AMOREPACIFIC Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012

AMOREPACIFIC Corporation and Subsidiaries
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December 31, 2013 and 2012

Report of Independent Auditors

To the Board of Directors and Shareholders of
AMOREPACIFIC Corporation

We have audited the accompanying consolidated statements of financial position of AMOREPACIFIC Corporation and its subsidiaries (collectively the "Group") as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, whose financial statements represent assets of ₩428,242 million (2012: ₩257,112 million) as of December 31, 2013 and sales of ₩476,502 million (2012: ₩385,894 million) for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of AMOREPACIFIC Corporation and its subsidiaries as of December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

The accompanying consolidated financial statements as of and for the years ended December 31, 2013 and 2012, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 4 to the consolidated financial statements.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 13, 2014

This report is effective as of March 13, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2013 and 2012

	Notes	(in thousands of Korean won) 2013	2012	(in thousands of U.S. dollars (Note 4)) 2013	2012
Assets					
Current assets					
Cash and cash equivalents	6,7,8	₩ 294,011,508	₩ 170,707,336	US$ 278,605	US$ 161,762
Bank deposits	6,7,34	140,193,106	142,499,277	132,847	135,032
Trade receivables	6,7,9,35	197,428,215	170,180,022	187,083	161,262
Other receivables	6,7,9,35	25,858,615	20,076,016	24,503	19,024
Other current assets	6,16	27,321,806	33,293,509	25,890	31,549
Inventories	10	282,760,617	267,432,831	267,943	253,419
		967,573,867	804,188,991	916,871	762,048
Non-current assets					
Bank deposits	6,7,34	6,698,866	5,157,823	6,348	4,887
Other receivables	6,7,9,35	105,797,149	82,382,745	100,253	78,066
Available-for-sale financial assets	6,11,38	7,014,630	6,243,315	6,647	5,916
Property, plant and equipment	5,13	1,936,043,714	1,766,807,497	1,834,591	1,674,223
Investment Property	15,38	201,631,987	203,231,632	191,066	192,582
Intangible assets	5,14	132,571,507	121,207,615	125,624	114,856
Investments in associates	12	7,885,630	5,093,040	7,473	4,826
Deferred income tax assets	26	36,606,084	31,869,648	34,688	30,200
Other non-current assets	16	25,506	10,394	24	10
		2,434,275,073	2,222,003,709	2,306,714	2,105,566
Total assets		₩ 3,401,848,940	₩ 3,026,192,700	US$ 3,223,585	US$ 2,867,614
Liabilities					
Current liabilities					
Trade payables	6,35,37	₩ 115,349,723	₩ 100,405,160	US$ 109,305	US$ 95,144
Borrowings	6,18,37	82,397,440	22,553,082	78,080	21,371
Other payables	6,35,37	182,667,870	150,720,993	173,095	142,823
Current income tax liabilities	26	55,623,820	41,516,869	52,709	39,341
Deferred revenue		38,657,215	42,144,245	36,631	39,936
Provisions for other liabilities	19	3,621,507	6,702,102	3,432	6,351
Other current liabilities	6,20,37	64,381,511	53,197,826	61,008	50,410
		542,699,086	417,240,277	514,260	395,376
Non-current liabilities					
Borrowings	6,18,37	68,991,606	42,850,044	65,376	40,605
Retirement benefit obligations	21	44,273,590	47,541,994	41,954	45,051
Deferred income tax liabilities	26	158,098,533	149,703,359	149,814	141,858
Other non-current liabilities	6,17,20,37,38	19,654,592	25,069,961	18,625	23,756
		291,018,321	265,165,358	275,769	251,270
Total liabilities		833,717,407	682,405,635	790,029	646,646
Equity attributable to owners of the Parent					
Capital stock	1	34,508,160	34,508,160	32,700	32,700
Additional paid-in capital		712,701,764	712,701,764	675,355	675,355
Capital surplus		7,769,673	7,761,340	7,362	7,355
Other components of equity	22	(1,810,164)	(1,810,164)	(1,715)	(1,715)
Accumulated other comprehensive income	23	(14,020,628)	(12,011,069)	(13,286)	(11,382)
Retained earnings	24	1,815,257,266	1,592,449,020	1,720,134	1,509,001
		2,554,406,071	2,333,599,051	2,420,550	2,211,314
Non-controlling interest		13,725,462	10,188,014	13,006	9,654
Total equity		2,568,131,533	2,343,787,065	2,433,556	2,220,968
Total liabilities and equity		₩ 3,401,848,940	₩ 3,026,192,700	US$ 3,223,585	US$ 2,867,614

The accompanying notes are an integral part of these consolidated financial statements.
The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 4.

