming the HUE Place multi-brand shops into Aritaum shops. The name "Aritaum" in Korean suggests "a beautiful place where the beautiful people make." These shops are much more than simple retail outlets for cosmetics; they work closely with the customers, providing counseling services to find solutions to individual beauty concerns.

Aritaum shops are operated as franchises and only carry AMOREPACIFIC brands, unlike the HUE Place, which sells products from various makers. HUE Place shop owners have been very receptive to the new arrangement, and we had 890 Aritaum shops (either switched over or newly established) nationwide by the end of 2008.



Aritaum shop in Seoul's upscale Myeong-dong district



## We are cutting wasteful spending to maximize operational efficiency

### Higher Operational Efficiency

#### ■ Six Sigma Initiatives

We began incorporating Six Sigma innovations into our operations in 2005, carrying out 360 tasks in 2008. In the process of implementing Six Sigma, we lowered our interior decoration costs by KRW6.8 billion and introduced new product lines exclusively for Aritaum shops. At the end of 2008 we had 1,075 employees (20 Master Black Belts, 123 Black Belts and 932 Green Belts) qualified as instructors and implementers of Six Sigma methodology. These people are highly skilled problem solvers, and we intend to qualify even more of our current employees as Six Sigma belt-holders in 2009. At the same time, we will hire additional Six Sigma experts overseas as part of our global expansion, and we will cultivate coaches for a new program designed to bolster sales capabilities.

#### ■ TCR (Total Cost Reduction) Program

AMOREPACIFIC has been engaged in the Total Cost Reduction program for ten years already. In 2008 we incorporated our TCR activities into the Six Sigma initiatives and set the goal of cutting costs by an additional KRW10 billion a year. To achieve this target, we engaged in 55 projects that sought to reduce habitual waste and other unnecessary expenses and we strove to use our resources more efficiently. This effort resulted in annual savings of KRW11.5 billion.

In 2008 we also implemented “invisible Total Cost Reduction” to cope with the needs of customers and sales people by dropping unnecessary work processes and accelerating overall operations. The iTCR program focused on reducing invisible cost and on essential activities with the highest added value for higher quality work performance. We collected 892 suggestions in this regard during 2008, eliminating 20 kinds of work and improving 128 others to save 35,049 work hours.



Poster promoting the iTCR program

#### ■ Strategic Procurement Project

The Strategic Procurement Project was implemented in 2008 to elevate overall cost competitiveness and raise the efficiency of purchasing operations. We analyzed data on a wide range of purchase categories, including raw and processed materials for products, packaging materials, sales promotion items and our OEM products. Then we identified the key issues that needed attention, devised strategic procurement plans accordingly, and launched systematic innovation activities covering all aspects of procurement.

This project enabled us to expand our pool of suppliers by finding new partners inside and outside Korea with the competitiveness in terms of price and quality. In addition, we established an integrated procurement system and prioritized procurement processes to lay the groundwork for cost reduction over the long term. In the future, we will continue to improve our strategic procurement processes, further raising the competitiveness of purchase operations. The funds that are saved can be reinvested in marketing and R&D to spur corporate growth.



## We are instilling a “culture of innovation” through various programs and training activities

### A Corporate Culture of Innovation

#### ■ SSEP Implementation

The Sales Stimulation and Enhancement Program, which was first adopted by MC&S BU (Business Unit) in 2006, has been expanded to cosmetic retail BU and counselling sales BU. SSEP is used to share the information and skills needed by the sales force in each sales channel, considering the nature of the business and the customers served. The sales representatives who have provided customers with the best services and counseling are selectively trained as coaches for a new program designed to enhance sales skills.

#### ■ Innovation Olympics

We held our first innovation competition in 2007 to share best practices and encouraged everyone to get involved. In 2008, the competition was upgraded to the “Innovation Olympics,” a venue for everyone in the company to show their competitiveness. A total of 2,071 innovation tasks were submitted and judged to narrow down the field for awards. The Grand Prize went to hugely popular diet product S'Lite Slimmer DX, under the V=B Program label. An “Innovation Guinness” was also conducted to introduce the various innovation activities that were conducted around the company during the previous year.



Innovation Olympics

#### ■ SSEP Competition

After the Innovation Olympics, we organized the SSEP Competition in December 2008 under the theme “Competition without Barriers is a Time to Learn More Sales Know-how.” More than 400 people took part, including the CEO, to share and compare the top twelve “Best Practices” from the Sales Stimulation and Enhancement Program. We will continue to put on competitive events inside the company to encourage everyone to join the all-out innovation drive.



SSEP Competition

### Future Plans

In 2009, we are adjusting the focus of each innovation activity so that the efficiency of the diverse companywide innovation effort is raised. Efficiency will also be made among the various activities by determining an overall direction and then devising an innovation promotion model that best suits AMOREPACIFIC. The model and the activities will also be introduced to all overseas operations.



# We envision a sustainable future through environment-friendly management

*People and companies cannot survive outside Nature's womb. Human life and corporate existence are predicated on the sustainability of the environment that surrounds us all. At AMOREPACIFIC we are doing all we can to minimize our environmental footprint, develop Environment-friendly products and shape a future in which Nature, people, and the company can coexist in harmony.*



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## Environment-Friendly Management

# We are conducting our environmental management with full, uncompromising responsibility

*AMOREPACIFIC publicly proclaimed a commitment to unreserved environmental responsibility in September 1993, and we launched the "AMOREPACIFIC Green Movement" to put words into action. This is an unceasing effort that encompasses environment-friendly management practices and the development of environment-friendly products.*

*We are practicing environmental management that is up to the global standard by minimizing the use of toxic substances and maintaining "green partnerships" with suppliers. We are taking voluntary steps to reduce greenhouse gas emissions as well.*



## We are building an environmental system that meets the global standards

### Environmental Directive

The mission of AMOREPACIFIC, the beauty and health specialist, is to enable customers to realize their dreams for a healthier, more beautiful life. Our operations address both environmental and economic concerns, and protecting ecosystems. The innovative environmental value that we generate and our ongoing improvements are helping to raise the quality of life for all people.

1. We recognize that all corporate activities affect the environment. Accordingly, we have established an environmental management system and continue to improve our environmental performance, thereby creating environmental value.
2. We design our new products to be environmentally safe during use and after disposal, and we develop clean production technology to minimize any pollutants being released. As a result, the environment remains clean and fresh, and customers' expectations are met.
3. We adhere to environmental laws as well as to our internal regulations, which are stricter than what the law allows.
4. Our environmental data are disclosed to our people and the public.
5. We deeply understand our obligation to preserve the environment, and we participate in environmental protection activities in local communities.

### Project Objective & Directions

Our eco-friendliness policy at AMOREPACIFIC covers four key directions: (1) establish an environmental management system that meets the global standards, (2) minimize the toxic substances generated in all business operations, (3) develop Environment-friendly products that allow for "green" marketing, and (4) communicate openly with all stakeholders.

### Major Activities & Achievements

#### An Environmental Management System that Meets the Global Standards

##### Environmental Management System

All domestic operations were already ISO 14001 qualified (environmental management system) by the year 2000. Our environmental management system is based on the PDCA cycle (Plan, Do, Check and Act) so that constant improvement is achieved. In addition, it is integrated with the systems for quality management system (ISO 9001) and health protection & safety (K-OHSMS).

##### Certifications

Organizational Unit	Quality Mgt. System (ISO 9001)	Environmental Mgt. System (ISO 14001)	Health & Safety Mgt. System (K-OHSMS 18001)	Quality Control Standards
Head Office	● (2003)			
R&D Center	● (2003)			
Skin Care Value Center	● (2003)	● (1995)	● (2002)	CGMP(1993)
Mass Beauty Value Center	● (1995)	● (2000)	● (2004)	
Make-up Value Center	● (2003)	● (2000)		CGMP(2002)
Sulloc Tea Value Center	● (2003)	● (2000)		HACCP(2003)
Shanghai Subsidiary	● (2008)			
Logistics Center	● (2003)			



Environmental Mgt. System Certification



Quality Mgt. System Certification



Health & Safety Mgt. System Certification

### ■ Environmental Audits

Early each year we schedule our environmental audits over the next twelve months. The certified inspectors at each value center jointly inspect the worksites to judge the appropriateness and effectiveness of the environmental management system in operation. In addition, we are inspected at least once a year by outside certification agencies for compliance verification or certificate renewal. In 2008, the Environmental Management Team met with the staff in charge of the value center three times (January, May and October) to discuss any implementation of new environmental mandates or revision of current ones. They also talk about system operation and areas that need improvement.

	Skin Care Value Center	Mass Beauty Value Center	Make-up Value Center	Sulloc Tea Value Center
Internal Audit	6/23~6/24	7/1	6/26	6/25
External Audit	11/3~11/5	11/10~11/11	11/6~11/7	11/12~11/13

### ■ Environmental & Safety Performance Assessment

We adopted a new system for evaluating our environmental and safety performance in 2004. In 2007, the environmental management information system was developed to collect performance assessment data methodically for sharing with each value center unit in real time. Now, our environmental performance can be analyzed and assessed easily.

In 2008, we also changed the weighted values used to measure overall environmental performance. The value of the operational performance index (OPI) was increased from 50% to 60% of the total. The criteria for energy and water was more reinforced among the operational performance index.

### ■ Environmental Performance Assessment Indicators

Major Grouping	Intermediate Categories	Weighted Value	Subcategories
Management Performance Index (MPI)	Environmental management system, legal compliance, environmental accounting, local community relations, worker health & safety	40% (from 50%)	6 items, including ratio of internal auditors in workforce
Operational Performance Index (OPI)	Inputs (energy), emissions (solid waste, air, water)	60% (from 50%)	6 items, including energy consumption volume

### ■ Performance Assessment Results

	2006	2007	2008 Targeted	2008 Actual	2008 % of Target	2009 Targeted
Total Score	732	790	745	765	103%	802
MPI	380	455	340	360	106%	380
OPI	352	335	405	405	100%	422

**Note:** The revised weighted values and measurement criteria caused the environmental performance assessment scores for 2008 to be lower than those posted in 2007. However, the actual performance (103.4%) exceeded the original target.

## We are committed to conserving energy and water as well as to reducing waste and pollutants

### Minimal Environment-harmful Substances from All Corporate Operations

#### Expanded "Green" Purchasing

##### "Green" Purchasing Pact Enforced

We do not just make Environment-friendly products for consumers; we also promote their consumption for ourselves. To this end, we concluded a "Green" Purchasing Pact with the Korean Ministry of Environment in November 2006, promising to buy supplies that are as environmentally safe as possible. Starting in 2007 our procurement people were instructed to put a priority on consumables that bear the government-approved Eco-Mark or GR Mark. We then replaced office appliances with Environment-friendlier models in 2008. The value of these purchases totaled some KRW760 million for the year.

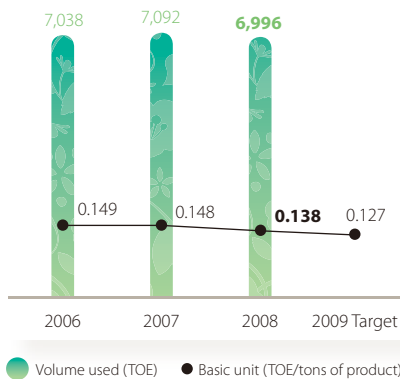
#### Purchase of Eco-friendly Supplies by Year (KRW in millions)

Year	2007	2008
Amt. spent on Eco-Mark & GR Mark items	178	762

##### Broader "Green" Partnerships with Suppliers

Our "Green" Purchasing Guidelines were established in 2006, and the following year we concluded purchasing agreements based on these guidelines with twenty-two major suppliers of packaging materials. Since then, we have carefully monitored for toxic content. Each quarter, we run toxicity tests on random samples of OEM products.

#### Energy Consumption by Year (KRW in millions)



Note: All environmental data refer to the four value centers in Korea

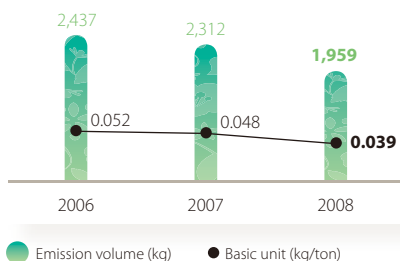
#### Environment-friendly Production Processes

##### Energy Consumption

Our principal energy sources are LNG, LPG and electricity. Each year we have managed to lower the amount of energy consumed per ton of product manufactured. Our energy consumption efficiency has been raised through the optimal operation of each value center and the replacement of outdated machinery.

The 200hp chiller unit at our Mass Beauty Value Center was becoming increasingly inefficient. We replaced it with a spiral chiller that automatically adjusts the power supply to accommodate changing production output volumes and cooling requirements, and then daily electricity consumption fell from 3,874kW to 1,827kW. The value center also began to take advantage of new and renewable energy technologies in 2008 by installing two solar-powered roadside lamps.

#### Dust Emissions by Year

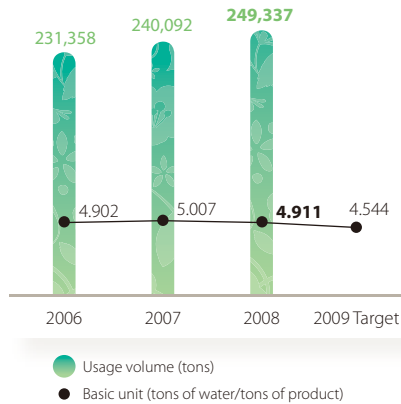


The Skin Care Value Center switched its chiller unit over from a forced cooling system to a natural cooling one. The power used for cooling, which represents 62.8 percent of all the power consumed by the value center, was reduced by 479,115kW a year. Moreover, fifty energy-saving timers were installed on the value center's chiller / heater, allowing it to automatically shut off when not in use. This further reduced annual energy consumption by 47,000kW.

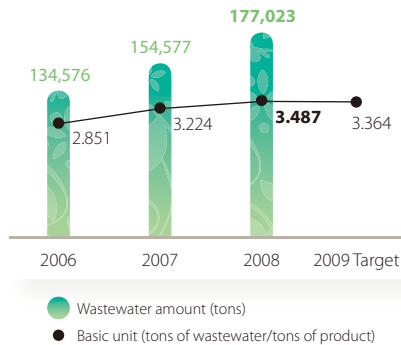
##### Air Quality

Our production processes are powered by clean-burning fuels such as LNG and LPG, so our primary focus for air quality is on emissions of dust and carbon dioxide. Dust is generated when fuel is burned as well as when powder products and green tea products are manufactured.

