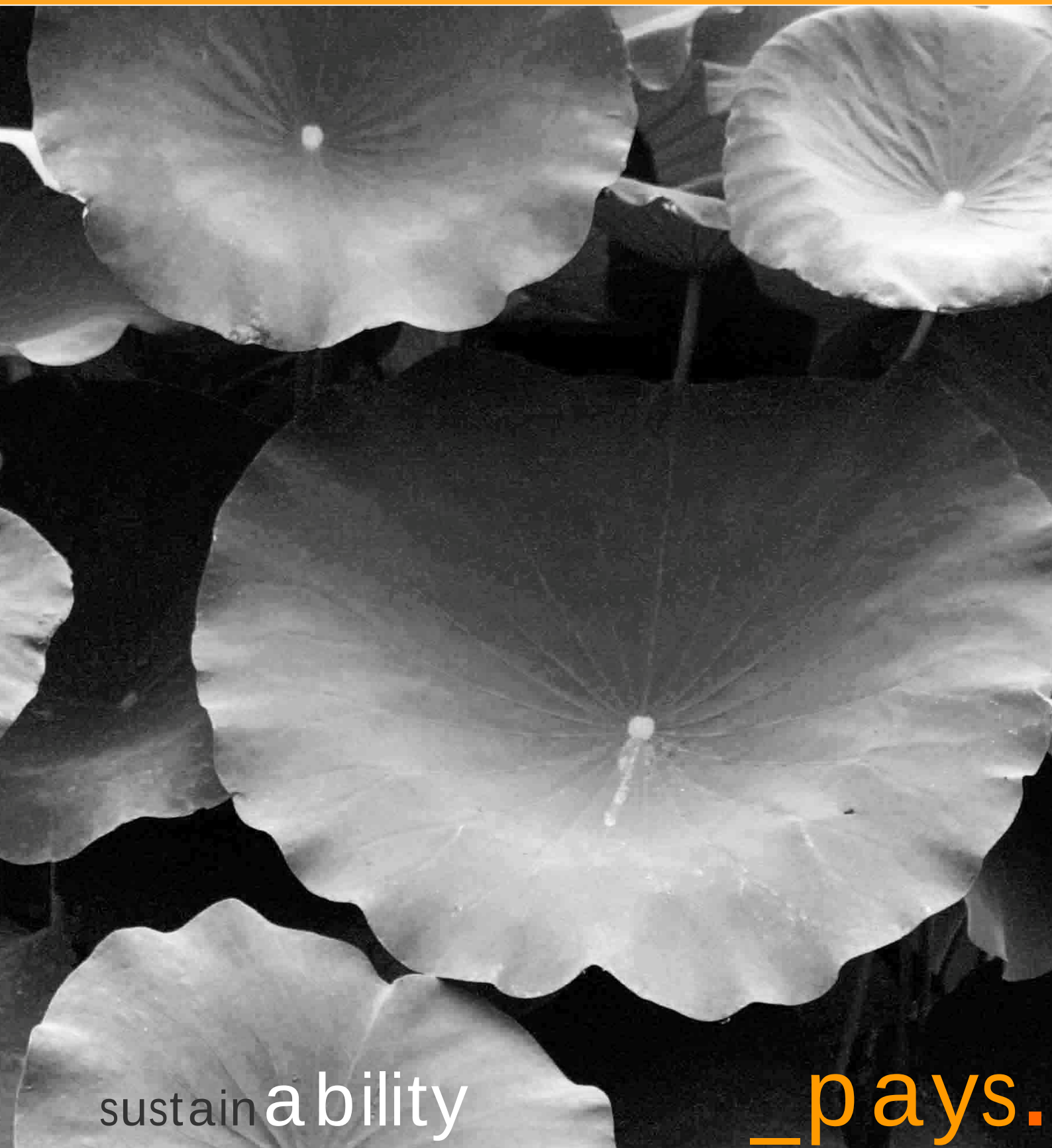


_esg performance
_korea
_2009



sustaina**bility**

_pays.

ESG Performance Korea 2009

-

Sustainability pays!