AMOREPACIFIC Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2013 and 2012

	Notes		*(in thousands of Korean won, except per share amounts)* 2013		2012		*(in thousands of U.S. dollars (Note 4), except per share amounts)* 2013		2012
Sales	5,27,35	₩	3,100,413,236	₩	2,849,462,499	US$	2,937,945	US$	2,700,145
Cost of sales	2,10,28,35		911,806,525		847,204,206		864,026		802,809
Gross profit			2,188,606,711		2,002,258,293		2,073,919		1,897,336
Selling and administrative expenses	2,28,29		1,818,768,517		1,636,919,632		1,723,461		1,551,142
Operating profit	5		369,838,194		365,338,661		350,458		346,194
Finance income	6,30		11,345,251		12,208,475		10,751		11,569
Finance costs	6,30		2,664,425		2,125,289		2,525		2,014
Other non-operating gains(losses) - net	6,17,31		(18,148,861)		(15,378,554)		(17,198)		(14,573)
Share of profit of associates	12		3,155,995		1,674,509		2,991		1,587
			(6,312,040)		(3,620,859)		(5,981)		(3,431)
Profit before income tax			363,526,154		361,717,802		344,477		342,763
Income tax expense	26		96,167,100		92,460,264		91,128		87,615
Profit for the year		₩	267,359,054	₩	269,257,538	US$	253,349	US$	255,148
Profit attributable to:									
Owners of the parent		₩	267,975,302	₩	270,429,813	US$	253,933	US$	256,259
Non-controlling interests		₩	(616,248)	₩	(1,172,275)	US$	(584)	US$	(1,111)
Other comprehensive income									
Items that will not be reclassified subsequently to profit or loss:									
Remeasurements of net defined benefit liabilities	21,26		(263,712)		(10,544,923)		(250)		(9,992)
Items that will be reclassified subsequently to profit or loss:									
Change in value of available-for-sale financial assets	6,11,23,26		(87,344)		(1,891,960)		(83)		(1,793)
Share of other comprehensive income of associates	12,23,26		(286,371)		(151,417)		(271)		(143)
Foreign currency translation adjustment	23,26		(1,927,286)		(8,159,748)		(1,826)		(7,733)
Total comprehensive income for the year, net of income taxs		₩	264,794,341	₩	248,509,490	US$	250,919	US$	235,487
Attributable to:									
Equity holders of the Parent Company			265,686,691		250,341,090		251,765		237,223
Non-controlling interest			(892,350)		(1,831,600)		(846)		(1,736)
Total comprehensive income for the year, net of income taxs		₩	264,794,341	₩	248,509,490	US$	250,919	US$	235,487
Earnings per share	2,32								
Earnings per share to the ordinary equity holders		₩	38,842	₩	39,198	US$	36.81	US$	37.14
Earnings per share to the preferred equity holders		₩	38,893	₩	39,248	US$	36.85	US$	37.19

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AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2013 and 2012

(in thousands of Korean won)