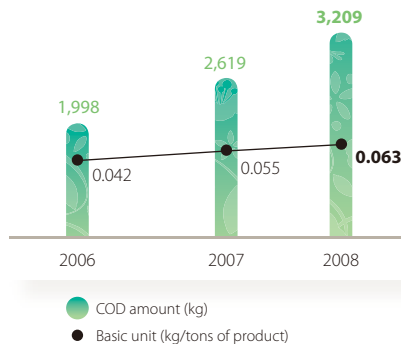
### Water Consumption by Year



### Wastewater Generation by Year



### COD Generation by Year



### Water Consumption

Eleven percent of the water used at the value centers goes into product content; 48.3 percent is for washing production and packaging lines to meet hygiene standards, and 21 percent supports workers' daily needs such as in the lavatories and cafeteria. Water is also used for laundering work clothes, watering the grounds and running the boilers. In 2008, we lowered the water consumed per ton of product manufactured by two percent. The Cosmetics Value Center began to reuse water from the utilities in the laundry and lavatories, reducing total water consumption by 1,700 tons a year.

### Wastewater Generation

The Skin Care Value Center, Make-up Value Center and Mass Beauty Value Center each operate their own facility to treat wastewater, which is mainly generated while washing the production and packaging lines.

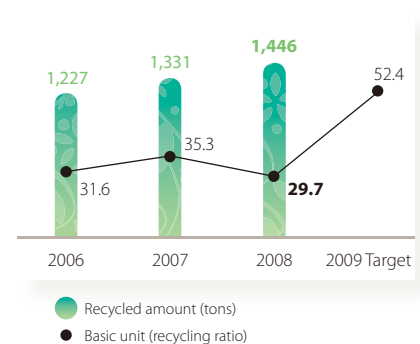
### Solid Waste Generation

Of the total solid waste generated by AMOREPACIFIC, 30 percent is sludge from wastewater treatment, 26 percent is returned products (either for quality problems or poor sales) and 18 percent is waste plastic. Other sources include the waste product generated during the manufacturing process. The high water content of the sludge at the Mass Beauty Value Center previously prevented recycling and required that it be buried in a landfill. However, new facility investments lowered the sludge water content from 80 percent to 70 percent, and recycling will begin in 2009. Another improvement was made in the disposal of waste pouches resulting from the production of shampoo and hair rinse samples. These pouches used to be incinerated, but in 2008 we began shipping them to an outsourced company that recycles them into flowerpots. A total of 28.8 tons of these pouches were recycled during the year.

### Solid Waste Generation by Year



### Sold Waste Recycled by Year





차량번호	운행거리	배송량	출발시간	도착시간	연비	배출량
10000001	10000	1000	08:00	10:00	10.0	100
10000002	12000	1200	09:00	11:00	12.0	120
10000003	15000	1500	10:00	12:00	15.0	150
10000004	18000	1800	11:00	13:00	18.0	180
10000005	20000	2000	12:00	14:00	20.0	200

Transport & delivery vehicle productivity check program



Transportation Management System for raising the efficiency of the fleet operation



1st voluntary pact to reduce packaging materials for promotional use



3rd voluntary pact to reduce packaging materials for promotional use

**Eco-friendly Logistics**

Standards enforced for replacement of old vehicles

We set new standards for replacing our transport and delivery trucks in order to improve our energy use efficiency and reduce harmful exhaust emissions. The vehicles are now managed on the basis of age and steps have been taken to upgrade them. The time for replacement has been determined on the basis of the cargo capacity of the vehicle (10 years for delivery service trucks and 15 years for transportation trucks), and recommendations for replacement are issued two years before the time limit. In 2008 we replaced four old trucks, and an additional nine vehicles will be replaced in 2009.

Effective Management of Vehicle Use

Seven categories (distance traveled, number of boxes delivered, number of delivery rounds, number of delivery stops on each round, truckload-to-capacity ratio, percentage of morning deliveries, and on-time delivery ratio) have been established for systematically monitoring the productivity of the truck fleet, shortening the average distance traveled by the trucks, and lowering the exhaust emissions generated. The efficiency of each distribution center is compared, and the number of vehicles and tons of cargo are reduced where productivity is low. The unnecessary travel distance is reduced, while remote home deliveries are made, raising efficiency.

Vehicular Improvements to Cut GHG Emissions

“Green starters,” which shut down the engine after a preset period of idling, were installed on two trucks in a pilot program that began in 2008. The trucks registered about 7 percent better fuel efficiency, so 126 more delivery and transport trucks will be outfitted with the new system by July 2009. Also in 2009, the course on Environment-friendly driving habits for truck operators will be reinforced, and each distribution center is expected to receive ISO 14001 certification.

**Efforts to Reduce Waste after Product Use**

Voluntary Pact to Reduce Promotional Material Packaging

AMOREPACIFIC, the Ministry of Environment and retailers jointly concluded a voluntary pact pledging to conserve resources and cut the volume of waste materials. This pact will be implemented in stages based on business type. Phase 1 began in May 2008, when 17 health and beauty product manufacturers formally agreed to reduce unnecessary promotional packaging. For 2008, the target is 30 percent less than the year before, and annual reductions of 10 percent are to proceed afterwards. Between 30 and 80 programs will be implemented so that the volume of material used solely for promotional purposes is 80 percent less in 2012 than it was in 2007.

The signing of the Phase 3 agreement was held in December 2008 among 24 makers of cosmetics, alcoholic beverages and shaving products as well as five department stores. They will voluntarily reduce the volume of materials they use in promotions. According to the agreement, the ratio of needless space in the total packaging for cosmetics will be reduced from the current 25 percent to 20 percent by 2012.

## We are proactively involved in the global effort to reduce greenhouse gas emissions

### Directions for GHG Reduction

#### Lower GHG from Products

Develop products with low carbon content to cut greenhouse gas emissions in the overall product-lifecycle

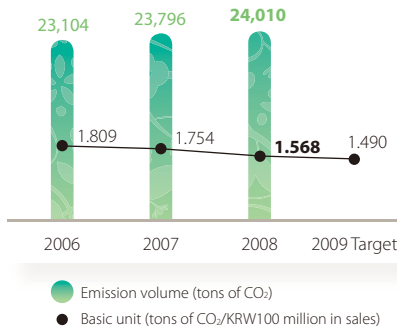
#### Lower GHG from Production & Transportation

Reduce greenhouse gases generated directly by production and transportation operations

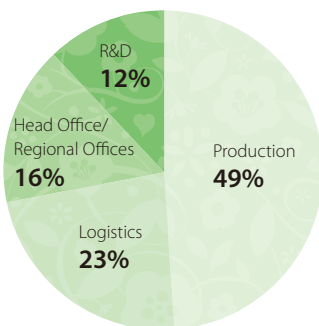
#### Lower GHG from Operational Facilities

Reduce the greenhouse gas emitted during the operation of buildings, including the R&D center, Head Office and other offices

### CO<sub>2</sub> Emission Volume (tons)



### GHG Emissions by Operational Segment



**\*Note:** The base figure for CO<sub>2</sub> absorbed per green tea tree (5.01kg) is taken from a November 2008 research report by Ito En on technology in the Japanese tea industry. Specific data for AMOREPACIFIC will be disclosed in 2009 after the completion of a joint research project with an outside institution.

### Countermeasures against Climate Change

#### Climate Change Mitigation Strategy

AMOREPACIFIC joined the global effort to reduce greenhouse gas (GHG) emissions in 2008, establishing a strategy for countermeasures against climate change and creating a GHG inventory. A new greenhouse gas management system was incorporated into the environmental management data system to gather and analyze GHG emission data effectively. A voluntary pact was also signed (with Korean Energy Management Corp.) to lower energy consumption at the Skin Care Value Center.

We calculate our GHG footprint from two major sources. The first (Scope 1) is the direct emissions from the combustion of fuel (LNG, diesel) during transportation and production. The second (Scope 2) is indirect emissions, emitted during the generation of the electricity used by the heating and air conditioning systems and computing equipment in our head office, regional offices, directly-run shops and other places of business. ("Scope 3" refers to rented office space and is not included in the AMOREPACIFIC GHG inventory.)

Our efforts to reduce the volume of GHG emissions are focused on three main designated sources: (1) products, (2) production & transportation, and (3) other overhead support activities. At the same time, we are working on improving the overall efficiency of environment-friendly operations. Our target between 2009 and 2011 is to lower the basic unit (the ratio of emissions to sales) by 5 percent a year. Resource use is being curtailed throughout the companywide value chain, and more steps are being taken to conserve energy. In the future, we will continue to discover new ways to minimize energy losses at our offices and factories. "Green" technologies will also be applied to all newly constructed buildings. We will calculate the combined GHG emissions volume related to the overall product-lifecycle and work to lower that figure. We will also expand our involvement in the Korea Ministry of Environment's carbon labelling program.

#### Korea's Largest Tea Plantations

AMOREPACIFIC Founder was committed to restoring Korea's tea culture, which had almost disappeared, and popularizing green tea among the present generation. Following his wishes, we established a large green tea plantation on Jeju Island 3 decades ago. Over the years, we have turned more than 3.3 million square meters of idle land into some 1.7 million square meters of tea fields. We currently have approximately 4.7 million tea bushes that are at least five years old. They are capable of assimilating an estimated 23,800 tons\* of carbon dioxide a year, contributing to the reduction of greenhouse gas in the atmosphere.





AMOREPACIFIC employees wear light clothes as participants in the "Cool AP" campaign



Saesakki, the character that represents our GHG reduction drive

### ■ "Cool AP" Campaign for GHG Reduction

Besides corporate-level activities to reduce the GHG footprint, we are heightening our employees' awareness of the GHG problem. In July 2008, they were urged to do their part to lower CO<sub>2</sub> emissions by signing the "AMOREPACIFIC Code of 7 Behaviors." A total of 1,448 people endorsed the pledge to make these low-carbon habits a part of their everyday work lives:

**AMOREPACIFIC Code of Conduct, a Pledge to Reduce GHG**

The effects of global warming, caused by greenhouse gas emissions, continue to grow more severe: rising ocean levels, desertification, major natural disasters (floods, hurricanes), soaring oil prices and rising grain prices. AMOREPACIFIC employees have agreed to join the effort to conserve energy and help keep the world beautiful:

I shall always remember that even the little things I do can contribute to global warming. Therefore, I will seek to reduce the carbon footprint of my activities.

1. Make sure lights are switched off when not needed.
2. Adjust computers "power-saving" mode when left unused for 10 minutes, and unplug computers and other office machines before for a long time or when going home.
3. Ensure the interior temperature is maintained at 24-26 °C in the summer and 18-20 °C in the winter.
4. Save energy by staying cool in the summer by dispensing with ties and warm in the winter by wearing undergarments.
5. Reduce water consumption by using a mouthwash cup.
6. Refrain from driving your own car to work; use car pools or public transportation.
7. Encourage others to adopt the above six habits.

I work for AMOREPACIFIC, which is dedicated to promoting and preserving the health and beauty of both people and the environment. As such I will participate in company-led activities for responding to climate change, a global environmental issue.

We launched the "Cool AP" campaign from July 1 through August 31 as a concrete step toward our GHG reduction goal. The interior temperature of our offices was maintained at 24-26°C to cut energy consumption. The Saesakki character and a new training film were also created to encourage participation in the campaign. The "Cool AP" campaign duration will be extended to four months (June-September) in 2009.


### Future Plans

To date, we have assessed our environmental performance by managing a bundle of indices. However, the goal for each index was not sufficiently clear, and no plans were in place for improvement. Realizing these shortcomings, we are clarifying specific goals for major performance indicators and 156 new action plans will put into effect in 2009.

In addition, we are building a new, environment-friendly value center at Osan, Korea, at a cost of KRW300 billion. At this SCM center, the facilities for maximum energy efficiency and alternative energy like solar heat, will be equipped. A natural eco-park will also be established on the premises. These will lead to reduce CO<sub>2</sub> and water consumption.


## Development of Environment-friendly Products

# When developing eco-friendly products, we take both nature & people into consideration





*AMOREPACIFIC has remained faithful to a policy of uncompromising responsibility toward environmental issues. In this spirit, we focus on developing products that benefit people and nature alike.*

*We have reexamined every aspect of our operations from the environmental perspective, and now we follow the eco-design guidelines and processes.*



*Our environmental concerns and measures are shared with all stakeholders through the Eco-Design Festival, Eco-bottle Illustration Competition and other events held in conjunction with brand-sponsored campaigns.*



*Activities such as these help build a public consensus on the importance of environmental protection and motivate people to get involved.*





## We are committed to developing safe products with minimal environmental impact

### Approaches to Eco-friendly Product Development

#### 1. Safety Assurance

Ensure product safety to mitigate effects on people and the environment.

#### 2. Reduced Resource Use

Continuously cut the volume of resources used in the products.

#### 3. Greater Recyclability

Work to get more use out of resources.

#### 4. Lower Toxicity in Ecosystem

Protect the cradle of life.

#### 5. Innovative Designs

Devise designs that are better for the environment and economy at the same time.

### Goals & Strategies

We consider environment-friendly management practices to be our most important value. This means developing and supplying new products that are safe and trustworthy, with minimal impact throughout the entire lifecycle (from merchandizing and production to distribution, use and end-of-life disposal).

Based on this belief, we remain committed to our eco-design program, which takes the overall product-lifecycle into account. The guidelines were established in 2005, and the following year we implemented an eco-design regimen that checks ten categories of eco-friendliness, starting from the new product design stage and including the safety, reduced resources and recyclability of the packaging.

### Major Activities & Results

#### Safety Assurance

##### ■ Launch of Ecocert-compliant Cosmetics

Three items (essence, cream and eye cream) in our Innisfree Eco-recipe Line were first to satisfy the strict qualifications of Ecocert, the French organic certification organization. Today, nine of our products are Ecocert qualified, including the Sensitive Moisturizer and Eye Serum of Primera and Organic Chamomile Baby Shampoo & Bath, and Organic Chamomile Baby Cream of Happy Bath.

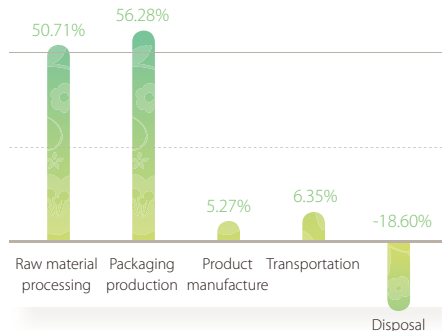
##### ■ Organic Cultivation of Green Tea

The Seogwang Tea Plantation on Jeju Island switched to organic farming methods in October 2007 and it subsequently was certified by the government for using no agrochemicals. We began practicing the same organic methods at the Dosun, Hannam and Gangjin tea plantations in November 2008, and their agrochemical-free certification is expected in 2009.