SolAbility is a Korean-Swiss joint-venture based in Korea, providing ESG research to institutional clients and sustainability services to corporate clients

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1 Background

SolAbility conducts a yearly sustainability analysis of listed Korean companies since 2007. The SolAbility ESGS (environment, society, governance, strategy) assessment methodology is based on sustainability mega-trends, global assessment tools, recognised sustainability standards (e.g. GRI G3, Global Compact, etc.) adjusted to the specific Korean business culture, regulation and historically grown corporate organisation. The analysis covers a wide range of issues, applying industry-specific criteria and is based on a best-in-class approach. In addition to the positive “screening” (evaluating quality of policies, management systems and performance), we perform a “negative” screening to evaluate the level of implementation of policies and management systems.

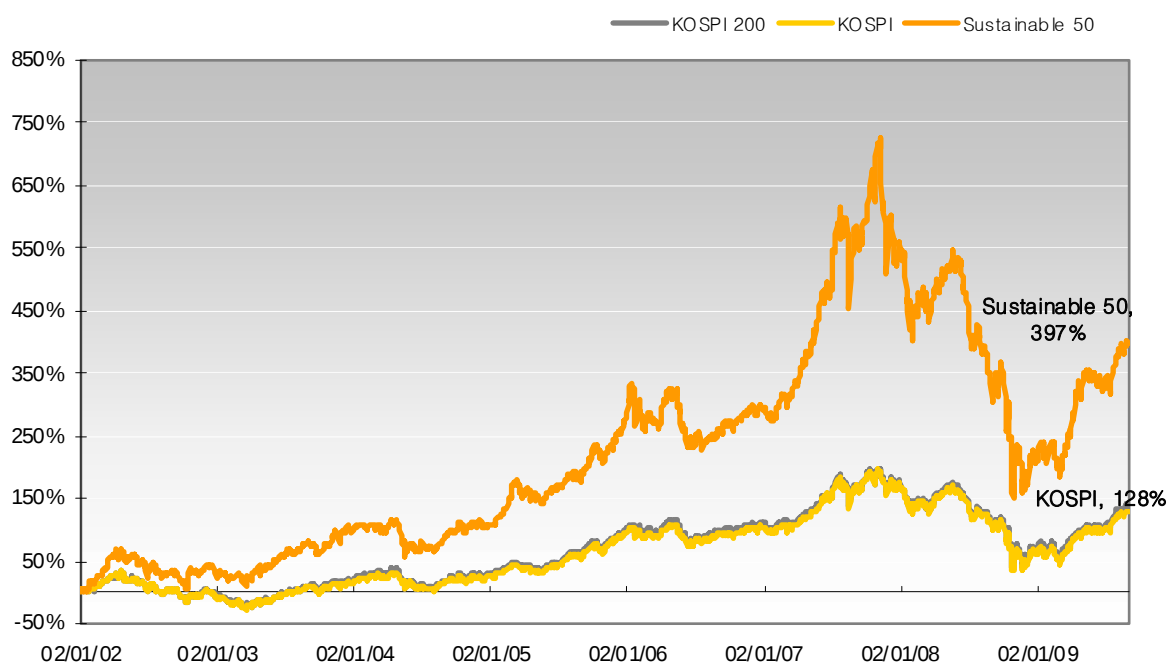
SolAbility applies a two-step ESG assessment model. In a first step, sustainability laggards are filtered out, with the second step consisting of performing an in-depth sustainability performance in a second step.

The yearly assessment covers 350 Korean equities, and includes the largest companies from both the KOSPI and the KOSDAQ.