	Attributable to equity holders of the Company								
	Capital Stock	Additoinal paid-in capital	Capital Surplus	Other Components of Equity	Accumulated Other Comprehensive Income	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2012	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (2,435,390)	₩ 1,377,420,300	₩ 2,128,074,884	₩ 10,228,120	₩ 2,138,303,004
Comprehensive income									
Profit for the year	-	-	-	-	-	270,429,813	270,429,813	(1,172,275)	269,257,538
Actuarial loss on post employment benefit obligations, net of tax	-	-	-	-	-	(10,513,044)	(10,513,044)	(31,879)	(10,544,923)
Change in value of available-for-sale financial assets	-	-	-	-	(1,891,960)	-	(1,891,960)	-	(1,891,960)
Share of other comprehensive income of associates	-	-	-	-	(135,844)	-	(135,844)	(15,573)	(151,417)
Foreign currency translation adjustment	-	-	-	-	(7,547,875)	-	(7,547,875)	(611,873)	(8,159,748)
Total comprehensive income for the year	34,508,160	712,701,764	7,690,214	(1,810,164)	(12,011,069)	1,637,337,069	2,378,415,974	8,396,520	2,386,812,494
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(44,888,049)	(44,888,049)	-	(44,888,049)
Change in non-controlling interest	-	-	-	-	-	-	-	1,783,591	1,783,591
Others	-	-	71,126	-	-	-	71,126	7,903	79,029
Balance at December 31, 2012	₩ 34,508,160	₩ 712,701,764	₩ 7,761,340	₩ (1,810,164)	₩ (12,011,069)	₩ 1,592,449,020	₩ 2,333,599,051	₩ 10,188,014	₩ 2,343,787,065
(in thousands of U.S. dollars (Note 4))	US 32,700	US 675,355	US 7,355	US (1,715)	US (11,382)	US 1,509,001	US 2,211,314	US 9,654	US 2,220,968
Balance at January 1, 2013	₩ 34,508,160	₩ 712,701,764	₩ 7,761,340	₩ (1,810,164)	₩ (12,011,069)	₩ 1,592,449,020	₩ 2,333,599,051	₩ 10,188,014	₩ 2,343,787,065
Comprehensive income									
Profit for the year	-	-	-	-	-	267,975,302	267,975,302	(616,248)	267,359,054
Actuarial loss on post employment benefit obligations, net of tax	-	-	-	-	-	(279,052)	(279,052)	15,340	(263,712)
Change in value of available-for-sale financial assets	-	-	-	-	(87,344)	-	(87,344)	-	(87,344)
Share of other comprehensive income of associates	-	-	-	-	(257,734)	-	(257,734)	(28,637)	(286,371)
Foreign currency translation adjustment	-	-	-	-	(1,664,481)	-	(1,664,481)	(262,805)	(1,927,286)
Total comprehensive income for the year	34,508,160	712,701,764	7,761,340	(1,810,164)	(14,020,628)	1,860,145,270	2,599,285,742	9,295,664	2,608,581,406
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(44,888,004)	(44,888,004)	-	(44,888,004)
Stock issuance of subsidiary	-	-	8,333	-	-	-	8,333	4,429,798	4,438,131
Balance at December 31, 2013	₩ 34,508,160	₩ 712,701,764	₩ 7,769,673	₩ (1,810,164)	₩ (14,020,628)	₩ 1,815,257,266	₩ 2,554,406,071	₩ 13,725,462	₩ 2,568,131,533
(in thousands of U.S. dollars (Note 4))	US$ 32,700	US$ 675,355	US$ 7,362	US$ (1,715)	US$ (13,286)	US$ 1,720,134	US$ 2,420,550	US$ 13,006	US$ 2,433,556