Innisfree, Primera and Happy Bath products that have been certified by Ecocert

### GHG Emission for Mise-en-scène Pearl Shining Shampoo



One bottle (820g) of Mise-en-scène Pearl Shining Shampoo generates 483g of CO<sub>2</sub>. (0.59g of GHG/1g of product)



Labels have been removed from the container, and the product information is now directly printed



Primera Set products now come in biodegradable plastic bottles



Packaging for the Innisfree Recipe line is made from recycled newsprints

### Reduced Resource Use

#### ■ Participation in the Test Carbon Labelling Program

AMOREPACIFIC took part in a test launch of the Korea Ministry of Environment(MOE)'s carbon labelling system, which goes into full effect in 2009. The program requires the volume of GHG emitted during each production process to be disclosed on the package. Mise-en-scène Pearl Shining Moisturizing Shampoo (820g) was entered into the program and received a model certification from the MOE on December 18, 2008. We expect eight more of our products to be certified by the carbon labelling program in 2009.

#### ■ No More Paper Labels on Mise-en-scène Containers

The paper labels have been removed from the Mise-en-scène Pearl Shining Moisturizing Shampoo and Conditioner(200ml). The product details are now printed directly on the containers, reducing resource use and production costs.

#### ■ Biodegradable Containers for Primera Set Products

The packaging for the Primera Infused Hair Set is made from biodegradable plastic. The environment-friendly material is produced from corn or other plant materials rather than petroleum, lowering the consumption of fossil fuel and reducing GHG emissions.

#### ■ Reduced Promotional Packaging

After signing the Phase 1 agreement to reduce the volume of promotional materials in our product packaging, we replaced all the plastic (which was 70% of the packaging material) with paper. Windows have been inserted in the packages as well, providing the consumer with a view at the product while reducing the volume of materials used and packaging costs by 25%. Our achievements were recognized by the Ministry of Environment, that presented us with a commendation when we signed the Phase 3 agreement in December 2008.

### Greater Recyclability

#### ■ Easy-to-recycle Packaging Materials

The Ecocert-compliant items in the Innisfree Eco-recipe line come mainly in polypropylene, polyethylene and PET containers that recycle well. Some of the boxes are now made from recycled newsprint and water-based adhesives, while the printing is done in soybean-based ink.





## We encourage voluntary involvement by sharing our eco-message with our stakeholders

### Major Activities & Results

#### Smooth Communication with Stakeholders

We are encouraging our various stakeholders to join the environment protection effort. Our in-house eco-design program was developed to heighten awareness of how important the environment is and to get our people to adopt eco-friendly practices in their everyday lives. Internally, we run regular training on environmental issues, while externally we invite our customers to take part in our campaigns and contests that have an environmental theme.



Product designers and package developers attend eco-design training

#### Eco-design Training Program

In 2007, the AMOREPACIFIC employees responsible for designing products and packages attended a program to better understand eco-design concepts and to implement the eco-design program more effectively. A 2-day follow-up training course was given to eighteen employees in July 2008.

The trainees learned about eco-design concepts and processes and practiced how to use diagnostic tools and assess the quality of eco-designs. A special workshop provided an opportunity for them to apply the eco-design principles in actual product development. In the future our training efforts will continue to expand and evolve.



Prize winning entries at the 1st Eco-Design Festival

#### Eco-Design Festival

In May 2008 the first annual AMOREPACIFIC Eco-Design Festival was held for university undergraduate and graduate students aspiring to become professional designers. The festival theme was in step with the company's ongoing commitment to eco-friendly design development, and the participants competed in one of three categories: packaging, calendars and posters. The judges awarded prizes to designs that (1) innovatively incorporate the recycling and environment protection concepts and functions, (2) satisfy customers' aesthetic sensibilities or (3) project brand value and the image of a corporate that cares.

The grand prize went to a desktop calendar made from recycled milk cartons. Three entries won first prize, including a scroll-like teabag package without any other paper wrapping. There were also three runner-ups, including a recyclable green tea teabag package made exclusively from paper. The seven award winners were awarded with scholarships and a trip to the tea plantation on Jeju Island.



Awards presentation at the 1st Eco-Design Festival





Posters for the Innisfree Eco Day event



Winning entries in the Eco-Bottle  
Illustration contest



Installation artwork ("Love & Peace Guide  
Light") made out of empty Sulwhasoo  
bottles

### **Innisfree Eco Day**

The Innisfree line has organized the Campus Green Life Campaign in conjunction with the annual university festival season since 2004. Students collect recyclable items in Innisfree paper bags and turn them in for free Innisfree products. The campaign helps raise their awareness of the need to protect the environment. In 2008, the campaign was held on six different university campuses.

Innisfree sponsors various other eco-campaigns as well. Three products from the Innisfree Eco-recipe line were qualified for the Ecocert label in July 2008, and they are highlighted during a special environmental protection campaign aimed at consumers. The 14th of each month is designated Innisfree Eco Day, and customers take their purchases home in reusable eco-bags. The eco-bags are also handed out during the Innisfree Green Life Bazaar.

### **Happy Bath Eco-Bottle Illustration Contest**

Happy Bath, a personal care product line, began putting its own "Three-Leaf Clover" eco-label on products in December 2007. In June 2008, the Happy Bath Eco-Bottle Illustration Contest was held in cooperation with the Korea Green Foundation to discourage people from using disposable water bottles. The award-winning entries were constructed of empty bottles. The contest was linked with the Korean Green Foundation and Retailers to promote the use of eco-bottles instead of disposable cups. The proceeds were donated to the "well of life" charity project.

### **Installation Art of Empty Bottles on Nami Island**

In June 2008, AMOREPACIFIC sponsored an event on Nami Island to turn scrap metal and empty Sulwhasoo bottles, previously collected by door-to-door sales agents, into works of art. Seven installation artists from four countries (Korea, Serbia, the US and the Philippines) worked on the project. They used some 2,500 empty bottles to build their masterpiece on the platform of the boat landing. It was called "Love & Peace Guide Light" and unveiled of June 5, World Environment Day. AMOREPACIFIC customers and others who visit Nami Island now can see how items that were tossed away without a second thought can be transformed into something beautiful. The artwork also reminds everyone of how important the environment is to all of us.



### Future Plans

In 2009, definitions and guidelines for what constitutes a “sustainable product” will be decided at AMOREPACIFIC, and a consensus will be built among all employees. We will encourage the spread of these “sustainable products” as part of our obligation to society and to realize economic growth.

Specifically, our product development plans call for greater use of products made from organic materials and increase in the number of products that qualify for the carbon labelling program. We will also launch new products that bear the Korean government’s Eco-Mark. As part of this eco-friendliness drive, our products will come wrapped in paper made from the peelings of tangerines grown on Jeju Island and paper certified by the Forest Stewardship Council.

Meanwhile our Innisfree brand, which champions environmentalism, will sponsor another drive to collect empty bottles as part of the 2009 Green Life Campaign. As part of our ongoing efforts to get more people involved, we will also publish the “White Paper of Green Lifestyles,” detailing seven easy-to-follow rules for making environmental protection a part of everyday life.

### Interview

#### Environment-friendliness is a New Kind of Competitiveness

**Dong-hee Shin**, Researcher  
Korea Environmental Industry & Technology Institute



Cosmetics are a part of consumers’ daily lives. Therefore, when companies such as AMOREPACIFIC engage in eco-design activities, the effect on the consumers will be great. I know that AMOREPACIFIC has done much already. The company has reduced product packaging volume as a part of the eco-design effort. Moreover, its product containers now consist of materials that biodegrade after disposal.

In the future I would like to see AMOREPACIFIC remain focused on eco-design, minimizing the environmental impact of all production-related processes while improving product function and quality competitiveness. In addition, I hope AMOREPACIFIC’s eco-design activities spread to consumers of all age groups. Let there be active communication that could lead to a consensus on the issue of environmental protection.





## Our Customers

Our consistent goal is to be a partner that promotes the life-long beauty and healthy lives of our customers

*We research our customers to allow their beauty and good health to shine throughout their lifetimes.*

*We forge sustainable relationships with our customers to share environmental concerns and reassure them with our outstanding products and services.*

*We remain steadfast in our efforts to become the "Asian Beauty Creator" that promotes optimum beauty and health by listening to customers and continuously communicating with them.*



We recognize that our customers are the driver of corporate growth, and we continue to strengthen our ties with them

### Objectives & Direction of the R&D Program

AMOREPACIFIC formally accepted the unconditional responsibility for product quality in 1993 and has remained committed to satisfying our customers' expectations ever since. To this end, we have continued to develop innovative products, identify customers' hidden needs, and stay close to the customers through open communication. These efforts are directed through R&D innovation, a strong sense of accountability and strong customer ties.

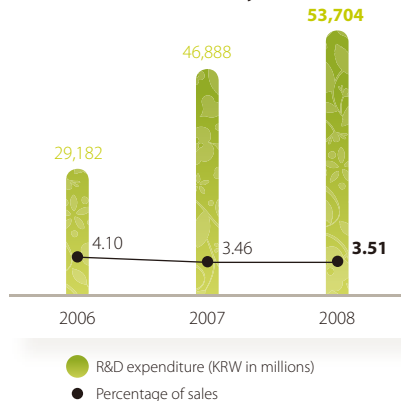


### Major Activities & Achievements

#### R&D Innovation

Our R&D focus is on creating innovative beauty and health products and also on developing new technologies that will inspire customer loyalty and trust. We continue to enhance our internal competencies and are building a global external network for acquiring outsourced technologies as well. As of 2008, we employed some 330 R&D personnel, and that number will be increased to at least 500 by 2015. At that time we will have Asia's largest cosmetics research facility and will be developing products that reflect the needs Asia-wide.

#### R&D Investment Outlays



**Note:** The 2006 figure indicates the funds spend on R&D after the split into AMOREPACIFIC from PACIFIC CORPORATION in June of that year.

#### New Research Papers & Patents by Year

		2006	2007	2008
Research papers		49	57	54
Domestic patents	Pended	206	174	242
	Registered	34	72	95
Foreign patents	Pended	44	58	45
	Registered	5	9	11



### ■ Development of Innovative Technologies

We have invested heavily in developing and commercializing innovative new technologies at the AMOREPACIFIC R&D Center. The Korean government has recognized the excellence of our research achievements with the certification of New Enterprise Technology (NET) and IR52 Awards.

#### “World’s Best” Designation for Sunscreen Line

In December 2008, the Korean Ministry of Knowledge and Economy named AMOREPACIFIC a “Manufacturer of a World’s Best Product” for sunscreen products. To receive such a designation, a company must be seen as joining the world’s top five - producers of a given product category within the next five years. AMOREPACIFIC was ranked seventh (2.1% share) in the world sunscreen market (by Euromonitor) in 2007, and sales of our sunscreen products have grown steadily since then. We expect this segment to be an important driver of our exports in the future. The global sunscreen market posted an average annual growth of 11.9% between 2002 and 2007, and demand is expected to continue surging with the ongoing depletion of the world’s ozone layer.



Presentation of government certificates for “World’s Best Product Makers”

#### IR52 Award for Sulwhasoo Intensive Wrinkle Correct Cream

Sulwhasoo Intensive Wrinkle Correct Cream uses an herbal formula to supply the skin with hyaluronic acid, which helps to remove wrinkles. Ginsenoside, the active ingredient in red ginseng is known to be generated by metabolism of microbes in the intestines, but it exists only in trace amounts in nature. AMOREPACIFIC researchers applied environment-friendly biotransformation technology that uses enzymes to mass-produce the hard-to-obtain ginsenoside components. We also learned that this substance effectively produces hyaluronic acid in the skin. This discovery led to the creation of Sulwhasoo Intensive Wrinkle Correct Cream, for the first time around the world. This product was honored with the Korean government’s IR52 Award for technology innovation in 2008.



Sulwhasoo Intensive Wrinkle Correct Cream

#### Award of Excellence for Natural Fermentation Method

O-dihydroxyisoflavone (ODI) is a scarce substance with powerful properties that make it an excellent skin whitener and moisturizer. However, the conventional chemical synthesis of ODI requires numerous reaction steps, driving up costs and making commercialization difficult.

AMOREPACIFIC extracted o-dihydroxyisoflavone (ODI) from soybean pastes naturally fermented for at least 3 years then applied an environment-friendly biotechnology for mass-production. Our breakthrough was recognized with an award of excellence at the Health Industry Technology awards in December 2008. Usually, ODI is artificially fermented from sugar or by using microbes, while our natural fermentation method, traditionally employed in Korea for making sauces, has been combined with the latest cosmetic technologies to produce the Ga-eum line of products under the Hannule brand, which features Asian herbal ingredients.



Acceptance of the award of excellence at the Health Industry Technology Awards





Presentation of New Enterprise  
Technology ("NET") certifications

#### NET Certification Received in 2008

The AMOREPACIFIC R&D Center developed the world's first pseudo-lamellar structure for cosmetics, and the breakthrough was recognized with a New Enterprise Technology (NET) certification from the Ministry of Knowledge and Economy in December 2008. The technology prevents moisture loss in the skin, maximizes the moisturizing action of cosmetic products and effectively repairs dried and damaged skin barriers. It is now used in Estura Atobarrier cream from Pacific Pharma. The pseudo-lamellar structure enhances the efficacy of cosmetics for atopy patients, who suffer from problems with their skin barrier function, and people with hypersensitive skin. Its development puts Korean cosmetics makers on an equality footing with their leading international competitors.

#### ■ Global C&D

The AMOREPACIFIC R&D Center has adopted a new concept called "Connect and Develop" (C&D), which is a step beyond the conventional in-house research and development activities. A global network has been established to accelerate the acquisition of advanced technologies through cooperative ties with companies, research institutions and universities that have world-class research performance records and competencies. This enables AMOREPACIFIC to develop new products that meet customers' needs and to manufacture safe products.

#### Cosmetics from Skin Cell Mimetics

While continuously improving in-house technology capabilities, the AMOREPACIFIC R&D Center is acquiring industry-leading technological prowess through the ongoing C&D program. One noteworthy result of this effort has been ABcell, a cosmetics ingredient that uses a skin cell mimetic developed in a 3-year project with Harvard University Physics Professor David Weitz. ABcell acts like skin cells that inhibit aging by wrapping a thin membrane similar to cellular tissue around the growth factor of melanin production and collagen decomposition, the two leading factors in the skin aging process. The substance is scheduled to be applied in the Hera anti-wrinkle and skin whitening lines.



International symposium with overseas research institutions





## We are maintaining sustainable relationships with the customers by ensuring the safety of the ingredients and the products

### Greater Responsibility for Products

Providing products that are trustworthy and safe for the customers, and ensuring customer satisfaction are critical for all cosmetics makers, including AMOREPACIFIC. We adhere to all the government safety regulations and follow even stricter safety standards internally. As a result, we are able to maintain long-term relationships with our customers.

### ■ Safety Assurance of Materials and Products

Our researchers at the AMOREPACIFIC R&D Center devote themselves to determining the chemical and functional properties of raw materials for health and beauty products. They test the materials for skin irritation, eye irritation, subjective irritation, phototoxicity, and skin sensitization, and only those that pass strict standards are selected for use. The finished products are also subjected to a variety of safety evaluations before going on the market. Third party research organizations (Aju University, Chungbuk National University, Jeonnam National University, and Gil Hospital) are also commissioned to perform tests to ensure greater objectivity in product safety assessment, and the test results are provided to all customers. We also perform rigorous testing on product usage under various possible circumstances, on usage frequency and skin safety when used in combination with other products. Beauty counselling is then provided on the basis of the test results to ensure consumer safety.