2 Sustainability leaders financial performance – sustainability pays!

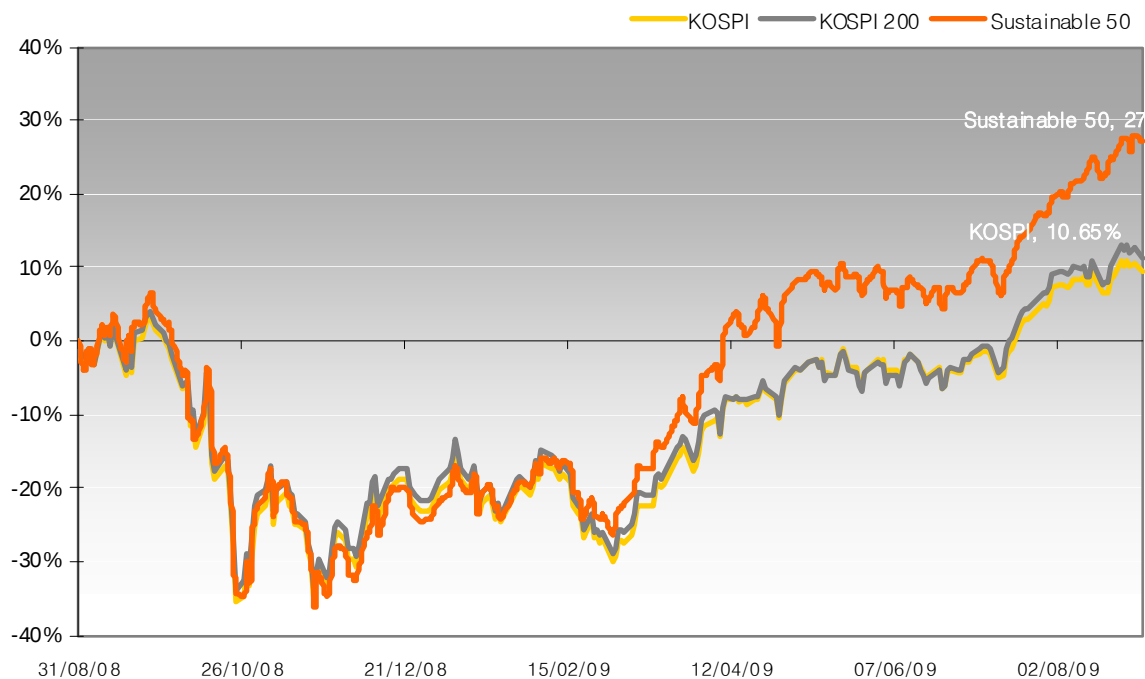
The most sustainable companies according SolAbility's research demonstrate a clear and consistent financial outperformance over time vs. the benchmark of Korean listed companies. Backtracked to 2002, the 50 most sustainable companies have outperformed the KOSPI by more than 250%.

The 50 most sustainable companies vs. Korean Stock Index, 2002-2009



The outperformance of the portfolio of the 50 most sustainable companies is not only achieved through the back-tracking of the portfolio. The shorter-term performance since the first assessment cycle in 2007 and the one-year performance in 2009 equally show a solid outperformance versus less sustainable peer companies. In addition, the results show that sustainable companies bounced back quicker and stronger than non-sustainable companies.

Sustainable 50, one-year performance (09/2008 - 09/2009)



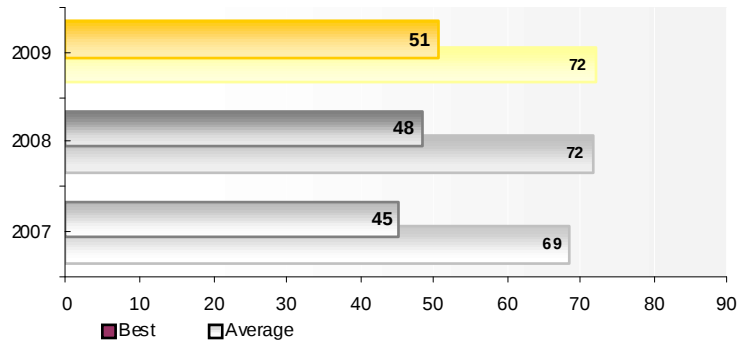
3 Development of corporate sustainability levels in Korea 2007-2009

The steady advancement of Sustainability management amongst Korean companies is reflected in the rise of the average sustainability score in SolAbility's yearly ESGS assessment. The average sustainability performance across all sector and industries has increased by a remarkable 13% since the initial assessment in 2007.