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AMOREPACIFIC Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	Notes	*(in thousands of Korean won)* 2013	2012	*(in thousands of U.S. dollars(Note 4))* 2013	2012
Cash flows from operating activities					
Cash generated from operations	33	₩ 498,058,444	₩ 346,360,510	US$ 471,959	US$ 328,210
Interest received		9,180,186	8,949,566	8,699	8,481
Interest paid		(2,653,590)	(1,197,948)	(2,515)	(1,135)
Income tax paid		(77,927,845)	(78,531,275)	(73,844)	(74,416)
Net cash generated from operating activities		426,657,195	275,580,853	404,299	261,140
Cash flows from investing activities					
Decrease in deposits in financial institutions		2,247,052	12,455,506	2,129	11,803
Decrease in other receivables		8,801,809	10,296,533	8,341	9,757
Disposal of property, plant and equipment		16,645,735	9,131,481	15,773	8,653
Disposal of intangible assets		880,247	455,047	834	431
Dividends received from associates		-	559,624	-	530
Disposal of available-for-sale financial assets		522,915	5,034,793	496	4,771
Increase in deposits in financial institutions		(1,500,003)	(1,725,379)	(1,421)	(1,635)
Increase in trade and other receivables		(33,026,371)	(34,854,335)	(31,296)	(33,028)
Purchases of available-for-sale financial assets		(1,409,460)	(403,515)	(1,336)	(382)
Purchases of property, plant and equipment		(323,496,314)	(231,794,268)	(306,544)	(219,648)
Purchases of intangible assets		(18,508,423)	(17,681,690)	(17,539)	(16,755)
Acquisition of subsidiaries	36	-	(5,322,822)	-	(5,044)
Net cash used in investing activities		(348,842,813)	(253,849,025)	(330,563)	(240,547)
Cash flows from financing activities					
Proceeds from short-term borrowings		19,239,223	7,775,993	18,231	7,369
Proceeds from long-term borrowings		70,574,540	-	66,876	-
Stock issuance of non-controlling Interest		4,438,130	1,783,591	4,206	1,690
Repayments of short-term borrowings		(189,459)	-	(179)	-
Dividends paid to equity holders of the Company		(44,867,847)	(44,870,941)	(42,516)	(42,520)
Net cash provided by(used in) financing activities		49,194,587	(35,311,357)	46,618	(33,461)
Changes in cash and cash equivalents from currency translation		(3,704,797)	(3,421,208)	(3,511)	(3,242)
Net increase(decrease) in cash and cash equivalents		123,304,172	(17,000,737)	116,843	(16,110)
Cash and cash equivalents at the beginning of year		170,707,336	187,708,073	161,762	177,872
Cash and cash equivalents at the end of year		₩ 294,011,508	₩ 170,707,336	US$ 278,605	US$ 161,762

The accompanying notes are an integral part of these consolidated financial statements.

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1. General Information

The Company was split-off from AMOREPACIFIC Group,Inc. on June 1, 2006, to engage in manufacturing, marketing and trading of cosmetics, personal care goods, food and other related products.

As of December 31, 2013, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, and seventeen overseas local subsidiaries including AMOREPACIFIC Global Operations Limited. located at Hongkong.

As of December 31, 2013, the Company's paid-in capital is ₩34,508 million, including ₩5,279 million of capital from preferred stock.

The Company is authorized to issue 27,500,000 shares of stock at a par value per share of ₩5,000. As of December 31, 2013, 5,845,849 shares of common stock and 1,055,783 shares of preferred stock are issued.

Preferred shareholders have no voting rights and are entitled to non-cumulative and non-participating preferred dividend at a rate of 1% over those provided to common shareholders. This preferred dividend rate is not applicable to stock dividend. Accordingly, in calculating earnings per share for preferred stocks, a different dividend rate is used.

The Company's common shareholders as of December 31, 2013, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group,Inc.	2,069,586	35
Kyung-Bae Suh	626,445	11
Others[1]	3,149,818	54
	5,845,849	100

[1] Including 3,297 treasury shares

The Company's consolidated subsidiaries as of December 31, 2013, are as follows:

Shareholder	Subsidiaries	Primary Business	Capital Stock *(in millions of Korean won)*	Percentage of Ownership(%)	Year End	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited	Holding company and marketing of cosmetics	₩ 149,197	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	Holding company	5,096	100.00	Dec.31	Singapore
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	14,274	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC New Cosmetics (Shanghai) Co.,Ltd.	Manufacturing of cosmetics	34,829	69.21	Dec.31	China
AMORE Cosmetics (Shanghai) Co.,Ltd.				30.79		
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Trading Co. Ltd	Marketing of cosmetics	9,456	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	98,933	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited	Annick Goutal S.A.S	Marketing of cosmetics	9,267	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC US, Inc.	Marketing of cosmetics	45,888	100.00	Dec.31	U.S.A.
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Japan CO.,Ltd.	Marketing of cosmetics	30,770	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	11,621	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC SINGAPORE PTE. LTD.	Marketing of cosmetics	25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC MALAYSIA SDN. BHD.	Marketing of cosmetics	2,950	100.00	Dec.31	Malaysia
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	AMOREPACIFIC VIETNAM JSC	Marketing of cosmetics	5,479	70.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	6,328	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	4,093	5.82	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited				94.18		
AMOREPACIFIC Global Operations Limited	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	888	99.80	Dec.31	India

