



# AMOREPACIFIC 2007 INVESTOR REPORT

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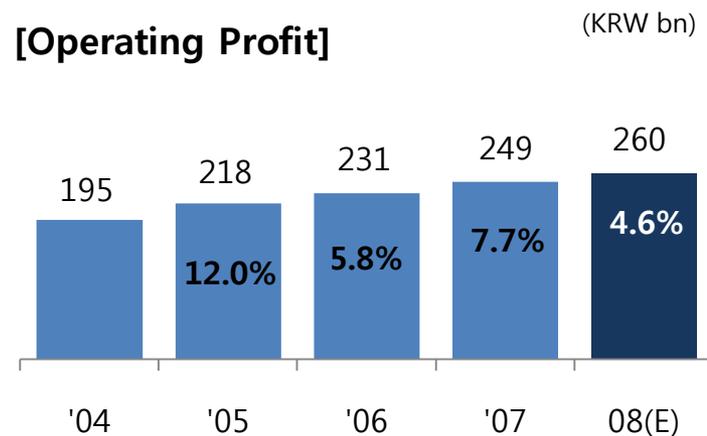
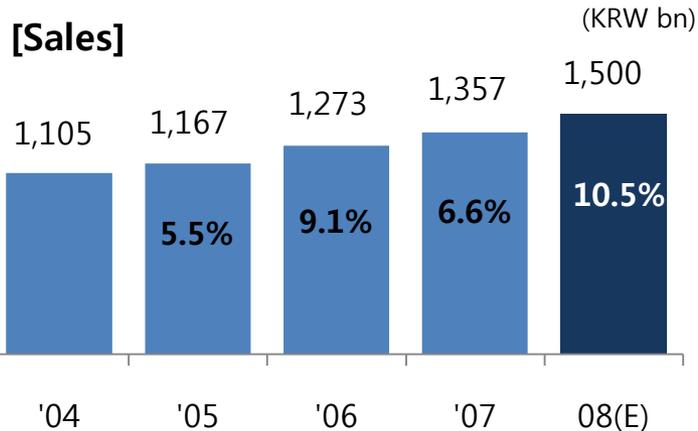
AMOREPACIFIC  
CORPORATION

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\* As a note, it is suggested to use this material only as a reference, as it contains information and data that are subject to changes without prior notice due to uncertainties, changes in the organization structure, redefinition of accounting policies, etc., and may cause the actual results to differ from those stated or implied in this material.

# 2007 Performance Summary



## [Financial Highlights]

[KRW bn]	'04	'05	'06	'07
Sales	1,105	1,167	1,273	1,357
Gross Profit (Margin)	763 (69.0%)	810 (69.4%)	878 (69.0%)	954 (70.3%)
Operating Profit (Margin)	195 (17.6%)	218 (18.7%)	231 (18.1%)	249 (18.3%)
Recurring Profit	212	240	225	249
Net Profit	150	166	162	178

## [Dividend, Personnel and R&D]

[KRW bn]	'04	'05	'06	'07
Dividend Per Share (KRW)	2,400	3,000	4,500	5,000
Total Dividends (Payout Ratio)	23.8 (15.9%)	28.9 (17.5%)	31.1 (19.2%)	34.5 (19.4%)
Number of Employees (Domestic)	3,084	3,128	3,154	3,320
Number of Employees (Overseas)	1,009	1,370	1,649	1,879
Number of R&D Personnel	266	287	301	332
Number of R&D Patents	379	412	445	499

## [2007 Sales by Division]



## [2007 Sales by Channel]

Channel	vs Sales	YoY
Door to Door	36.8%	4.4%
Department Store	16.5%	13.0%
Specialty	14.2%	24.0%
Hypermarket	5.6%	15.7%

## Total Sales of KRW 1,357 , +6.6% yoy

### Cosmetics: Sales of KRW 1,108 bn, +8.3% yoy

- ▶ Building of a balanced brand portfolio to respond to the bi-polarizing market by enhancing the brands' values

### [Prestige Cosmetics: 68.2% of total cosmetics sales, +6.4% yoy]

- ▶ Prestige cosmetics continues to show sustainable growth due to the strong growth of department store
- ▶ Department Store +13% yoy: Enhancing the strong leading position in the channel by strengthening the brand portfolio and counseling services (Sulwhasoo +11%, Hera +6%, AP+57%, Launched Laneige in Department Stores)
- ▶ Door to Door: Increasing weight of strong counselors (46% > 50%), stable growth with growth of +4.4% yoy