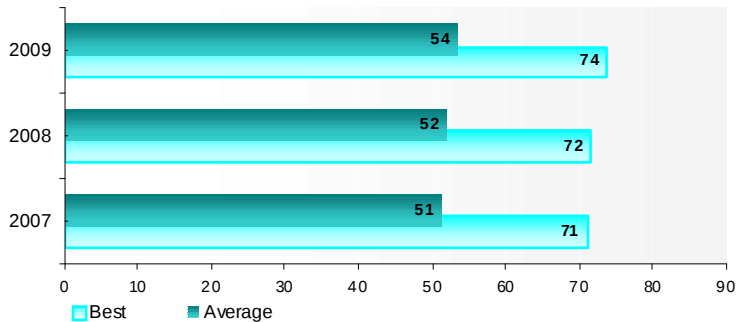
It is interesting to note that while the average performance of the assessed companies has risen substantially in most categories, the increase at the best performing companies has been less significant, indicating a somewhat stagnant performance at companies that already have implemented sustainability management practices

The performance in environmental criteria is lower compared to economic and societal (or human and society related) criteria - despite a very large number of Korean companies having obtained ISO 14001 certification for their environmental management systems, indicating a compliance-driven approach towards environmental issue in the past.

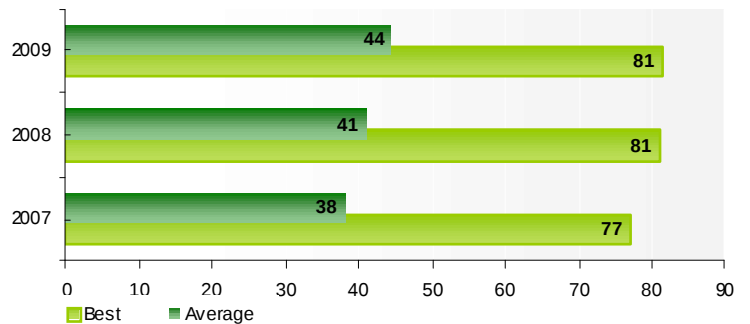
Overall Sustainability Performance 2007-2009