The summary of the consolidated subsidiaries' financial information as of December 31, 2013 and 2012, and the results of their operations for the years then ended, which are included in the consolidated financial statements follows:

December 31, 2013 *(in millions of Korean won)*	**Total assets**	**Total liabilities**	**Sales**	**Net income (loss)**	**Total comprehensive income(loss)**
AMOREPACIFIC Global Operations Limited.[1]	₩ 171,268	₩ 50,886	₩ 24,006	₩ 1,629	₩ (2,055)
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]	4,896	6	-	(4)	(255)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.[1]	48,139	9,890	51,402	7,802	8,121
AMOREPACIFIC New Cosmetics (Shanghai) Co.,Ltd.	126,793	92,110	-	(53)	392
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	1,809	97	1,337	(490)	(451)
AMOREPACIFIC Trading Co.,Ltd.	129,201	88,435	358,820	2,361	2,740
AMOREPACIFIC EUROPE S.A.S	88,929	56,166	73,065	144	1,163
Anninck Goutal S.A.S	22,401	19,777	17,786	(4,580)	(5,401)
AMOREPACIFIC US, Inc.	11,521	6,001	23,489	(2,289)	(5,644)
AMOREPACIFIC Japan CO.,LTD.	13,425	11,565	47,639	(4,089)	(4,691)
AMOREPACIFIC Taiwan Co.,Ltd.	6,017	3,460	10,256	3	(111)
AMOREPACIFIC SINGAPORE PTE., LTD.	20,262	4,742	22,736	(3,236)	(4,460)
AMOREPACIFIC MALAYSIA SDN. BHD.	4,138	1,159	7,893	701	431
AMOREPACIFIC VIETNAM JSC	5,611	2,419	2,749	203	111
AMOREPACIFIC (Thailand) LIMITED	5,522	2,781	9,161	(1,458)	(1,849)
PT. LANEIGE INDONESIA PACIFIC	1,795	950	788	(1,162)	(1,566)
Innisfree Cosmetics India Private Limited	854	-	-	-	(32)

December 31, 2012 *(in millions of Korean won)*	**Total assets**	**Total liabilities**	**Sales**	**Net income (loss)**	**Total comprehensive income(loss)**
AMOREPACIFIC Global Operations Limited.[1]	₩ 133,988	₩ 45,261	₩ 1,540	₩ (704)	₩ (7,582)
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]	5,148	2	-	5	(59)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.[1]	41,123	10,890	47,902	4,460	7,199
AMOREPACIFIC New Cosmetics (Shanghai) Co.,Ltd.	44,219	9,743	-	(94)	(1,089)
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	2,162	-	-	28	(33)
AMOREPACIFIC Trading Co.,Ltd.	91,692	53,904	258,683	9,165	4,136
AMOREPACIFIC EUROPE S.A.S	79,377	47,779	66,353	(10,323)	(12,529)
Anninck Goutal S.A.S	20,136	12,110	19,650	(719)	(1,495)
AMOREPACIFIC US, Inc.	10,684	4,985	17,998	(4,408)	(4,867)
AMOREPACIFIC Japan CO.,LTD.	11,961	10,874	47,036	(3,585)	(3,920)
AMOREPACIFIC Taiwan Co.,Ltd.	3,723	1,055	7,213	(695)	(783)
AMOREPACIFIC SINGAPORE PTE., LTD.	14,409	6,272	10,448	(1,666)	(2,039)
AMOREPACIFIC MALAYSIA SDN. BHD.	3,033	485	5,363	590	490
AMOREPACIFIC VIETNAM JSC	4,791	1,710	2,663	(765)	(981)
AMOREPACIFIC (Thailand) LIMITED	2,991	1,117	2,867	(668)	(727)
PT. LANEIGE INDONESIA PACIFIC	1,129	411	-	(283)	(359)
Innisfree Cosmetics India Private Limited	351	-	-	-	(2)

[1]Represents separate financial statements in which its investments in subsidiaries and associates are measured at cost.

The amounts presented above are before the elimination of intercompany transactions. Also, the amounts presented above reflect accounting adjustments which were different from the immediate parent's.