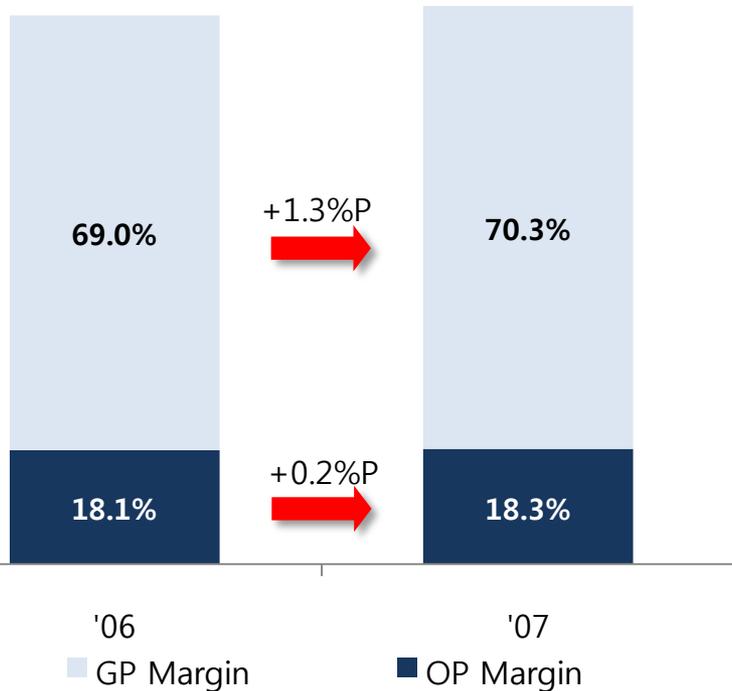
### [Mass Cosmetics: 27.8% of total cosmetics sales, +16.2% yoy]

- ▶ Specialty store +24.0% yoy: +23% same store sales growth of HUE Place(960 stores), continued expansion of Innisfree stores(110 stores), new product categories launched by Laneige(+23%) and Iope (+25%)
- ▶ Discount Store +15.7% yoy: Focused sales on IOPE, dealing directly with additional 56 stores (total of 231 stores)

### MB&S: Sales of KRW 249 bn, -0.3% yoy

- ▶ Mise-en-scene and Happy Bath sales growth of +11%, and +12% respectively by launching beauty-related functional products
- ▶ Green tea's weak sales continue as the market weakens

## [2007 Profits]



## Operating Profit KRW 249 bn, +7.7% yoy

- ▶ **Cosmetics:** OP (continues to enhance / maintains strong level) with continued sales growth, sales expansion of high-functional products, and GP margin improvement
- ▶ **MB&S:** Addition of higher value-added products assisted profitability, while green tea continued negative margins
- ▶ Restructuring of distribution channels and stronger promotion activities lead to increase of 8.9% yoy in SG&A
- ✓ Marketing costs increase with more aggressive sales promotions
- ✓ Increased investments into IT and professional consulting services to strengthen future growth potentials
- ※ Commission increased by KRW 24.6 bn due to strong performance at department stores and home-shopping (KRW 10 bn), and increase of direct-relationship with discount stores and HUE Place store expansion (KRW 14bn)

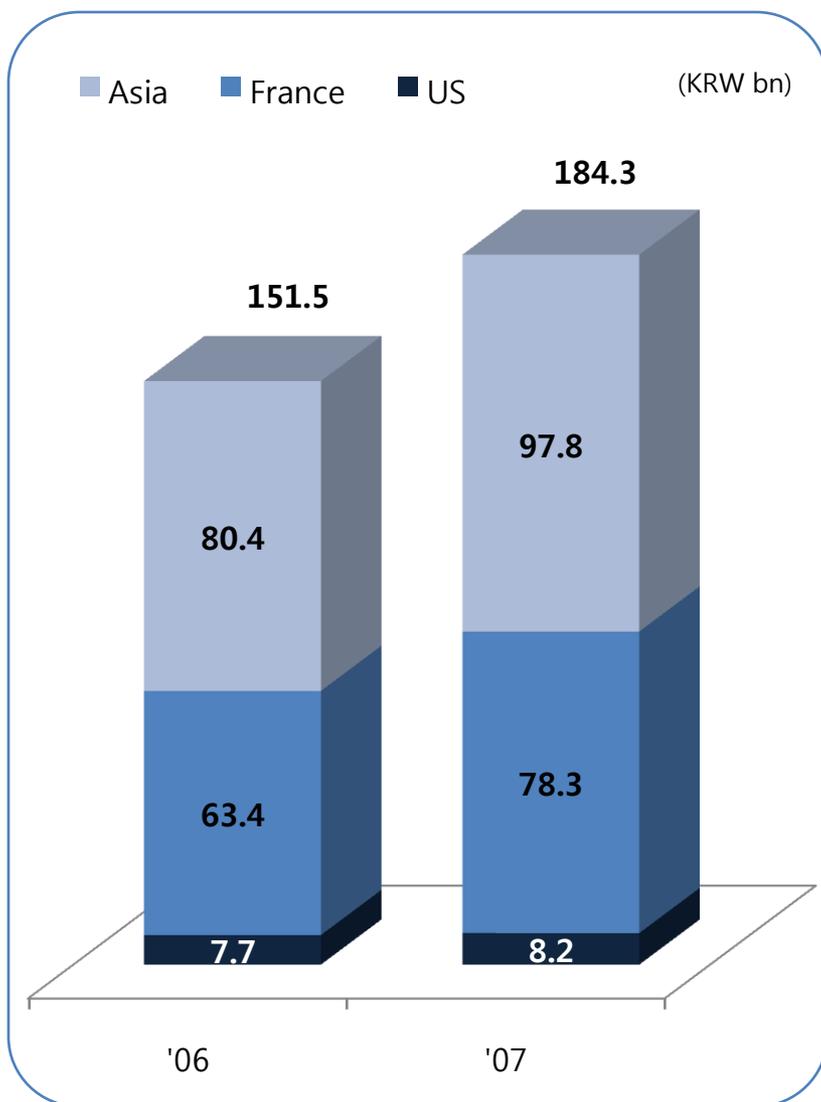
## [2007 OP Margin by Division]