Joint research agreement with Kangwon University on herbal ingredients for cosmetics

### Preservation & Research of Domestic Herbs

AMOREPACIFIC and the Agriculture and Life Sciences Department of Kangwon National University concluded a partnership to research and secure stable supplies of domestically produced medicinal herbs. Joint research will be conducted to develop herbal cosmetic ingredients with outstanding efficacy by 2011. The AMOREPACIFIC Medicinal Herb Garden was established on a 3,300m<sup>2</sup> plot inside the university-owned farm. This project will organically grow some 200 varieties of medicinal herbs, and a Good Agricultural Practices (GAP) system has been adopted to oversee all stages of the operation, from cultivation to harvesting and packaging. Herbs that are not native to Korea will also be test-cultivated, herbs still unknown for their efficacy on human skin will be evaluated, and the scope of potential herbal resources will be expanded.



Herbal ingredients used in Hannule and Sulwhasoo products

### Use of Highly Reliable Herbs in Cosmetics

AMOREPACIFIC and the Jecheon Center of Traditional Medicine Industry (North Chungcheong Province) are collaborating to obtain herbal resources that are of impeccable quality. The partnership covers cultivation, quality certification and supply to AMOREPACIFIC. In the past, Jecheon has always been one of Korea's three leading herbal medicine markets, which opened every spring and fall. Today the area still grows some 30% of the Korean herb harvest, while 70% of all traditional medicines produced in the country are sold here. We plan to purchase nine different GAP-certified herbs (including milk vetch, Solomon's seal root, Angelica gigas, and cnidium) grown around Jecheon to be used in our products.



MOU signed to supply ingredients for famous herbal cosmetic brands

**■ Safety in Production Processes**

Our Skin Care Value Center and Make-up Value Centers have received the Korean government's Cosmetic Good Manufacturing Practice (CGMP) mark, and production operations there are meticulously controlled to ensure compliance with safety and quality standards. The quality management systems at all four AMOREPACIFIC factories in Korea are ISO 9001 certified, which helps us to maintain trust with our customers. The Green Tea Value Center is accredited by the Hazard Analysis Critical Control Point (HACCP) program. New green tea products under development must pass the 4-stage AMOREPACIFIC Food Safety Assessment process. Strict post-production quality control is also enforced to ensure the customers receive the best possible products. Safety is reconfirmed through cooperation with the Korea Health Supplement Institute, a third-party official testing agency.



CGMP certificate

**Accreditation as an Internationally Recognized Testing Agency**

The Korea Laboratory Accreditation Scheme (KOLAS) is a Korean government accreditation body administered by the Korean Agency of Technology and Standards (KATS). In April 2008, 23 chemical tests and 6 cosmetics tests developed by the AMOREPACIFIC R&D Center were accredited by KOLAS. Importantly, among the cosmetics testing categories, AMOREPACIFIC independently developed the analytical method internally for confirming the test results for phthalate diesters diethylhexylphthalate (DEHP) and dibutylphthalate (DBP).



HACCP certificate

**■ Legal Compliance and Toxic Substance Control**

All the ingredients that go into AMOREPACIFIC products are in strict compliance with domestic and international laws. Our internal regulations tightly control substances that are chemically proven to be toxic and either legally banned or under legal limits in compounds. Also, toxic materials are tracked and controlled thoroughly. Raw materials that could possibly be tainted are checked carefully at the time of purchase and again when used in production.

**■ Stronger Responsibility at the End of Product Life**

**Product Collection and Refund Program**

Our Refund Program is another way in which we satisfy customers and practice our policy of unrestricted product responsibility. The collection and refund standards are based on the Korean Consumer Fundamental Act, however, we have gone a step further by allowing customers who are dissatisfied with a product color or fragrance to trade it in for another item free of charge.

**Product Traceability**

The traceability of the products we produce and supply is managed by the methods stipulated in ISO 9001 and CGMP manuals. At the time of production, items are assigned lot numbers based on the records of when their raw and packaging materials first arrived at the warehouse. Throughout the manufacturing process, from production to packaging and inspection, each item can be identified, and the data are integrated and stored in the Laboratory Information Management System (LIMS).



KOLAS certificate

## We continue to develop better products and services by staying in close contact with the customers

### Stronger Customer Relations

We obtain customer's feedback through various channels to help us provide them with ever greater satisfaction. The Customer Gift for AMOREPACIFIC (CGAP) program enables consumers to freely voice their opinions about existing products and services, and our Prosumer program invites them to participate in the process of new product development. In the Direct Consumer Contact (DCC) program, our marketers and researchers meet with consumers in the marketplace on scheduled dates, on a regular basis. They learn how current products can be improved from the consumers' perspective and obtain insights into developing new ones that accommodate changing user needs. Our customers also receive concrete benefits through an integrated membership program (Beauty Points) that covers all our brands, a first in the domestic cosmetics industry. We have also expanded the "Lifetime Customers Campaign".



CGAP exhibition

### Communication with Customers

Customers in each region can reach us by telephone, the internet, direct visits or mail. We maintain these diverse contact channels to gather as much feedback as we can from them and to share information with them. As a result, the consumers get to know us better, and we are better able to offer them the best value. We also offer a professional beauty consulting service as a way to maintain ongoing relations with our customers.

Customer Feedback (No. of contacts)

Medium	2006	2007	2008
Telephone	83,373	100,718	106,195
Internet	10,083	10,388	11,863
Other	624	533	449



Our computerized CGAP Bank System went online in 2003 to handle customer complaints systematically. We consider negative feedback from customers to be a gift, and this system is our way of preventing or responding quickly to even the smallest complaint. Therefore, any complaint received is directed immediately to the relevant division, which promptly takes corrective action.

The Sulwhasoo Lunitouch Twin Cake represents a good example of how we respond to customers' complaints. Many reported that the twin cake could easily slide off the dressing table during use. The people in charge at AMOREPACIFIC reconsidered the environment in which the product was being used and improved the package design. Our first annual exhibition of best practices companywide regarding CGAP corrective actions was held in 2007. In October 2008, these exhibits were set up at the Head Office as well as the Skin Care Value Center.



Prosumer Day event

#### Prosumer Activities

The Prosumer (“producer + consumer”) program was launched in 1982 to monitor students, housewives and office workers who use AMOREPACIFIC products. About 400 customers took part in the Prosumer program in 2008. They sat for focused group interviews, where they discussed various topics such as product concepts in advance of new product development. They performed home-use tests on newly-developed items prior to market launch, and their comments were reflected on our final products. They also took part in online activities to promote AMOREPACIFIC products and the corporate image.

The annual AMOREPACIFIC Prosumer Day was instituted in 2002 to boost the interaction between the company and the designated prosumers. Those with the best ideas for innovative new cosmetics were invited to submit their entries in an annual exhibition. Other prosumer events include makeup shows and special lectures.

#### DCC(Direct Consumer Contact) Program

Our marketers visit customers, observe them first-hand, and learn more about them. The Direct Consumer Contact program is a way for us to discover hidden needs and then develop innovative products to meet those needs.



DCC program in action

DCC began after we asked ourselves how well we truly understood consumers at the end of 2006. Development-related persons came together, determined the target consumers to be interviewed, and then began to visit their home or to go shopping with them. Follow-up workshops are held, taking the facts learned during DCC activities to address issues discovered during the observation phase. Many product ideas raised at the workshops have been developed into new commercial items.

Thus, the DCC program uses direct observation of consumers to identify hidden needs that could not be learned through conventional customer research activities. Then innovative new products are developed to satisfy those needs.

We expanded DCC activities by opening the DCC School in 2007, followed by a DCC field experience program in 2008. Customers are now met regularly, their needs discovered, and those needs then reflected in new product development.



### ■ Customer Satisfaction Programs

We have long operated customer satisfaction programs for specific brands (sales channels) to maintain strong customer relations and provide customers with tangible benefits. However, we came to realize that limiting customers by each brand is an obstacle to understanding them. To accommodate the customer's point of view, all AMOREPACIFIC brands would have to be included under a single program. Therefore, we established the Customer Equity Management (CET) Team in January 2008, and implemented a points program that applies to every product line in our portfolio. Additional campaigns were launched to promote customer data protection and lifetime customer relationships.



Beauty Points Card of AMOREPACIFIC

#### Integrated Beauty Points Program

Customers are increasingly demanding programs for accumulating redeemable purchase points. AMOREPACIFIC has responded by offering the first membership program of its kind in the domestic health and beauty industry. Members accumulate "Beauty Points" each time they buy any brand made by AMOREPACIFIC. The points can be redeemed at any establishment that sells any AMOREPACIFIC brand, allowing members a choice of products they already use or ones they have not tried before.

Starting in 2009, the membership program was extended to include our green tea products and personal products as well as the various cosmetics lines sold at department stores, discount stores, Aritaum shops and Innisfree shops. We will increase the benefits more in the future to accommodate the members' changing needs as they grow older.



A customer uses the Beauty Points Card at an Aritaum shop



#### Customer Information Security

We are engaged in ongoing activities to fulfill our responsibility of fully protecting customer information. Internal access to the database is only granted to individuals after they pass an authorization procedure. The in-house AP CUBE System prevents customer information for employees from their work computers into external memory devices and online state storage services. We also operate a web firewall and other systems to block hackers from accessing our computer system from outside and to detect the presence of an intrusion should they succeed.

#### Lifetime Customer Campaign

We are dedicated to being more than a maker and seller of cosmetics. Our goal is to maintain ongoing relationships with individual customers, helping them to look and feel their best at all times throughout their lives. Our philosophy toward customer services also stresses that we not only sell products but also ensure our customers are deeply impressed by the services they receive from us.

Therefore, we have developed the Lifetime Customer Campaign to expand our customer satisfaction programs beyond individual brands to encompass the entire company. All customers are afforded the same kind of individualized attention.

The Lifetime Customer Campaign closely monitors changes in customer attitudes and behavior patterns and tailors products, services and benefits to accommodate those changes. Ascertaining what the customers want at the present time is not sufficient. Our latest campaign creates processes that follow the entire life cycle, observing customers constantly to understand their changes over time. As a result, we have laid the groundwork for offering the optimal products and services to suit customer preferences at any given moment in their lives.



A customer receives a "beauty solution" at an Aritaum shop



### Future Plans

New mutually-beneficial programs are planned for 2009, allowing us to contribute to the development of local communities while securing safe, high-quality herbal ingredients for our products. Our product safety program is not limited to the items we produce; we are also strengthening the safety standards governing the materials we purchase as part of our policy of extended responsibility. The AMOREPACIFIC R&D Center is currently building a second research wing that will have a total floor space of around 25,000m<sup>2</sup>. Completion is scheduled for 2010. The research team is pursuing a vision of becoming a “creative institution that helps people realize their dreams for health and beauty.” As such, we are applying world-class researchers and technical capabilities to develop advanced technologies in the areas of skin aging, skin whitening, hair growth, anti-inflammatory substances, and topical obesity.

Meanwhile, we will adopt the Consumer Complaints Management System to continue strengthening our customer relationships. The new CCMS will enable us to resolve consumer complaints even faster, while enhancing our ability to prevent the complaints from ever occurring. The new approach (the “Customer Satisfaction 2.0” concept) entails a more rigorous system of supervision. The roles and responsibilities of each organizational unit will be spelled out, and all employees will be provided with new behavioral standards and training. CCMS will upgrade our ongoing customer satisfaction activities and make them more systematic. Our employees will develop a deeper understanding of the customers and become more responsive to their needs, thereby raising the competitiveness of AMOREPACIFIC.

#### Interview

### Please Make Sound Products that Take the Environment into Account

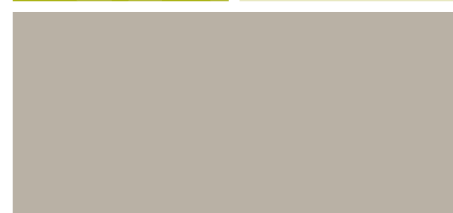
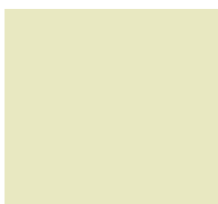
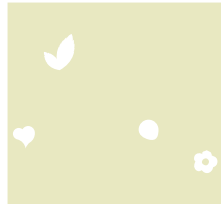
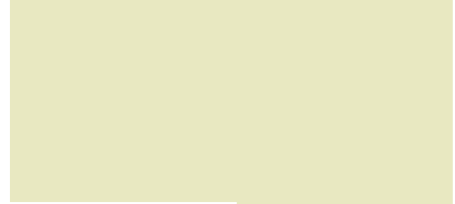
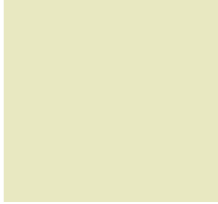
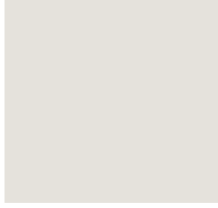
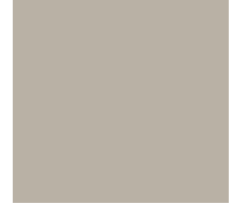
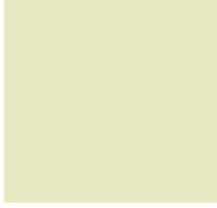
Kim Na-young  
Prosumer



“Cosmetics are applied directly onto people’s skin. Therefore, I believe their safety is critical, just like food. When my child was very young we had baby products available. Now that she is in primary school, I am having difficulty finding the right items for her. I would particularly like to see environment-friendly products that use pure and organically grown ingredients. Many foreign brands “for juniors” are on the market, but I hope AMOREPACIFIC can develop trustworthy products with safe ingredients that are best suited for young Asians skin.

At the same time, consumers such as myself are much more concerned about environmental issues today than ever before. We look forward to many environmental campaigns that we and our children can be a part of.”