There are no subsidiaries included or excluded from consolidated in 2013.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2013:

- Amendment to Korean IFRS 1001, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
The amendment requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The Group applies the amendment retroactively and there is no impact of the application of this amendment on its defete comprehensive income or loss.

- Amendment to Korean IFRS 1019, Employee Benefits
The amendment requires entities to immediately recognize all actuarial gains and losses incurred in other comprehensive income or loss. All past service costs incurred are immediately recognized in accordance with the change of the plan, and the previous separate calculation of the interest cost and the expected returns on plan assets has been revised to calculate net interest expense (income) by applying the discount rate used in the defined benefit obligation measurement in the net defined benefit liabilities (assets). The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of comprehensive income is restated by reflecting adjustments resulting from the retrospective application.

The effect of retrospective application of changes in these accounting policies are as follows:

(in millions of Korean won, except per share amounts)	2013					
	Before Change		**Impact**		**After Change**	
Cost of sales	₩	911,807	₩	-	₩	911,807
Selling and administrative expenses		1,819,037		(268)		1,818,769
Other comprehensive income, net of tax		(2,363)		(202)		(2,565)
Basin earnings per share to the ordinary equity holders		38,813		29		38,842
Basin earnings per share to the preferred equity holders		38,863		30		38,893

(in millions of Korean won, except per share amounts)	2012					
	Before Change		**Impact**		**After Change**	
Cost of sales	₩	847,204	₩	-	₩	847,204
Selling and administrative expenses		1,637,994		(1,074)		1,636,920
Other comprehensive income, net of tax		(19,934)		(814)		(20,748)
Basin earnings per share to the ordinary equity holders		39,080		118		39,198
Basin earnings per share to the preferred equity holders		39,130		118		39,248

- Korean IFRS 1110, Consolidated Financial Statements

Korean IFRS 1110, Consolidated Financial Statements ,introduces a single control concept and provides a specific guidance for the control. The adoption of this standard does not have an impact on consolidation scope in the consolidated financial statements.

- Korean IFRS 1111, Joint Arrangements

Korean IFRS 1111, Joint Arrangements, reflects the substance of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. Joint arrangements are classified into joint operations or joint ventures. The adoption of this standard does not have an impact on the consolidated financial statements.

- Korean IFRS 1112, Disclosures of Interests in Other Entities

Korean IFRS 1112, Disclosure of Interests in Other Entities, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities.

- Korean IFRS 1027, Separate Financial Statements

Korean IFRS 1027, Separate Financial Statements, contains accounting treatments and requirements for investments in subsidiaries, associates and joint ventures relating only to separate financial statements of the Controlling Company.

- Korean IFRS 1113, Fair Value Measurement

Korean IFRS 1113, Fair Value Measurement, provides a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across K-IFRS. The Group has applied this standard prospectively according to the transitional provisions of K-IFRS 1113 and there is no material impact of the application of this standard on the consolidated financial statements.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

- Amendment to Korean IFRS 1110, Consolidated Financial Statements
Amendment to Korean IFRS 1110, Consolidated Financial Statements, provides that, if a parent company qualifies as an investment entity, it is required to measure its investments in subsidiaries at fair value through profit and loss instead of consolidating these subsidiaries in its consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1032, Financial Instruments: Presentation
Amendment to Korean IFRS 1032, Financial Instruments: Presentation, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1, 2014, and the Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Amendment to Korean IFRS 1039, Financial Instruments: Recognition and Measurement
Amendment to Korean IFRS 1039, Financial Instruments: Recognition and Measurement, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Enactment of Korean IFRS 2121, Levies
Korean IFRS 2121, Levies, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). This interpretation is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this interpretation would not have a material impact on its consolidated financial statements.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, Consolidated Financial Statements.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Controlling Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

(c) Translation to presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Financial Instruments

(a) Classification and measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than 30% from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other non-operating income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of merchandise, raw materials, subsidiary materials and supplies are determined using the moving-weighted average method, while the cost of finished goods, semi-finished goods and work-in-progress are determined using gross average method. Also, the cost of materials in transit is assigned by using specific identification method.