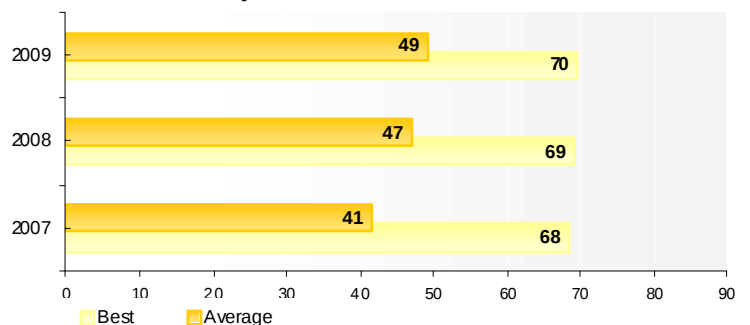
Economic Sustainability Performance



Environmental Sustainability Performance

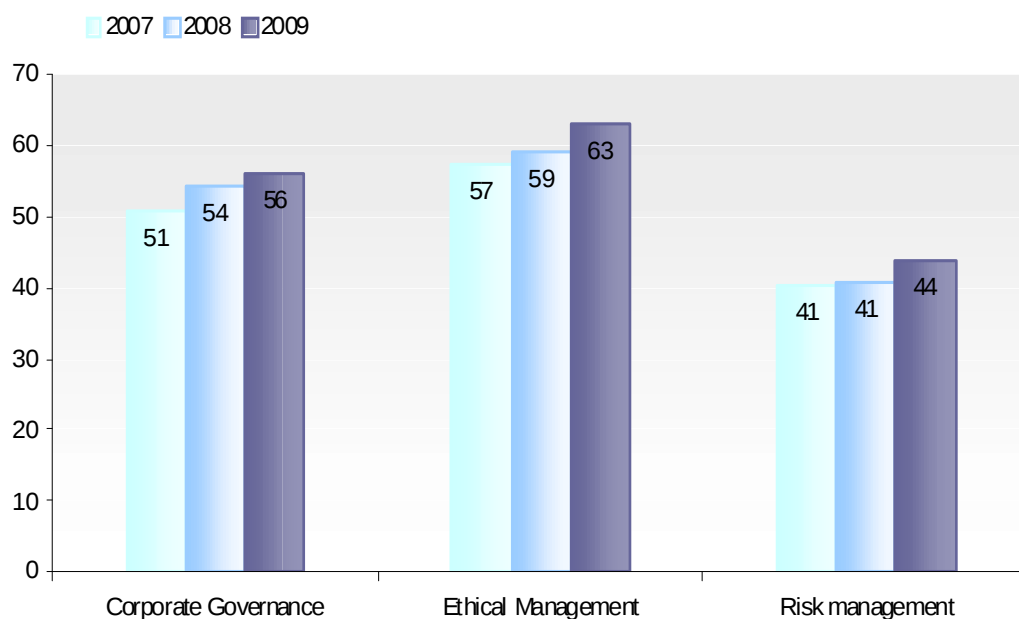


Societal Sustainability Performance



4 Development of selected sustainability themes – economic criteria

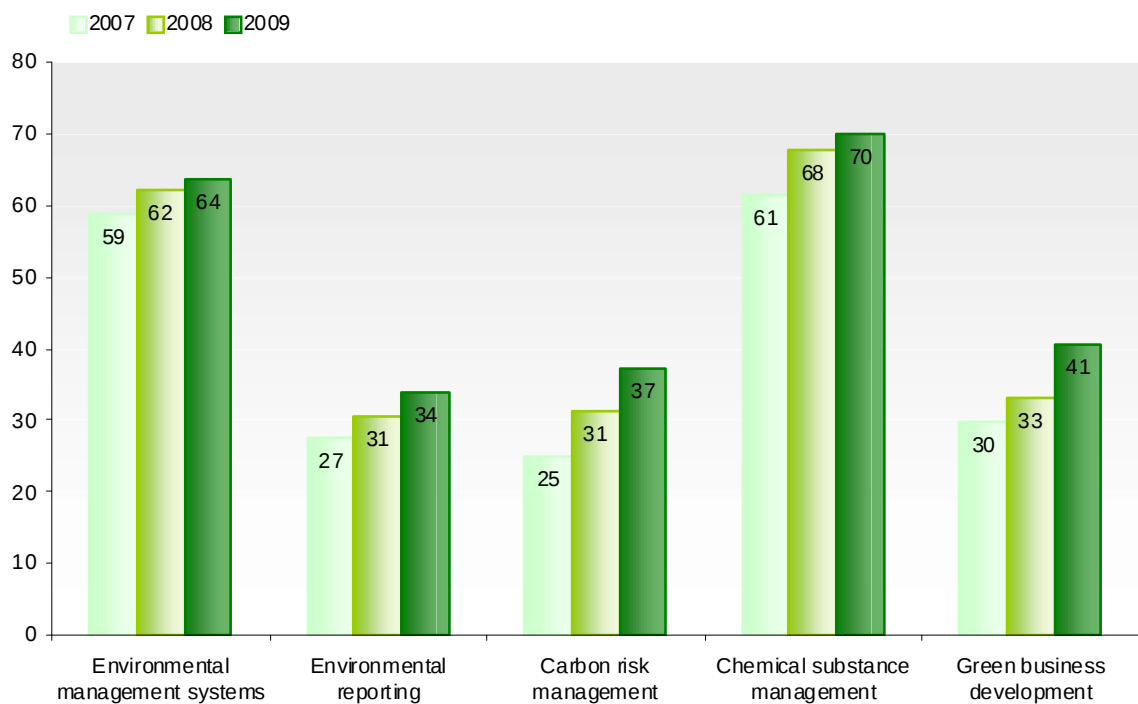
Comparable good average performance in Corporate Governance and Ethical Management reflect the focus in terms of sustainability on policies rather than strategic direction in the Korean corporate environment in the recent past – in particular on ethical business conduct activities, with all major companies having highly developed ethical management systems. While the Korean legislation requires minimal Governance standards and all companies having introduced a formal governance systems with a Board of Director, the functionality of the Board remains rather formal than being a true and independent supervisory body for the executive management, explaining the comparable low average in Corporate Governance scores.