### Our Employees

With passion and creativity, we are cultivating the Asian Beauty Creator that can succeed globally

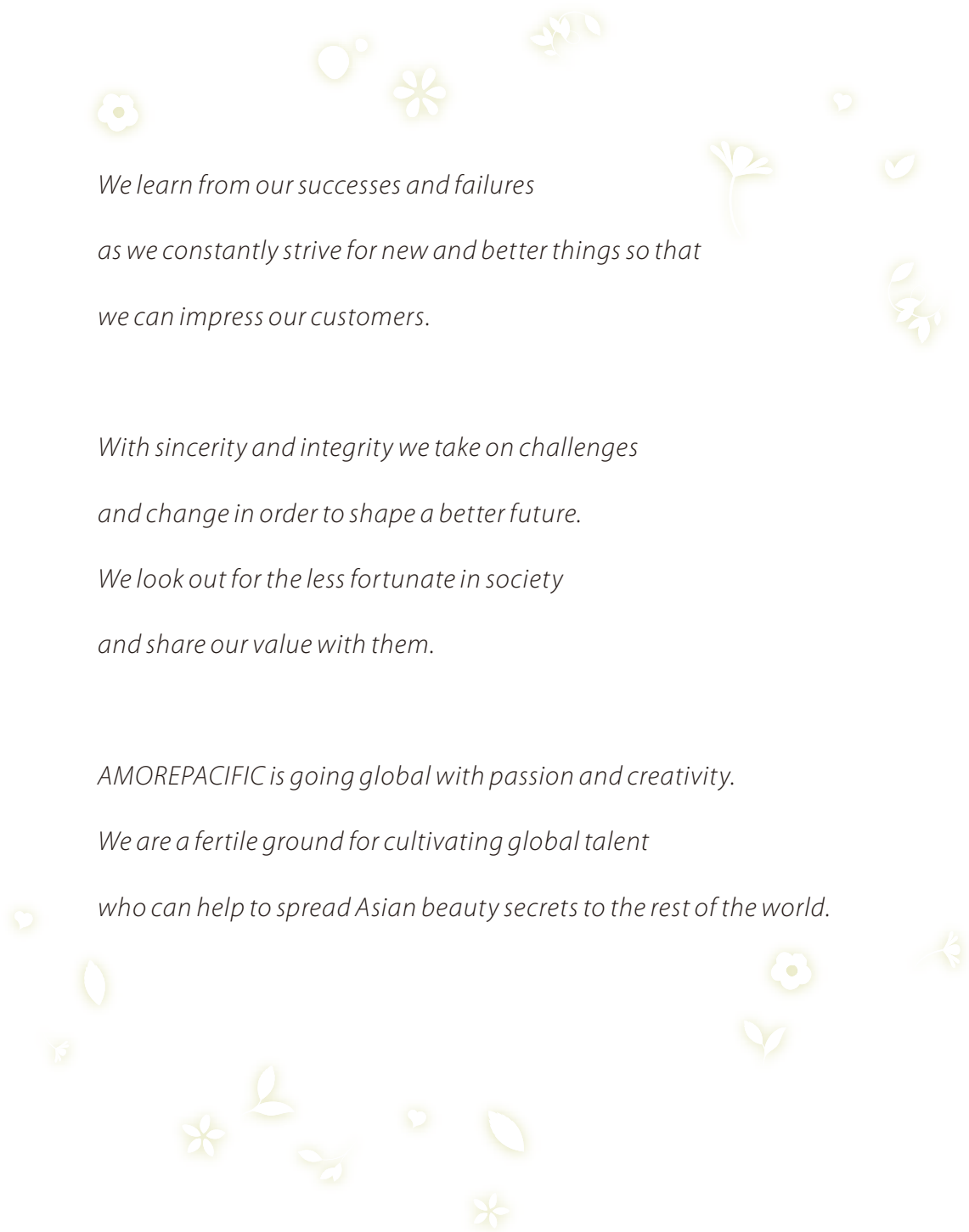
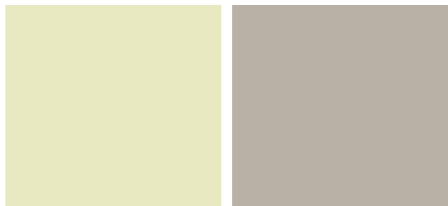
*We learn from our successes and failures as we constantly strive for new and better things so that we can impress our customers.*

*With sincerity and integrity we take on challenges and change in order to shape a better future.*

*We look out for the less fortunate in society and share our value with them.*

*AMOREPACIFIC is going global with passion and creativity.*

*We are a fertile ground for cultivating global talent who can help to spread Asian beauty secrets to the rest of the world.*



## We are creating a “beautiful and healthy” workplace by cultivating our people and rewarding them according to their capabilities

### Our Employee Ideal

#### Openness

- Have interest in external trends and communicate with the outsider
- Maintain an open-minded view of culture
- Learn from all experiences

#### Innovation

- Always seek new and better things
- Study ways to surprise the world with what you have
- Never be satisfied with obtaining the same result as others

#### Proximity

- Always try to stay close to the customer
- Once established, consider every relationship important
- Strive to influence people’s hearts rather than their minds

#### Sincerity

- Show integrity in all personal actions
- Never squander the trust of your customers or colleagues
- Never be pretentious in word or deed

#### Challenge

- Never be complacently satisfied with the status quo
- Maintain your personal ideals and vision
- Believe a better future awaits you

### Objectives & Direction

The AMOREPACIFIC human resources management strategy is implemented in the four directions shown below. At the same time, our personnel policy is diverse and flexible with respect to individual employees, organizational units and job functions. Our priority is put on employee capabilities, and our people are encouraged to cultivate specialized competencies related to their own jobs, helping them to develop a personal career vision. The AMOREPACIFIC mission is to help customers realize their dreams for good health and beauty. To this end we develop well-rounded employees who embrace our five core values (Openness, Innovation, Proximity, Sincerity and Challenge).



### Major Activities & Results

#### Employee Capability Development

The AMOREPACIFIC Human Resource Development system accommodates diverse learner levels. We provide tailored HRD solutions to the employees who work at AMOREPACIFIC, as well as at the retail outlets and suppliers. The Yongin HRD Center is tasked with cultivating “Asian Beauty Creators” for the Head Office. We also established the Daejeon HRD Center in 2008 to serve as a “sales innovation center” for our business partners. As such, AMORPACIFIC is equipped to satisfy a full range of training requirements.

#### Individualized Skills Development

Each year, individual development plans (IDPs) are used to evaluate work skill levels and identify the competencies that need to be developed. Importantly, our job skills training programs are customized for each individual. Learning maps are devised for each team to measure members’ competency levels and design their training schedules accordingly. The training programs are provided internally and outsourced as needed. Employees are also given video tutorials for specific job descriptions.

We continue to formulate new training solutions and devise training courses to meet the needs of each sales channel so that specialists are developed for each point in the value chain. Best practices are identified and disseminated as part of a program to cultivate professionals who are performance-driven. AMOREPACIFIC has also gained a reputation as a beauty academy by providing famous training courses in makeup, aesthetics, sales and services.

### Time & Money Invested in Employee Training

	2006	2007	2008
Employee training hours a year	157,628	167,850	173,017
Expenditure on training a year (KRW in millions)	3,062	4,932	5,024

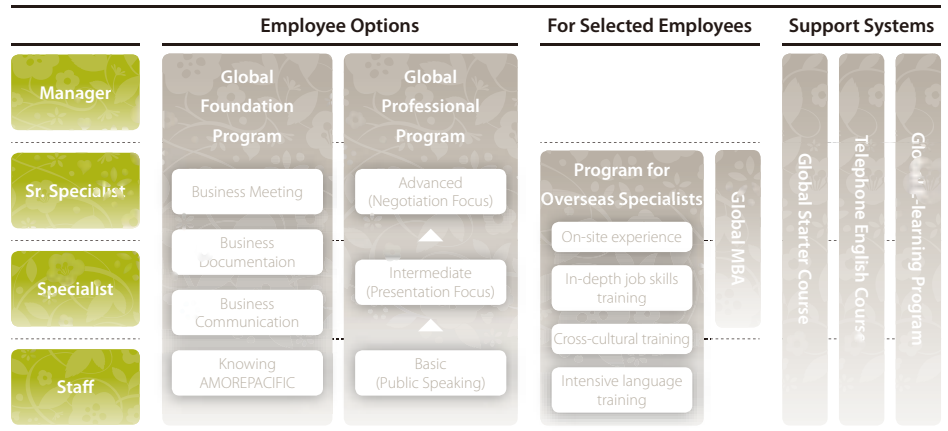
Note: AMOREPACIFIC is a newly listed company in June 2006 after the split from PACIFIC Corp., a holding company.

■ **Systematic Training of Globally-competent Personnel**

The AMOREPACIFIC system for training future leaders is based on the leadership pipeline model. The people with the highest potential for senior management are identified early, and these candidates pass through a series of training programs. When changes in the pipeline are imminent, the upcoming candidates are intensively prepared and receive practical training to provide for a smooth leadership succession. We also search out substantial business issues such as creative management approaches and sustainable management to use as training themes for top management. The latest contents are regularly shared for top management to provide insights on business management.

Meanwhile we are nurturing talents to lead the global operations and starting with China, we are also reinforcing the job capabilities of our overseas employees. We are reinforcing support function to improve the results of global logistics & contract distribution (L&CD) and other business activities. We have also developed a series of programs for the locally-hired employees at our Chinese subsidiaries, including a leadership course for managers, skills training for specific positions, a course for regional sales managers, and a course for building worker solidarity. In 2009, two hundred people, mostly in sales and marketing (80 for work skills, 80 for sales and 40 for worker solidarity) will receive training in a bid to bolster our local sales force.

**Global Training System**



Laneige global seminar



## Total Compensation Package



## Compensation & Fringe Benefits

The optimized AMOREPACIFIC compensation package includes investment in HR development and optimized salary program. This approach enables employees to become more engaged at work, resulting in the cultivation and maintenance of outstanding people.

### ■ Compensation Strategies & Plan

The compensation concept at AMOREPACIFIC is comprehensive, encompassing salaries, fringe benefits, training & development, and work environment. Salaries, which are the monetary rewards, are divided into fixed base pay and variable incentive pay. The base pay reflects individual contributions and motivates workers to increase the value of their work and role over the long-term. The incentive pay is based on the current financial performance of the company, division and team, and serves as a short-term motivator. The AMOREPACIFIC compensation plan is designed to achieve balance among work positions, while extra pay is provided according to performance results.

### Principles for Compensation Plan Operation



Site of the AMOREPACIFIC global webzine

In addition to monetary rewards, AMOREPACIFIC adopted the elective fringe benefit program in September 2006 to respond better to individual employee needs and improve the quality of employees' lives. Under this new program, fringe benefits are divided into four categories: (1) self-development, (2) medical & health support, (3) schooling for children, and (4) time off & leisure. An annual employee satisfaction survey is conducted to improve the program further.

## Open Communication

### ■ Internal Communication

AMOREPACIFIC has various channels in place for intra-organizational dialogue. The CEO's Newsletter (available in Korean, English, Chinese, Japanese and French), in-house broadcasting system and online Korean-language company magazine (sabo.amorepacific.com) are easily accessible, promoting discussion among employees and effectively communicating top management's directives. The global webzine (global.amorepacific.com) is produced for all employees around the world, helping everyone to share the same values and grow together. An annual survey is conducted to ascertain employee satisfaction with the internal communication channels, and the feedback is used to either improve or discontinue current media as well as establish new lines of communication.



Online company magazine



### Annual Employee Engagement Level Survey Results

Index	2006	2007	2008
Employee engagement level rate	71.5	73.8	81.0
Employee participation rate	66.9	59.8	61.2

**Note 1:** Until 2007, AMOREPACIFIC surveyed employee satisfaction, while the focus was shifted to employee engagement in 2008. Therefore, the questions and survey approach were changed as well.

**Note 2:** The survey was given to the people in regular office workers and research positions through 2006. Since 2007, the survey has been distributed to all employees.



Campaign held by the labor and management to support Aritaum shops.

### ■ An Employee Engagement Survey : ABC Talk

For years, AMOREPACIFIC conducted an annual employee satisfaction survey to collect various opinions and reflect them in management decisions. In 2008, the survey was changed to measure the degree to which employees are physically, cognitively, and emotionally engaged at work. The new survey has 79 questions regarding six categories (balance between work and private life, people, management directives, duties, opportunities, and compensation) that affect engagement rates.

The employee engagement level survey was conducted in October 2008, and 2,080 out of 3,397 employees responded. The survey results indicated that AMOREPACIFIC employees are 81.0% engaged, higher than the Korea National Norm (63%) and Global Manufacturing Companies' Norm (75%). However, the figure is still lower than that for the Global High Performance Companies' Norm (89%). The survey showed that the three main factors affecting employee engagement level are corporate image, leadership, and supervision. We also determined that leadership, diversity, compensation and performance evaluation are the areas that need immediate improvement. A list of priorities for corrective action was established on the basis of the analyzed survey results. Workshops were held to establish action plans for each business division, and follow-up activities are ongoing.

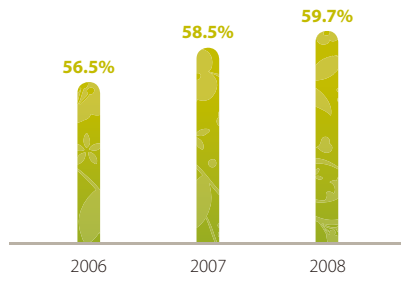
### ■ Open Labor-management Relations Based on Mutual Benefit

Formal discussions between labor and management are organized at each worksite. The delegations for each side can have 3 to 10 members, but both delegations must have the same number of representatives present. Topics on the agenda include higher productivity and performance categories; better fringe benefits for workers; settlement of worker grievances; improved working environment regarding worker safety health and other concerns; and worker health promotion programs.

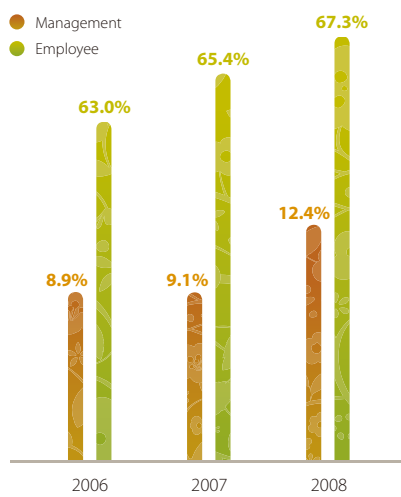
We are committed to amicable labor relations at AMOREPACIFIC. Seminars on labor-management cooperation are held to promote productive and cooperative ties. We have also established channels of communication between labor and management as part of our Open Communication policy, and all operational information is shared with the employees. Labor leaders and senior executives periodically sit down together for information talks, and the chief of the sales division and the labor union leaders attend a "communication session" each quarter.

AMOREPACIFIC has been a model for win-win labor relations, and our efforts have been recognized outside the company. We were designated as an "Outstanding Enterprise for Labor-Management Cooperation" in 1997 and "Equal Opportunity Employer for Men and Women" in 2003. We received the Rewarding Workplace Grand Prize and were named an "Enterprise for New Labor-Management Culture" in 2004. In 2008, a new labor agreement was reached without going through the lengthy bargaining process, and we have remained free of labor disputes for the past 17 years.

### Percentage of Women in Workforce



### Percentage of Women by Job Description



### Accidents per Year

	2006	2007	2008
Accident frequency rate	0.09%	0.09%	0.14%
Accident occurrence rate	0.45%	0.41%	0.65%
Average accident frequency rate in Korean industry	0.77%	0.72%	0.71%

**Note 1:** "Accident frequency rate" refers to the number of industrial accidents that occur per year among all the employees in the company.