(OP Margin)	'06	'07
Cosmetics	22.1%	22.1%
MB&S	2.1%	1.7%
<b>TOTAL</b>	<b>18.1%</b>	<b>18.3%</b>

## [2007 SG&A vs Sales]

(vs Sales)	'06	'07
Personnel	9.2%	9.2%
Marketing	16.5%	16.7%
Commission	11.7%	12.7%
<b>TOTAL</b>	<b>50.9%</b>	<b>52.0%</b>

## [Sales by Region]



**2007 Sales KRW 184.3 bn, +21.7% yoy**

### ASIA and CHINA

**[China: 36.1% of total overseas, +22.4% yoy]**

- ▶ Laneige: Sales growth of +19% yoy while enhancing brand image at 122 department store counters
- ▶ Mamonde: Sales growth of +101% yoy by aggressive expansion in department stores and specialty stores (106 department store counters, 1,063 specialty stores)
- ▶ With the turnaround in 2007, profitability continues to enhance with NP of KRW 2.1 bn

**[Asia ex-China: 17.0% of total overseas, +20.0%yoy]**

- ▶ Singapore, Hong Kong, and Thailand showing strong sales growth of +24.1% yoy, +22.7% yoy, +29.7% yoy, respectively
- ▶ Expansion of Laneige counters in department store up to 69

**[France: 42.5% of total overseas, +23.5% yoy]**

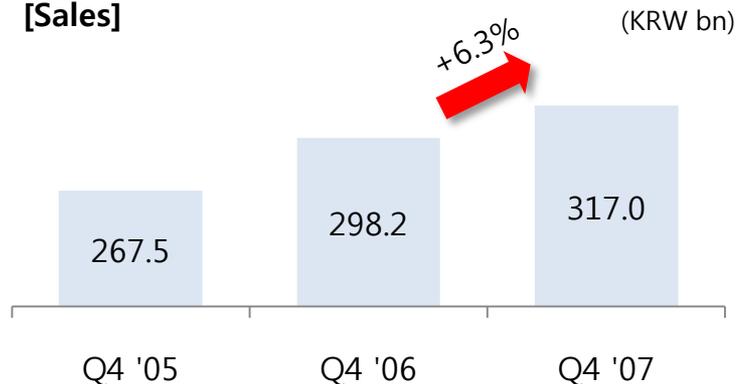
- ▶ Continuous sales growth of Lolita Lempicka by enhancing its brand power (Sales +27% yoy, M/S 2.1%)

**[USA: 4.4% of total overseas, +6.7% yoy]**

- ▶ AMOREPACIFIC brand's store expansion continues through Neiman Marcus (34 stores)

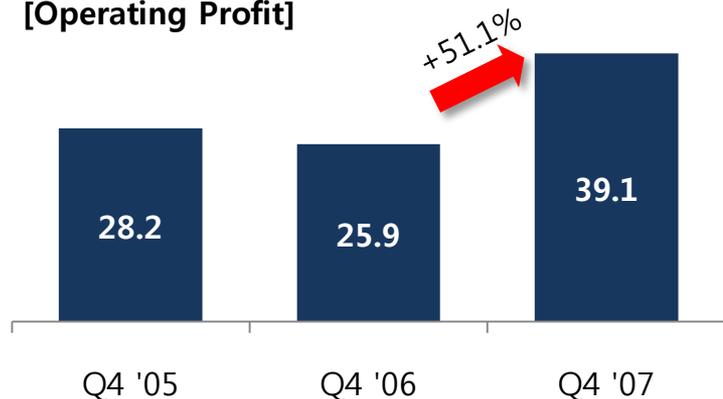
※ The Chinese performance figures are based on simple sum up of the 3 Chinese affiliates.  
 ※ The data are subject to changes without prior notice due to uncertainties.