However, more advanced management systems management are still on a lower level, with only a few companies having - for example - fully implemented corporate-wide risk management systems that go beyond standard financial risk management such as hedging strategies for fluctuations in interest rates or currency exchange values.

5 Development of selected sustainability themes – environmental

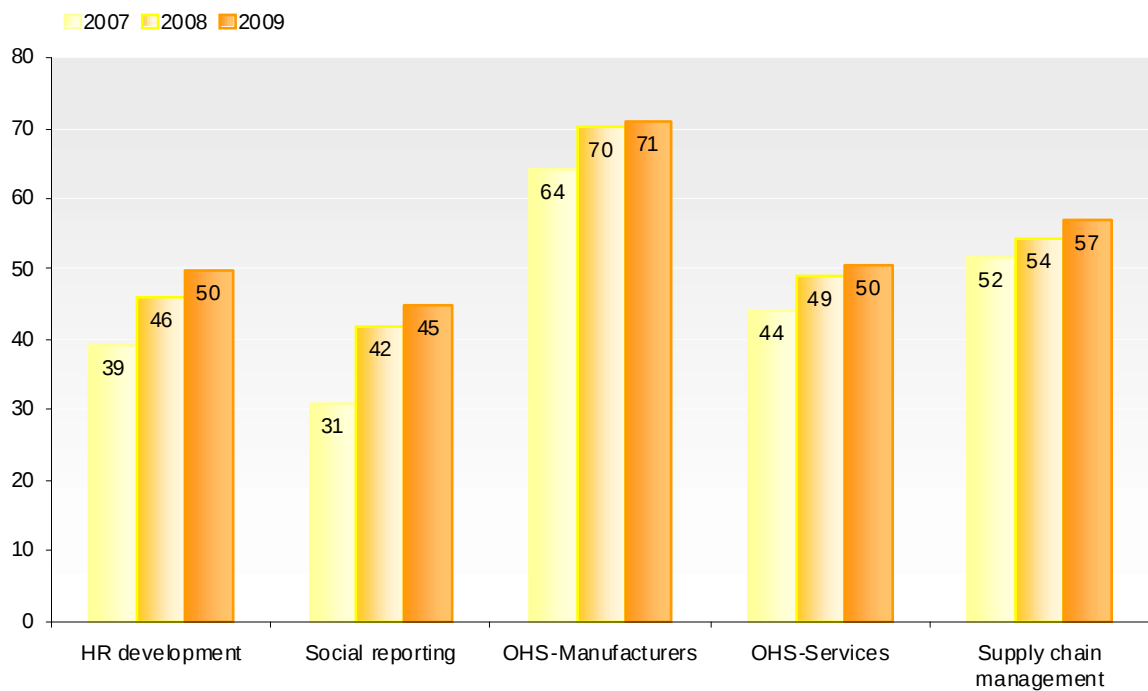
Korean companies score high in terms of formal implementation of environmental management systems (ISO 14001). However, a certified management system is neither a guarantee nor a replacement for thorough environmental analysis and management. In terms of advanced environmental management systems or strategic business development, Korean companies lag behind global best practice.



However, in 2009 has seen a shift in management perception with a large number of companies making significant investment in GHG management systems, reduction programs and “green business strategies”. It is therefore expected that the relevant levels will catch up with international standards shortly.