**Note 2:** "Accident occurrence rate" refers to the number of accidents per 1 million hours of labor performed.

### Safety Performance Evaluation Results

	2006	2007	2008	2009 Target
Total points	570	680	770	783

### A Beautiful & Healthy Workplace

#### Worker Diversity with No Discrimination

As of December 2008 AMOREPACIFIC employed 5,132 people worldwide. Of this figure breaks 3,557 of the employees are in Korea and the other 1,575 work outside the country. The domestic workforce is dominated by women, who comprise 60% of the total, and physically challenged persons represented 0.34% of all employees. Overseas, locally-hired persons are the majority in all ranks, including top management. Standard No. 4 in the Code of Ethics stipulates that all workers be provided the same opportunities based on individual talent and qualification. All employees are to be judged fairly for work performance and compensated accordingly. Gender, home of record, school background, physical disabilities and nationality may not be used as reasons to discriminate against any employee in terms of hiring, work assignment or promotion.

#### A Good Place for Women to Work

We operate childcare facilities at the head office and two value centers to ease the burden of working mothers and follow an organizational culture that treats women with the utmost respect. Exclusive lounges for female workers have also been installed at the head office, all four value centers, and four regional offices, too. The lounges are equipped with breast pumps, baby bottle sterilizers and other facilities to help breastfeeding mothers take care of their infants while at work. A nurse is on staff at the head office to provide workers with physical checkups and healthcare advice.

#### A Pleasant Workplace

AMOREPACIFIC has executed a campaign called, "making pleasant workplace with labor and management" since 2004. This campaign encourages labor and management to work together to make the workplace more enjoyable. It has two major themes. "An open and healthy culture." Labor and management jointly form the annual "Fun Workplace" taskforce to organize various participatory events for employees. In addition, "Good Time Parties" were held eight times in 2008 to encourage horizontal communication and interaction for improved understanding among different organizational units.

#### A Healthy Workplace

##### System for Worker Safety Management Activities

The Labor-Management Cooperation Meetings and Industrial Health & Safety Committee (decision-making body) are instituted at each worksite to ensure employees have a safe and pleasant workplace and to enhance their quality of life. The Korea Standards Association has granted K-OHSMS 18001 certification to the health and safety management systems at the Skin Care Value Center (in 2002) and Mass Beauty Value Center (in 2004). All four domestic value centers are closely monitored for accident frequency, compliance with worker health and safety laws, and incidence of occupational illness. Five employees (0.14% of the workforce) were involved in accidents in 2008, which was lower than the national average for manufacturers (0.71%), and no cases of occupational illness occurred.





AMOREPACIFIC Fitness Center

#### Employee Health Promotion

Starting in 2007, all male employees 35 years or older and all female employees at least 30 years of age are given complete physical examinations every other year. Employee awareness of health issues is also raised through the “Love Diet, No Smoking Club” and the operation of six fitness centers at AMOREPACIFIC worksites.

#### Safety Audits at the Workplace

Annual safety audits have been conducted by outside agencies at each of the four domestic value centers and AMOREPACIFIC affiliates since 2002. In 2008, the facilities for storing and treating hazardous and toxic materials were closely inspected at three value centers. The inspections revealed 120 potentially-dangerous factors, and corrective measures were taken.

#### Future Plans

We will continue to nurture a sound corporate culture that respects individuality, creativity, and diversity as we grow into a global enterprise that allows all employees, both domestic and foreign, to use their talents and abilities to the full. The quality of employees’ lives will be further improved by ensuring the proper balance between time on and off the job. We will also continue our efforts to create a beautiful and healthy workplace where employees are happily engaged.

### Interview

#### Growing Each Day with My Son

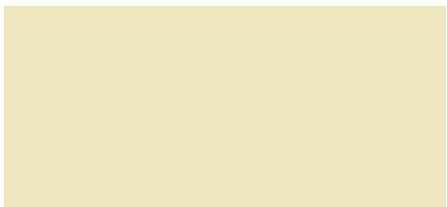
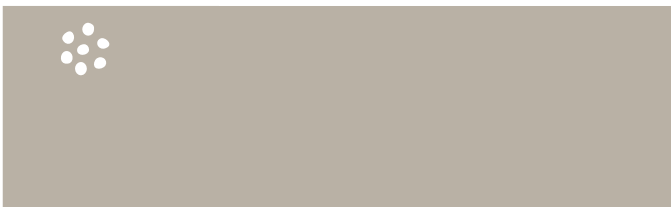
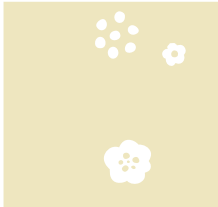
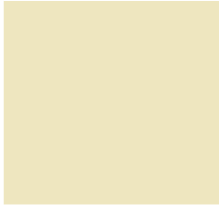
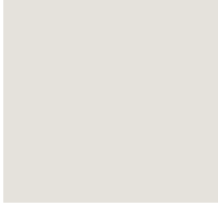
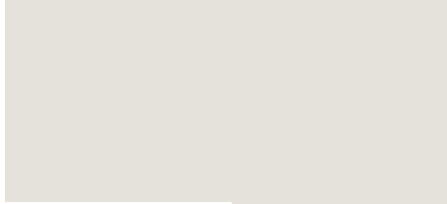
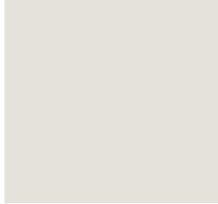
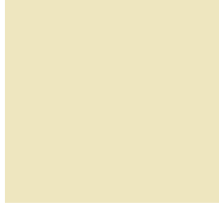
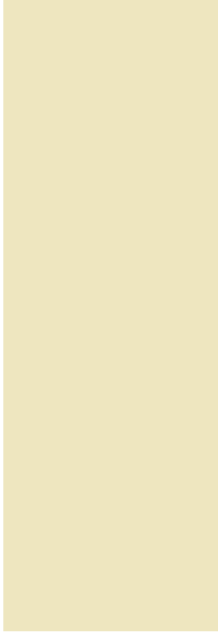
**Lee Shin-hye**

AMOREPACIFIC Online Sales Team



“Most Korean women are forced to give up their personal ambitions and quit their jobs after they conceive a child. Before I had my son, I also agonized over how I could take care a young child and continue working. The proper daycare facilities were virtually nonexistent, and the available caregivers were fraught with problems. I am truly happy that the company now has a daycare center onsite where I can leave my child with confidence.

Just as my son changes with each passing day, I want to continue growing as a wife and mother who is also a specialist in her field of work. I am grateful to the company for easing my own concerns over early care development. I hope that more childcare facilities are established in the future so that other women in my position can make the best use of their talents without having to worry over their children’s welfare.”



### Our Business Partners

We will be a “win-win” partner  
who helps with current success  
and shares future dreams



*We would have difficulty in realizing  
our dream of making AMOREPACIFIC a global beauty enterprise  
if we go alone.*

*Our journey onto the global stage is  
solidly supported by excellent suppliers and beauty partners.*

*AMOREPACIFIC believes in sustainable, mutually-beneficial partnerships,  
helping suppliers and beauty partners to succeed today  
and sharing dreams for even better things to come.*



## We are working with our business partners to make a beautiful and healthy society

### Objectives & Direction

AMOREPACIFIC maintains mutually beneficial ties with business partners in two major classifications: (1) the companies that supply raw or packaging materials and (2) the "beauty partners" that sell AMOREPACIFIC products directly to the customers.

We recognize that realizing our vision of becoming one of the world's top ten makers of beauty products would be impossible if our suppliers lack global competitiveness. Therefore we have implemented short- and long-term strategies aimed at growing together with them. To date, we have selected, supported and evaluated our suppliers on the basis of economic performance and compliance with environmental laws. In the future, our evaluation and support will also be dependent on social and environmental issues such as countermeasures against global warming.

Our beauty partners include the AMORE Counselors (door-to-door sales agents), Arielle beauty consultants at the Aritaum franchise stores and Flora and Jinni sales representatives at large discount stores. We help these beauty partners earn a steady income and grow their businesses so that they can realize their full potential. Our partnerships with them are kept close so that we can cooperate in making society more beautiful & healthier.

### Major Activities & Results

#### ■ Win-win Relationships with Suppliers

We have formed special committees to communicate regularly with our suppliers for raw materials and packaging. Sixteen suppliers provide at least 60 percent of all the raw materials that go into our products. The presidents of these companies belong to APRO (for "AMOREPACIFIC Raw material Organization"), which holds a General Meeting and a Working Committee Meeting every year. Meanwhile, A-PAC (for "AMOREPACIFIC Partners' Committee") consists of the CEOs of our 21 largest packaging suppliers, who together deliver over 80 percent of all the materials used in our products. The A-PAC General Meeting convenes biannually, while Operations Committee Meetings are held quarterly and Working Committee Meetings are held three times a year. The discussions at these regular get-togethers cover the AMOREPACIFIC vision, values and corporate philosophy as well as major issues in the market environment and procurement strategies. The meetings are also an opportunity for us to hear what our suppliers have to say. Finally, the Supplier Win-Win Promotion Conference convenes twice a year, once for the CEOs and once for the employees, to build a sense of solidarity among all parties as members of the same supply chain.

#### ■ Support for HRD at Suppliers

Supplier companies are typically small and have relatively few training programs of their own. We assist them by developing training courses for individual ranks in their organizations such as the Core Leaders program (in use since 2004). We have also developed courses for implementing Six Sigma, cultivating practical skills in quality control, learning the basics of production control and developing R&D people.



Seminar on Win-Win cooperation held in 2008



Supplier Win-Win Promotion Conference



Support for innovative production activities at suppliers

### ■ Support for Innovation at Suppliers

In the early 1990s AMOREPACIFIC developed infrastructure for innovative production in response to changing consumer needs and market environments. This infrastructure is now being used to help suppliers innovate their production stages. With limited personnel, these companies have difficulty in retooling their production lines constantly. However, we are helping them overcome these shortcomings through win-win innovations. The results are shared to maintain the mutually-supporting relationship.

For example, our innovation activity know-how and innovation specialists are used to provide “instant implementation activities.” We also provide consulting on the coupon system that is implemented with the Small & Medium Business Administration for supplier needs. We helped our major suppliers install companywide Enterprise Resource Planning (ERP) systems in 2007, and starting in 2008 we began using our product grading data to help suppliers improve their basic capabilities in managing flexible production (numerous different items in small lots). Our support for packaging suppliers was extended to mold makers in 2008, and we are now helping them upgrade their technology.

AMOREPACIFIC now measures the suppliers fairly by using the same yardstick on both their QCD (quality, cost and delivery) achieved through such innovative activities and their basic competencies. We awarded KRW150 million as prize money to our suppliers in 2008 on the basis of those performance evaluations. Those funds, in turn, help to raise the morale of the employees at the suppliers and can be used to invest in new equipment for improving quality. Thus, a virtuous cycle of improvement is maintained.

### ■ Expanding Ethical Business Practices

In November 2008 we held a special event to introduce the new AMOREPACIFIC Way and Five Core Values with our suppliers. In the process, we showed our clear intention to recognize our suppliers as true partners. In actual practice as well, we will continue to improve our relationships by having outside agencies monitor our compliance with the Fair Trade Act and other laws related to subcontractors.



Briefing suppliers on the AMOREPACIFIC WAY

A KRW5 billion fund was established in 2005 to provide suppliers with the working capital they need. Moreover, our policy since 2003 has been to settle all payments to suppliers in cash within one month of the receipt of goods.



## Major Activities & Results

### Win-Win Relationships with “Beauty Partners”

#### ■ AMORE Counselors

The AMORE Counselors, who have been working with AMOREPACIFIC for 45 years, numbered 32,400 as of December 2008. They are committed to serving customers as lifetime beauty partners, and we help them to comprehend and satisfy customer needs so that excellent relations are maintained. AMORE Counselors have more than 3 million customers of their own and are responsible for more than one-third of our total cosmetics sales.

#### No. of Counselors by Year

2006	2007	2008
31,592	30,925	32,400



2008 Counselor Convention

#### Support for Counselor Activities

AMORE Counselors are invited to take practical training courses, which are offered both online and offline and tailored to suit individual circumstances and skill levels. We support their activities in other ways, too, such as by improving their training environment, offering sales tools, and providing various sales promotional materials. The annual Counselor Conference has been held since 2000 to thank them for their hard work and to offer extra motivation. Around 6,000 people attended the event in 2008.

In addition, we operate Counselor 080, an exclusive phone number for filing complaints or seeking assistance. Everyone registered as an AMORE Counselor belongs to the AMORE Counselor Mutual Aid Society, which provides funds to defray the cost of medical treatment for the Counselors and their family members, school fees for the children, weddings or funerals for family members and accidents that befall the family. In addition, the top-performing agents are given grants to attend training programs in the US, Europe or Southeast Asia.

#### Community Service Activities with the Counselors

AMOREPACIFIC and AMORE Counselors are jointly involved in various community service programs. For example, the Counselors have volunteered to work as make-up artists for the AMOREPACIFIC Make Up Your Life campaign, which was launched in 2008 to help women who are recovering from cancer. Their “Beautiful People” volunteer service club is performing exemplary social work, and the Counselors invite regular customers to free lectures on health issues and examinations for breast cancer.



Volunteer service organization of counselors (AMOREPACIFIC Make Up Your Life) launched



SSEP training for AMORE Counselors

### Challenging the Future

The Vision 500 Project sums up the next challenge for AMORE Counselors. This plan aims to increase the volume of purchases from the Counselors' customers, which ultimately will improve the Counselors' own incomes and satisfaction levels. The key to its success lies in strengthening the Counselors' sales capabilities and providing them with systematic support, and the Sales Stimulation and Enhancement Program has been adopted for this purpose. The pre-Program test was administered in 2008, and the SSEP will be given to all Counselors between 2009 and 2010. The Program will improve Counselors' beauty counseling skills and help them approach the customers with the optimal mix of brands and services without a sales promotion.

### ■ Arielle

The "Arielle" beauty partners offer tailored beauty solutions. They have extensive experience with numerous AMOREPACIFIC brands and work at the Arituum shops, which provide beauty counseling services. With endless enthusiasm for customers and beauty, the Arielles continue to learn and grow.

### Arielle Training System

AMOREPACIFIC provides various training courses to help Arielles grow as professionals who can counsel customers and make them feel comfortable. When they join the AMOREPACIFIC team, they are required to complete an introductory program to become thoroughly familiarized with the Arituum shop environment. Then, they participate in a 4-day, 3-night session that covers skin science, customer service, AMOREPACIFIC products, and techniques for using the skin touch machine. Thereafter, the Definite 1m Skills Training program is held twice monthly, covering such subjects as hand massage, eyebrow correction, and skin touch application until the trainee qualifies for the Definite 1m Service Certificate. When promotion time comes, the Arielles are required to attend a course (for new assistant managers, managers, etc.) at the AMOREPACIFIC HRD Center.