## [Sales]



**Sales KRW 317 bn, +6.3% yoy**

## [Operating Profit]



**Operating Profit KRW 39.1bn, +51.1% yoy**

## [SG&A vs Sales ]

(vs Sales)	Q4 '06	Q4 '07
Personnel	11.5%	10.7%
Marketing	18.5%	18.0%
Commission	15.3%	16.0%
TOTAL	62.1%	60.2%

## [Cosmetics Sales Growth of +8% yoy]

- ▶ Prestige channel +5.1% yoy, Mass channel +19.8% yoy
- ▶ Department store showing strong sales growth of +13.2% yoy with increasing demand for oriental-herbal cosmetics and strengthened functional product line (Sulwhasoo +9%, Hera +12%)
- ▶ Specialty store and discount store sales growth of +27.5% and 21.4% respectively with enhanced channel structure and Laneige's growth of 37%

## [MB&S Sales Growth of -3.2% yoy]

- ▶ Personal care products continued stable growth with strengthening of sales and service competitiveness
- ▶ Green tea performance on the downside with the stagnant industry

- ▶ Continued efforts to reduce costs and increased sales contribution from cosmetics and functional products led to GP margin enhancement of +1.7%P
- ▶ Efficient advertising and promotion efforts to maximize marketing results

# 2007 Financial Summary

## ▶ Profit & Loss

(KRW bn)	2007		2006	
		%		%
Sales	1,357	100.0	1,273	100.0
Gross Profit	954	70.3	880	69.0
Operating Profit	249	18.3	231	18.1
Non-operating Profit	30.1		26.3	
Non-operating expense	29.8		31.9	
Recurring Profit	249	18.3	225	17.7
Net Profit	178	13.1	162	12.7

## ▶ Balance Sheet

(KRW bn)	2007.12	2006. 12
Asset	1,268	1,114
Current Asset	414	384
Non-current Asset	854	730
Liability	315	316
Current Liability	177	181
Non-current Liability	138	135
Shareholder's Equity	953	798
Capital	34.5	34.5
Capital Reserve	712.7	712.7
Capital Adjustment	3.2	-5.6
Retained Earnings	202.9	56.1

## Management Policy in 2008

### GROWTH THROUGH INNOVATION

Focus on  
Customers

Improve Ability  
to Innovate

Strengthen Foundation  
for Globalization

AMOREPACIFIC in 2008 : Sales Growth of 10.5%, OP Growth of 4.6%

Expand investment for sustainable growth and new growth opportunities

Strengthen business foundations for globalization, for a full-scale market expansion

#### Cosmetics

- ▶ Strengthen brand portfolio and pursuit balanced growth across all channels
- ▶ Strengthen make-up, men's, and functional products to expand customer base
- ▶ Fortify growth potentials with successful introduction of new brand(s)
- ▶ Secure customer loyalty and sustainable growth by introducing products and services that satisfies the customers

#### MB&S

- ▶ Expand market share and strengthen brand power by introducing segmented high-functional products
- ▶ Rebuild Sulloc brand to reform the green tea business

#### Overseas

- ▶ **China:** Continue strong profitable growth store expansion and introduction of new brand and products
- ▶ **US:** Enhance store sales by stabilizing CRM and focusing on core counters
- ▶ **France:** Enhance profitability by focusing on Lolita Lempicka, the core business

# Cosmetics Industry in 2008

- ▶ Despite the titular growth rate of 5.9% of the cosmetics industry in 2008, we estimate the real growth rate to be slower with less than 3%
- ▶ Door to door and department stores growth rate is expected to decelerate and competition to intensify, while specialty and discount stores growth rate is expected to continue with aggressive opening of counters and enhancement of same store sales

## [Korean Cosmetics Market]

	2004	2005	2006	2007	2008(E)	Growth Rate
Specialty	13,770	13,525	14,140	14,800	15,730	6.3%
Department	10,140	11,010	11,500	12,500	13,330	6.6%
Discount Store	3,857	3,800	4,000	4,600	5,110	11.1%
Door to Door	11,881	12,480	14,330	15,700	16,740	6.6%
Direct Sales	3,906	3,180	3,000	2,800	2,610	-6.8%
Online/Home shopping	3,246	3,500	3,000	3,000	3,250	8.3%
Other	5,020	5,240	5,180	5,160	5,230	1.4%
<b>TOTAL</b>	<b>51,820</b>	<b>52,735</b>	<b>55,150</b>	<b>58,560</b>	<b>62,000</b>	<b>5.9%</b>



**AMORE PACIFIC**  
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