6 Development of selected sustainability themes – social

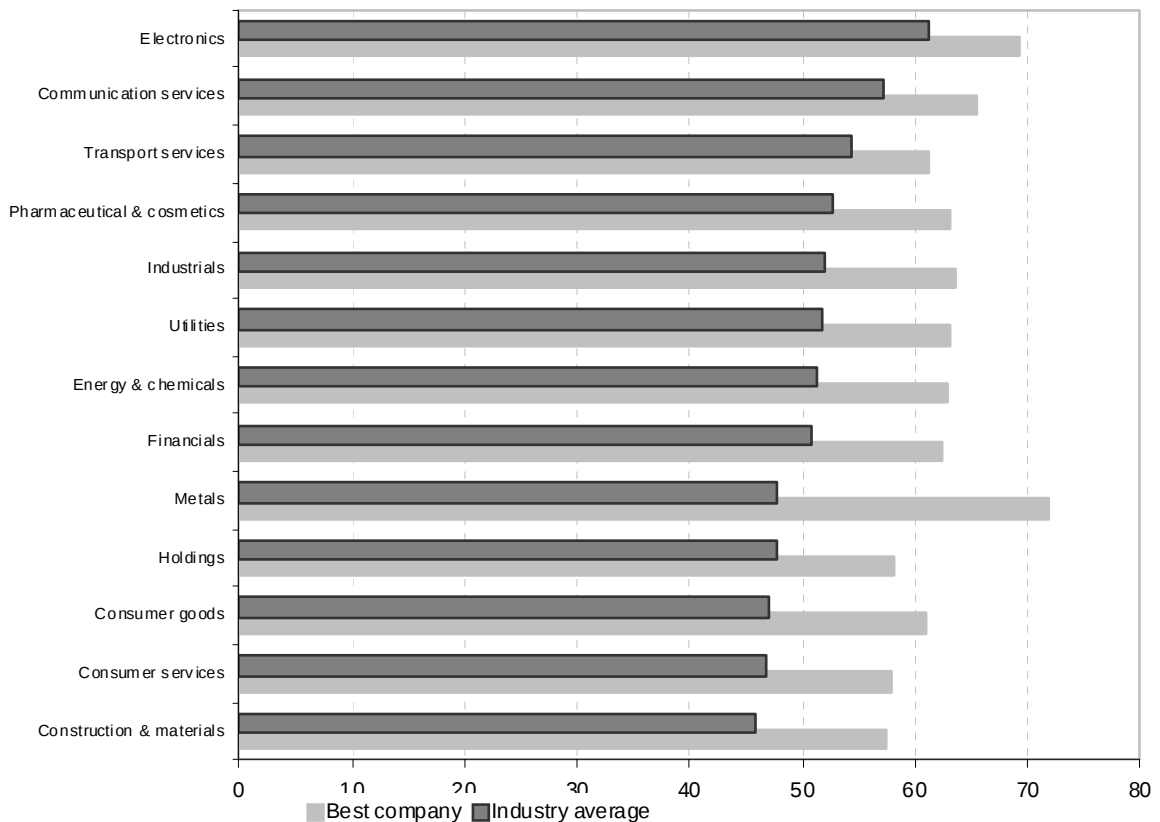
The Korean corporate culture has seen a modernisation of management policies and systems on a range of issues over recent years. While classical “social” issues have been addressed for quite some time, such as safety at the workplace – reflected in high average scores and low relative improvement – other issues have been coming to the forefront and are being addressed at many companies. Modern HR training systems have been implemented, and incentive schemes introduced at a number of companies. The highest relative increase is observed on reporting related to social issues, marking a shift in external communication focussing on the social activities (citizenship) to a wider view on social issues, including stakeholder surveys, employee management systems, and supply chain management programs.