Definite 1m skills training





SSEP training session

#### SSEP to Bolster Arielle Aales Capabilities

We developed the Sales Stimulation and Enhancement Program for improving Arielle competencies in 2008 and are implementing it from 2009. This is the key tool for teaching outstanding sales methods and standardized processes at Aritaum shops. All Arielles are trained, coached and supervised until the methods and processes have become second nature, raising both individual and team competencies. The training configuration is being designed to link the SSEP with the Ministry of Labor's qualification system, and Arielles who complete the SSEP will receive a government authorized certificate. Initially, more than 400 Arielles at 100 shops will take the SSEP program, and about half of the trainees are expected to qualify for certification from the Ministry of Labor.

#### Arielle Assessment & Compensation System

Our compensation system for Arielles is linked to performance. To encourage constant improvement we evaluate their training record, sales record and mental attitude. The work records of all Arielles are kept in a database, and their assessments are cumulatively managed. Importantly, the SSEP training is now a one of the factors, and they are paid a special stipend when they receive a qualification certificate.



SSEP competition

#### Support for shop-sponsored Community Services

Aritaum shops and Arielles are linked with "World Vision" in volunteer activities and remain close to the local community. Currently, 148 children are being assisted through the program.

### Future Plans

Our Counselor Way values code will be announced on the tenth annual Counselor Conference in 2009. The code stresses four core values-passion for work, caring for customers, friendship with co-workers, and compassion for the local community, and we will work with the Counselors to improve in all four areas. We also plan to publish a report ("Beautiful Conduct") on their community service activities, to help enhance their public image. A Customer Equity Management program will be launched in 2009 that links the geographic information system and cobranded credit cards, providing systematic support for Counselor activities. Finally, the My Shop Project will assist Arielles realize their dreams of owning their own Aritaum franchise. Selection of the top performers begins in 2009, and AMOREPACIFIC will provide assistance until they open shops of their own.

These various support activities for beauty partners allow us to maintain close, mutually beneficial ties. As a result, we help our beauty partners grow as a professional group who maintain relationships with customers that extend beyond cosmetic sales.



## Interview

### We Grow Together through Win-Win Cooperation

**Lee Tae-yul**

J.U. System CEO



"My company has been producing multiple items in small lots, and quality, time for delivery and cost reduction are our top priority. Our production processes left no room for environmental considerations. However, the engineers from the AMOREPACIFIC Environment Team use an assessment index to examine whether we are adhering to environmental standards. The AMOREPACIFIC suppliers are assessed on the basis of the audit results, and they are provided incentives to perform well.

The environmental audit presents a bit of a burden for us, but I consider it to be fair. They identify areas where we are remiss, and we are able to correct the problems. I would like to see AMOREPACIFIC provide various training opportunities and system support so that we can respond to the environmental issues more systematically."

## Interview

### Systematic Training Becomes Solid Strength

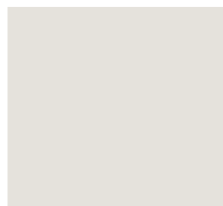
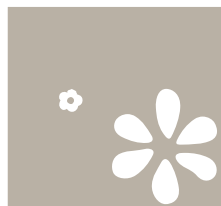
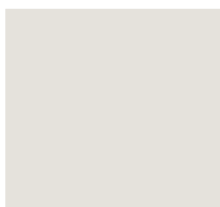
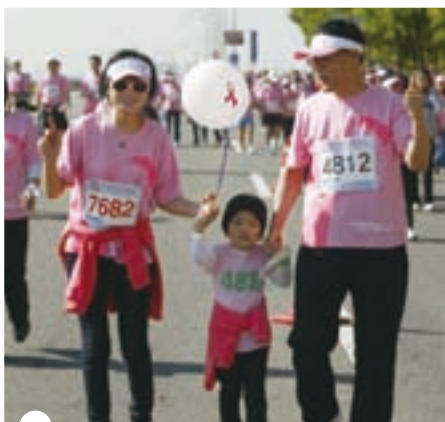
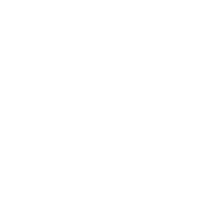
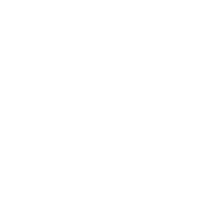
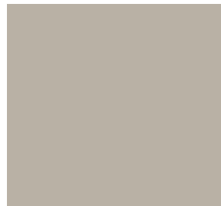
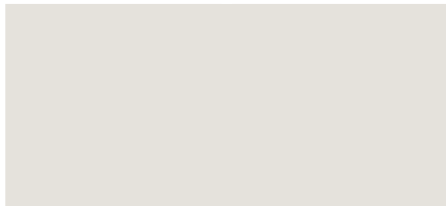
**Shim Sun-wha**

Shin-Heung Office Chief Branch Manager



"The best thing about working with AMOREPACIFIC is that we get many opportunities to communicate with the Head Office through seminars and branch manager meetings, and the views raised in these discussions are reflected quickly in decision making. In addition, the Sales Stimulation and Enhancement Program has been excellent for optimizing our beauty counseling for customers. I am now an SSEP coach at my office, and this program has helped our new Counselors a great deal.

People who are starting out in sales confront many situations in which they do not know what to do. The SSEP teaches the Counselors the skills and qualifications they need. They can approach customers with greater self-confidence. I look forward to more support from AMOREPACIFIC so that we can make the most of the SSEP."



### Our Community

We are living up to a beautiful pledge to growth in tandem with customers and society.

*Enterprises exist within society and they grow along with customers and society.*

*AMOREPACIFIC regularly shares with the community, and we feel grateful for learning how to grow together.*

*AMOREPACIFIC has walked the path of sharing for 64 years. We have become a beautiful companion with customers and society, and are now steadfastly advancing ever further.*



## We work to improve women's health and welfare, and we look after their economic and cultural environments

### Objectives & Direction

Our corporate social responsibility programs are primarily focused on improving women's health and welfare and on looking after their economic and cultural environments. Our efforts in this regard enable women to lead healthier, more beautiful lives. We nurture the spirit of sharing as an integral part of our corporate culture, and we cultivate our people to be warm and caring, advancing together with the community.

### Major Activities

The many community service activities at AMOREPACIFIC in 2008 mainly involved support for social contribution programs related to women's issues or volunteer work by our own employees. Since our establishment, we have managed to remain the leader in the Korean cosmetics industry because our female customers have remained steadfastly loyal to AMOREPACIFIC. We repay their loyalty by serving the community in the areas of women's health, welfare and cultural wellbeing. These activities are performed in the belief that women's happiness is a prerequisite for general happiness in society and for the bountiful world to which all people aspire. We also provide the goods, funds and systems that enable our employees continue their involvement in their local communities, lending a helping hand to those who need it the most.

### Annual Expenditures on Social Contribution (KRW in millions)

Year	Amount Spent	Percentage of Sales	Percentage of EBIT
2006	6,521	0.5%	2.9%
2007	6,521	0.5%	2.6%
2008	6,420	0.4%	2.6%



인류를 아름답게, 사회를 풍요롭게  
*Beautiful People, Better Tomorrow*

### Community Service Slogan & Emblem

Our slogan "Beautiful People, Better Tomorrow" reflects our determination to enrich society and make the world a healthier and a more caring place. To this end we help women to have healthful beauty and we strive to harmonize people and nature.

### AMOREPACIFIC Social Contribution Programs

Beneficiary	Area		
	Health	Welfare	Culture
Women (& children)	<ul style="list-style-type: none"> <li>• Pink Ribbon Campaign</li> <li>• AMOREPACIFIC Make Up Your Life Campaign</li> <li>• Support for N. Korean children</li> </ul>	<ul style="list-style-type: none"> <li>• Hope Stores (The Beautiful Foundation)</li> <li>• Support for Brides in International Marriages (Development Fund for Women)</li> <li>• Beautiful Life (Community Chest)</li> <li>• Happy Bath, Happy Smile (AMOREPACIFIC Welfare Foundation)</li> </ul>	<ul style="list-style-type: none"> <li>• AMOREPACIFIC Award for Outstanding Women in the Sciences (Korean Federation of Women's Science and Technology Associations)</li> <li>• Support for Research on Women's &amp; Cultural Themes (AMOREPACIFIC Academic &amp; Cultural Foundation)</li> </ul>
General (society)	<ul style="list-style-type: none"> <li>• Operation of 3 foundations (Korea Breast Cancer Foundation, AMOREPACIFIC Welfare Foundation, and AMOREPACIFIC Academic &amp; Cultural Foundation)</li> <li>• Operation of the AMOREPACIFIC Museum of Art</li> <li>• Operation of the O'sulloc Tea Museum</li> <li>• Public contributions linked to charities</li> <li>• Beautiful Sharing event with employee community service and company donations of goods</li> <li>• Beautiful Saturday event with the Beautiful Store</li> <li>• Adopt-a-Cultural Asset program</li> <li>• Support programs in Korea's provincial areas</li> <li>• Payroll deduction fundraising campaign</li> </ul>		

Our expenditures for social contribution activities in 2008 were equal to 2.6 percent of our income before taxes, a figure that was higher than the national average. In addition, the number of employees who volunteer for community service is increasing each year. This reflects the AMOREPACIFIC corporate culture, which stresses the importance of increasing the growth in sharing in proportion to the growth achieved by the corporation.



**Participation in Korea Breast Cancer Foundation Projects & No. of Beneficiaries**

Year	Pink Ribbon Campaign	Preventative Checkups	Payment for Surgery
2006	34,910	297	48
2007	30,116	2,270	48
2008	33,418	4,037	52

**Social Contribution Programs Aimed at Women**

**■ Pink Ribbon Campaign**

The incidence of breast cancer in women is rising fast, and breast cancer has become the biggest single threat to women’s healthful beauty. AMOREPACIFIC established the Korea Breast Cancer Foundation in 2000 and began the Pink Ribbon Campaign to heighten public awareness of the disease and inform people about the necessity and importance of regular checkups. The Pink Ribbon Marathon, one of the highlights of this campaign, has attracted a total of 118,099 participants in 2008. All the proceeds from the event were donated to the Korea Breast Cancer Foundation, which pays for the surgery needed by low-income breast cancer victims and educates the public on breast cancer prevention and early treatment. When customers purchase sets of personal care and health products, 1 percent of the price is earmarked for the Pink Ribbon Beautiful Pledge program, which pays the cost of surgery performed on low-income breast cancer patients. The program helps to raise public awareness of the purpose for the Pink Ribbon Campaign, and gives consumers a chance to put a little more sharing in their everyday lives.

**■ AMOREPACIFIC Make Up Your Life**

We understood the profound feeling of loss that women breast cancer patients feel as their physical appearance deteriorates during treatment. To help them, we launched the Make Up Your Life Campaign, where makeup artists give lectures to women recovering from breast cancer and teach them new ways to use makeup to regain their sense of dignity. Members of the AMORE Counselors volunteer organization take part, helping the women with their makeup, skin care and hairstyles. More than 500 women from eighteen hospitals took part in the campaign in 2008. They received free cosmetic kits that include Hera brand makeup products, a book on for managing physical appearance, and a carrying bag.



AMOREPACIFIC Make Up Your Life Campaign

**■ Hope Business Startup Fund**

AMOREPACIFIC has been part of the Hope Business program since 2003, providing low-income single mothers with unsecured loans to start up their own business. The loans are arranged through the Beautiful World Fund and donated to the Beautiful Foundation. The women are given a basic avenue for escaping poverty. A total of thirty-eight Hope Stores have been opened nationwide as of the end of 2008. Initially, the business establishments were mainly restaurants, but they have continued to diversify in recent years to include cosmetics shops, shops for recycling parts from discarded products, privately-owned taxis, automobile body shops, and learning academies.



Opening ceremony for Hope Store No. 38

**■ AMOREPACIFIC Award for Outstanding Women in the Sciences**

We instituted the AMOREPACIFIC Award for Outstanding Women in the Sciences in 2005 to assist women’s advancement and standing in the scientific community. The Award helps empower Korean women scientists, who face many difficulties, to lead scientific progress. The Award comes with a cash reward of KRW75 million, and twenty-two Korean women scientists have been selected as beneficiaries as of December 2008.



Presentation of the 3rd annual AMOREPACIFIC Award for Outstanding Women in the Sciences

## Employees Volunteer Activities in 2008

Program	No. of Participants	Time Spent (Hours)
Beautiful Sharing	2,891	12,549
Beautiful Saturday	122	487
Adopt-a-Cultural Asset	150	1,200
Kimchi-making for Needy	44	352
Total	3,207	14,588



Beautiful Sharing event



Beautiful Saturday event sponsored by AMOREPACIFIC



Hanging the signboard for the AMOREPACIFIC Sung-Hwan Suh Hall at the Medical Education Center

## Employee-led Community Service Activities

### Beautiful Sharing Event

Our employees donate their time in the Beautiful Sharing event twice a year (once each half), while the company delivers material support to social welfare institutions around the country. In 2008, more than 2,900 employees in 346 community service teams volunteered to help out at some 230 institutions, and more than 30 different AMOREPACIFIC personal care products, cosmetics and green tea products were donated to around 800 institutions. The employees are free to decide where they will work and what kind of activities they will perform. AMOREPACIFIC meanwhile pays the expenses for staging events, transportation, insurance, and the material items required.

### Beautiful Saturday Event

Beautiful Saturday is a charity bazaar that has been held annually since 2003, and AMOREPACIFIC employees have donated more than 90,000 items to the event over the years. On November 1, 2008, we organized "Beautiful Saturday with AMOREPACIFIC" events at five Beautiful Stores around the country. Activities included makeup services, face painting, presentations of recycled flowerpots and "eco-bottles," and free Sulloc tea tasting. One month before the event, employees began donating items, and more than 19,000 were collected, including 280 from President Kyung-Bae Suh, and some 120 AMOREPACIFIC employees volunteered to serve as store clerks for the day. The event generated more than KRW16 million, which was donated to the Beautiful Foundation.

### Systematic Support for Employee Volunteering Activities

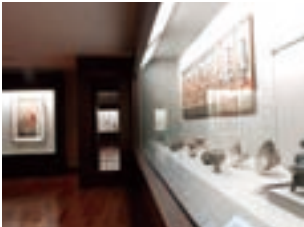
In 2008 AMOREPACIFIC launched the ABC Points Accumulation and Matching Gift programs to encourage greater employee involvement in volunteer community service. Employees earn points for the amount of voluntary community service they perform, and these points are reflected in their remuneration. The company will also match the amount that employees donate to charity, doubling the overall amount. In addition, a KRW300 million foundation to support North Korean children was funded by donations from President Suh and the Matching Gift program. The foundation has supported the establishment of a pediatric ward on the fifth floor and the Medical Education Center of the Pyongyang University of Medicine Hospital in North Korea.