7 Sustainability performance in different industry sectors

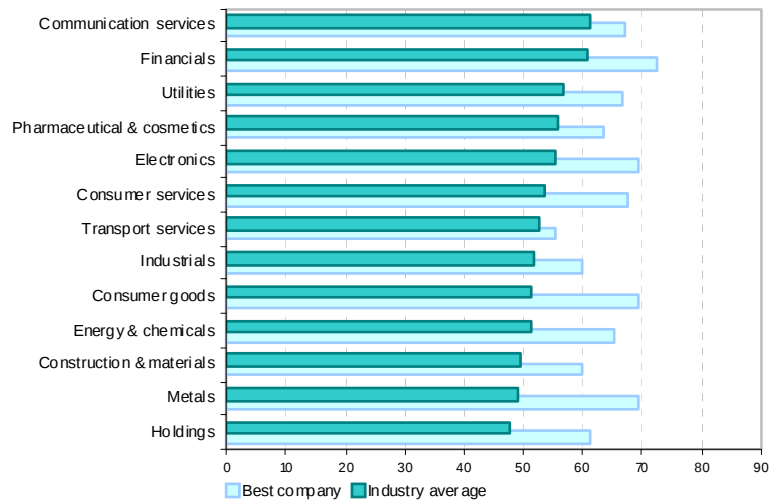
Analysing the data by sector reveals some interesting details. The large conglomerations focused on exports to the global and advanced markets have been exposed at an earlier stage and to a deeper extend to sustainability related issues, and it is therefore probably no surprising that sustainability performance tends to be more advanced in industry sectors where Korean companies have achieved a globally leading position, in particular in the electronics industry with its global presence. Industries and sectors that mostly cater for the domestic market (metal producers, consumer services and food producers) and needs tend to have a lower sustainability implementation level at this point in time.

Average sustainability performance across industry sectors



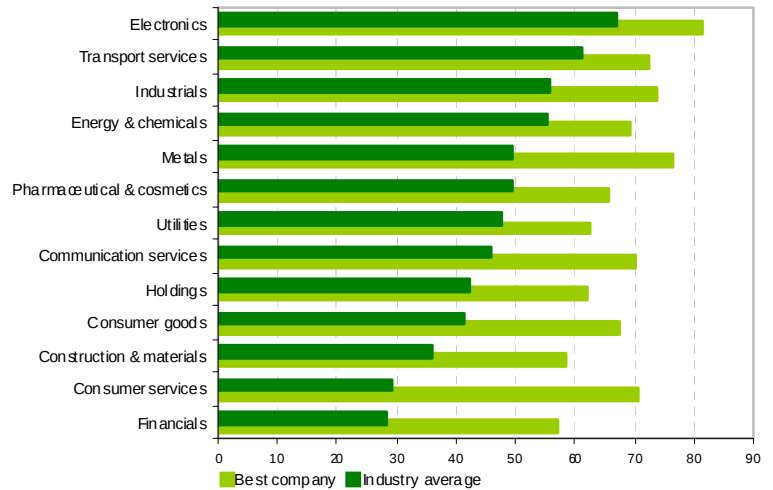
Economic criteria performance (governance, corporate ethics, risk management, customer satisfaction, etc. plus industry specific criteria) is highest amongst service providers and companies who due to the nature of their business have to deal with some levels of risk management.

Economic performance across industry sectors

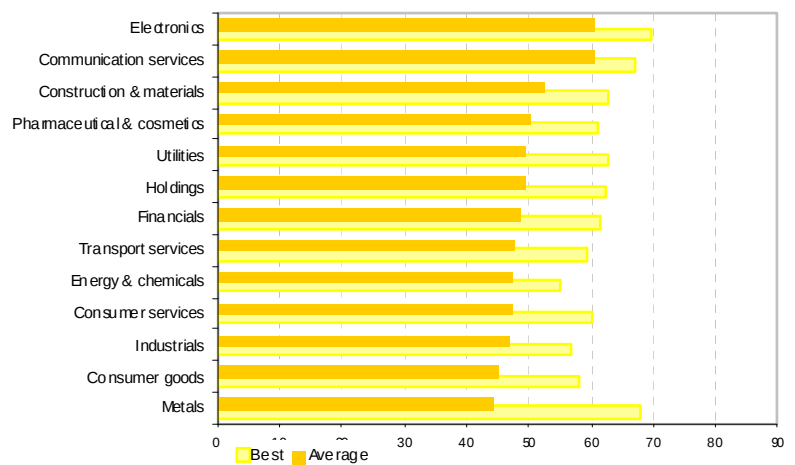


The sectors with highest global exposure and the highest operational exposure have the highest environmental management and performance levels: the electronic companies, and other high-impact industry sectors

Environmental performance across industry sectors



Society & human criteria performance across industry sectors





Value Creation

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