The Matching Gift program also extends to the a payroll deduction campaign that AMOREPACIFIC employees have joined. The campaign, which was started in 2000, deducts just KRW1,000 from individual salaries, bonuses or incentive pay, and the collected funds go to help needy children nationwide. This is a way to get the employees involved in the spirit of sharing. In addition, we have published and distributed the AMOREPACIFIC Guide for Volunteer Community Service, providing all employees with know-how to maximize the effectiveness of their charity activities.





Signs designed and produced by AMOREPACIFIC to provide directions to Dasanchodang



Inside the AMOREPACIFIC Museum of Art



The O'sulloc Tea Museum, the first of its kind in Korea



Poster for the 7th annual MSFF

## Culture-centered Social Contribution

### ■ Activities to Preserve Tea-related Cultural Assets

In January 2006 we signed an agreement to maintain cultural assets as part of efforts to preserve Korea's culture of drinking green tea and other teas. Since then, we have helped to protect some of Korea's most important historical sites related to tea-drinking, including Dasanchodang (茶山草堂 where Jeong Yak-yeong stayed in exile), Iljiam (一枝庵 hermitage dedicated to the tea ceremony), and Chusa Yubaeji (秋史 流配地 where Kim Joeng-hee was exiled on Jeju Is.). During 2008 more than 150 AMOREPACIFIC employees volunteered to go out to these sites thirty-six times to perform monthly repairs on the ancient buildings, clean up the surrounding area and plant tea bushes.

### ■ AMOREPACIFIC Museum of Art

The AMOREPACIFIC Museum of Art (previously the D'amore Museum) offers visitors an opportunity to see, hear about and experience first-hand traditional activities related to Korean women and tea culture. The establishment started out in 1979 as Korea's first museum dedicated to cosmetics. Over the past three decades, the Museum has gained great authority and professionalism while expanding public interest in the daily lives of Korean women in traditional times and the culture of drinking tea. Today, the collection includes more than 8,000 items, and two special exhibits are organized each year. International exchanges are pursued to introduce the beauty of Korean culture to the rest of the world.

### ■ Passing on the Green Tea Legacy

The O'sulloc Tea Museum opened on Jeju Island in 2001 to help popularize green tea in Korea. This institution has displays to educate people today on the tea-drinking culture in traditional times. At the same time, visitors have a chance to pick tea leaves and prepare the water for making green tea. The exhibit hall covers the history and varieties of tea found inside and outside Korea, the production processes, and the use of green tea. Traditional as well as modern vessels for preparing and serving tea are on display, including practical and aesthetically pleasing pieces from master craftsmen. With so much to see and do, the Museum now draws more than 500,000 visitors a year.

### ■ Diverse Mécénat Activities

The first annual Mise-en-scene Short Film Festival (MSFF) was held in 2002, and the seventh edition took place in 2008. This event serves as a fine example of corporate support for the arts. The program variety has been increasing every year, as has the cinematic quality of the films. In 2008 visitors were able to enjoy a wide selection of productions. AMOREPACIFIC continues to explore ways to share through cultural events, and Hangeul Day (celebrating the Korean alphabet) in 2006 became yet another opportunity. We collaborated with Professor Sang-soo Ahn of the Hong-ik University Meta-Media Design Center to develop the Arita font for Korean letters. The font can be downloaded free of charge at the AMOREPACIFIC website ([www.amorepacific.co.kr](http://www.amorepacific.co.kr)), and the project represents a unique way for a company to give back to society.

## Operation of Public Welfare Foundations

In addition to the social contribution activities performed in-house, AMOREPACIFIC has established three public welfare institutions (the Korea Breast Cancer Foundation, AMOREPACIFIC Welfare Foundation and AMOREPACIFIC Academic and Cultural Foundation) that conduct a wide range of activities in support of women's health, welfare and cultural development.

### ■ Korea Breast Cancer Foundation

We established Korea's first non-profit organization dedicated to fight against breast cancer in 2000 to help promote women's health. The Korea Breast Cancer Foundation's Pink Ribbon Campaign, lectures on health topics, financial support for surgery, preventative examinations, and support for academic research have raised public awareness of the need to prevent and eradicate breast cancer. During the 2008 Pink Ribbon Campaign more than 4,000 free breast examinations were given, and over 8,000 people attended public lectures held at 47 hospitals around the country. The Foundation also paid the medical expenses for surgery on 52 low-income breast cancer patients, supported 10 academic research projects and worked with other organizations in a pilot project for providing mobile breast exams.



Pink Ribbon Love Marathon, organized by the Korea Breast Cancer Foundation

### ■ AMOREPACIFIC Welfare Foundation

The AMOREPACIFIC Welfare Foundation started out in 1982 to organize projects that support low-income women and their children. The Happy Bath, Happy Smile program in 2008 repaired or replaced old toilets and bathing facilities at 28 public welfare institutions. The "Dancing Cray-pas" art therapy project helped to bring solace to 317 inmates at 35 different institutions and improve their family relations. The "Happy World We Create" community service program for 5th and 6th graders was also run at twenty-two different primary schools nationwide.



"The Happy World We Create" event by the AMOREPACIFIC Welfare Foundation

### ■ AMOREPACIFIC Academic and Cultural Foundation

We established the AMOREPACIFIC Academic and Cultural Foundation (formerly the AMOREPACIFIC Scholarship Culture Foundation) in 1973 to further social development by nurturing gifted students and supporting important research projects. The support is particularly focused on studies by women, and their work results continue to grow. As such, the AMOREPACIFIC Academic and Cultural Foundation has become an important center for women's studies in everyday life. Use of their findings has been increased through book publication and film production. The Foundation supports, through repeated research projects, studies that would be difficult to capture under a single theme. An academic exchange with Southeast Asia is also helping to transform the Foundation into a global HRD center.



Research papers from the AMOREPACIFIC Academic and Cultural Foundation

## Future Plans

In the future, AMOREPACIFIC will follow the "Beautiful People, Better Tomorrow" ideal in developing and implementing creative public service projects. We will continue to find ways to assist our beneficiaries in more meaningful ways. Our goal is to be first in walking the path toward improving women's health and assisting the socially disadvantaged. We will also remain at their side for the long term.



Creating  
a beautiful life

AMOREPACIFIC goes on

# Appendix

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● Fully Reported    ◐ Partly Reported    ○ Not Material

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	EN5	Energy saved due to conservation and efficiency improvements	●	41	8, 9
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	◐	41	8, 9
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved	◐	41	8, 9
Water	EN8	Total water withdrawal by source	●	42	8
	EN10	Percentage and total volume of water recycled and reused	○	-	8, 9
Bio Diversity	EN11	Location and size of land owned, leased, managed in protected areas and areas of high biodiversity value outside protected areas	◐	44	8
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	◐	44	8
Emissions, Effluents, and Waste	EN16	Total direct and indirect greenhouse gas emissions by weight	●	44	8
	EN17	Other relevant indirect greenhouse gas emissions by weight	○	-	8
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	44	7-9
	EN19	Emissions of ozone-depleting substances by weight	○	-	8
	EN20	NOx, SOx, and other significant air emissions by type and weight	●	41	8
	EN21	Total water discharge by quality and destination	●	42	8
	EN22	Total weight of waste by type and disposal method	●	42	8
	EN23	Total number and volume of significant spills	○	-	8
Products and Services	EN25	Biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	○	-	8
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	●	47-48	7-9
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	◐	Note 2	8, 9
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	○	-	8
Transport	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	●	43	8
Overall	EN30	Total environmental protection expenditures and investments by type	●	Note 3	7-9
<b>Labor Practices and Decent Work : Disclosure on Management Approach</b>				67, 75	-
Employment	LA1	Total workforce by employment type, employment contract, and region	●	11, 28	-
	LA2	Total number and rate of employee turnover by age group, gender, and region	○	-	6
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	●	68	-
Labor/ Management Relations	LA4	Percentage of employees covered by collective bargaining agreements	●	Note 4	1, 3
	LA5	Minimum notice period regarding operational changes	●	Note 5	3
Occupational Health and Safety	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	●	69-70	1
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region	●	70	1
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	●	70-71	1
	LA9	Health and safety topics covered in formal agreements with trade unions	●	69	1
Training and Education	LA10	Average hours of training per year per employee by employee category	●	66	-
	LA11	Programs for skills management and lifelong learning and assist them in managing career endings	●	66-67	-
	LA12	Percentage of employees receiving regular performance and career development reviews	◐	68	-



● Fully Reported   ● Partly Reported   ○ Not Material

G3		Indicators	Reporting Status	Page	UNGC
Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	●	11-12	1,6
	LA14	Ratio of basic salary of men to women by employee category	●	70	1,6
Human Rights : Disclosure on Management Approach				67	-
Investment and Procurement Practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	○	-	1-6
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	○	-	1-6
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights	●	17	1-6
Non-Discrimination	HR4	Total number of incidents of discrimination and actions taken	●	70	1, 2, 6
Freedom of Association and Collective Bargaining	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	●	67	1-3
Child Labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	●	Note 6	1, 2, 5
Forced and Compulsory Labor	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	●	Note 7	1, 2, 4
Security Practices	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights	○	-	1, 2
Indigenous Rights	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	○	-	1, 2
Society : Disclosure on Management Approach				41, 54, 61	-
Community	SO1	Effectiveness of any programs and practices that assess and manage the impacts of operations on communities	○	-	-
Corruption	SO2	Percentage and total number of business units analyzed for risks related to corruption	●	17	10
	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	●	17	10
	SO4	Actions taken in response to incidents of corruption	○	-	10
Public Policy	SO5	Public policy positions and participation in public policy development and lobbying	○	-	1-10
	SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	○	-	10
Anti-Competitive Behavior	SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes	●	17	-
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	●	Note 8	-
Product Responsibility : Disclosure on Management Approach				48	-
Customer Health and Safety	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	●	57-58	1
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle	○	-	1
Product and Service Labeling	PR3	Type of percentage of significant products and services subject to such information requirements	●	58	8
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	○	-	8
	PR5	Practices related to customer satisfaction	●	59-61	-
Marketing Communication	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications	●	17	-
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship	○	-	-
Customer Privacy	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●	62	1
Compliance	PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	●	17	-

**Note 1.** Minimum wage laws are strictly followed.

**Note 2.** Recycling allotments exceeded KRW1.46 billion in 2008, which was 69.8% of all funds spent on recycling.

**Note 3.** More than KRW2.38 billion was spent on environmental protection in 2008.

**Note 4.** Collective bargaining accounts for 99% of the total (all employees except executives).

**Note 5.** Articles 18 and 19 of the Collective Agreement stipulate that restructuring and outsourcing decisions must be accepted in advance by the labor union.

**Note 6.** Involuntary labor is prohibited by Article 24 of the Collective Agreement and Article 64 of the rules of employment.

**Note 7.** Article 64 of the Labor Standards Act is strictly followed.

**Note 8.** No legal violations have been committed.



## Assurance Report

To the readers of the AMOREPACIFIC Sustainability Report 2008

### INTRODUCTION

We have been engaged by AMOREPACIFIC Co., Ltd. to review specified information in AMOREPACIFIC Sustainability Report 2008 (further referred to as The Report henceforth). The Executive Board of AMOREPACIFIC Co., Ltd. has the responsibility of creating for the Report. Our responsibility is to issue an assurance report in relation to the scope described below.

### CONTEXT AND SCOPE

In The Report, AMOREPACIFIC describes its efforts and progress in relation to sustainability. Our engagement activities were designed to provide the readers of The Report with reasonable and limited assurance on specific information listed below:

- reasonable assurance on whether
  - the data on financial performance, as specified in the section 'Work undertaken and conclusions' are properly derived from the audited consolidated financial statements of AMOREPACIFIC.
  
- limited assurance on whether:
  - the data on CO<sub>2</sub> Emission Volume, Solid Waste Generation by Year, Accident per year and Social Contribution per year are reliable.
  - the information in the following sections of The Report is fairly stated:
    - Introduction (p9 - p17)
    - Environment-friendly Product Development (p47 - p51)
    - Our Customers (p54 - p63)
    - Our Employees (p66 - p71)

'Fairly stated' means that The Report properly reflects the information contained in the underlying sources that it is consistent with the original source of 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 AMOREPACIFIC, the reader should consult the audited consolidated financial statements of AMOREPACIFIC for the year ended 31 December 2008. Assurance on GHG Inventory was not a part of our engagement.

### ASSURANCE / REPORTING 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. AMOREPACIFIC applies its own internal sustainability performance reporting criteria, in addition to using the G3 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. Our engagement activities were conducted based on limited processes, which means that additional assurance procedures could lead to a different conclusion.



## WORK UNDERTAKEN AND CONCLUSIONS

### Financial data

We have reconciled the data on financial performance for the year 2008 listed below, with the audited 2008 consolidated financial statements of AMOREPACIFIC.

- the financial performance information on page 24

Based on the above, the data on financial performance specified above are properly derived from the 2008 consolidated financial statements of for which the independent auditors issued an unqualified audit opinion dated April 9, 2009.

### Specific Materials

For the reliability of the data on CO<sub>2</sub> Emission Volume, Solid Waste Generation by Year, Accident per year and Social Contribution per year we conducted:

- a review of the data reported by reporting organizations;
- a review of the systems used to generate, aggregate and report these data;
- a review of the data validation process at product division level;
- a review of the calculation made at corporate level;

Based on the above, the data on CO<sub>2</sub> Emission Volume, Solid Waste Generation by Year, Accident per year and Social Contribution made per year do not appear to be unreliable.

### Specific Sections

For the information in the sections of The Report, as specified above under 'CONTEXT AND SCOPE' we conducted:

- a media and internet search to obtain insight into the relevant sustainability aspects in the reporting period;
- a review of the systems and processes used to generate this information;
- a review of internal documentation and intranet sources;
- interviews with staff in order to assess the information included in the specific sections;

Following our review we discussed changes to the draft Report with AMOREPACIFIC and reviewed the final version of The Report to ensure that it reflected our findings. Based on the above, the information in the sections – 'Introduction,' 'Environment-Friendly Product Development,' 'Our Customer,' and 'Our Employee' - does not appear to be unfairly stated.

### Commentary

We believe that the following information, without affecting the conclusions presented above, may be useful to the reader's decision-making. AMOREPACIFIC has been making great efforts to build an effective system to realize their CSR strategies using its CSR-related organization as basis.

In order to further enhance its sustainability management practice, AMOREPACIFIC is advised to improve their performance measuring system such as generation, aggregation, and reporting of relevant data. Furthermore, we recommend that the company need to strengthen its stakeholder communication process by which AMOREPACIFIC could become more responsive to issues raised by the various stakeholders.

We have discussed our observations as well as reporting process beyond the scope of our contract with AMOREPACIFIC management and found them receptive to our comments.

**Kim, Young Hyo**

Managing Partner  
Samjong KPMG Advisory Inc.  
Seoul, October 2009

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