2.8 Property, Plant and Equipment

Property, plant and equipment is stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	Useful life
Buildings	10 - 40 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years
Fixtures and furniture	2 - 4 years
Other	10 years

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

2.9 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.10 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to assets are set up as deferred income which is recognized in profit or loss on a systematic and rational basis over the useful life of the asset. Government grants relating to income are deferred and recognized in the statement of income as 'other non-operating gains' over the period in which the related expenses for the purpose of the government grants are incured.

2.11 Intangible Assets

Goodwill is measured as explained in Note 2.3.(1) and carried at its cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at its cost less accumulated amortization and accumulated impairment losses.

Internally generated software development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility, and determined to have future economic benefits. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

	Useful life
Industrial property	5 - 20 years
Software	5 years
Other	3 - 5 years

2.12 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives.

2.13 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other liabilities' in the statement of financial position.

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.15 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.16 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.
Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee Benefits

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

2.18 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

The Group manufactures and sells cosmetics and personal care of goods. Sales of goods are recognized when products are delivered to the purchaser.

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such a transaction is recognized by reference to the stage of performance of the services. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(c) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(d) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(e) Dividend income

Dividend income is recognized when the right to receive payment is established.

(f) Rental income

Rental income from rental property is recognized on a straight-line basis over a rental period.

(g) Customer Loyalty Programmes

The Group operates a customer loyalty programme in which customers are granted rewards to receive discounts on future purchases when purchasing products. The granted reward is recognized as a separately identifiable component of the sale transaction (initial sale transaction) that grants the reward. The fair value of consideration to give or given for the initial sale is allocated to the reward points and remaining of initial sale, and the consideration allocated to the reward points is measured based on the fair value of reward in exchange of reward points, which is the fair value of reward points considered the proportion of reward points that are not expected to be redeemed. Revenue from the award credits is recognized when it is redeemed, and the unredeemed proportion by customers is expected to be forfeited within 12 months after the initial sale.

2.19 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.20 Segment Reporting

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the representative director that makes strategic decisions.

2.21 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2013 financial statements of the Company was approved by the Board of Directors on Feb 6, 2014, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. (Note 14).

(b) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 26).

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 38).

(d) Provisions

As described in Note 19, the Company recognizes provisions for estimated returns, profit-sharing and bonuses as of the reporting date. The amounts are estimated based on past experience.

(e) Customer loyalty programmes

By customer loyalty programmes, the Group allocates the consideration receivable to the award credits by reference to the fair value of goods providing, taking into account redemption rates and timing of redemption based on historical data.

(f) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 21).

4. US Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US$1: ₩1,055.30, the exchange rate in effect on December 31, 2013. Such presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

The December 31, 2012, U.S. dollar amounts, which were previously expressed at US$1: ₩1,071.10, the rate in effect on December 31, 2012, have been restated to reflect the exchange rate in effect on December 31, 2013.

5. Segment Information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker who formulates the strategic. Chief operating decision-maker considers the business from perspective of products of each segment.

The main products of each business division are as follows:

Divisions	Products
Cosmetics	Skin care, other beauty products
MC(Mass Cosmetic) & Sulloc	Personal care goods, green tea

The segment information for revenue and operating profit for the years ended December 31, 2013 and 2012, is as follows:

(in millions of Korean won)	2013			2012		
	Revenues	Operating profit	Depreciation and amortization	Revenues	Operating profit	Depreciation and amortization
Cosmetics	₩ 2,627,708	₩ 331,933	₩ 103,869	₩ 2,412,006	₩ 326,288	₩ 85,015
MC & Sulloc	472,705	37,905	18,098	437,456	39,051	15,137
	₩ 3,100,413	₩ 369,838	121,967	₩ 2,849,462	₩ 365,339	100,152

Adjustments from total segment revenue to the Group’s revenue for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013	2012
Total segment revenue	₩ 3,100,413	₩ 2,849,462
Eliminating intercompany transactions, others	-	-
Group revenue	₩ 3,100,413	₩ 2,849,462

Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		2013		2012
Total segment operating profit	₩	369,838	₩	365,339
Eliminating intercompany transactions, others		-		-
Group operating profit	₩	369,838	₩	365,339

Assets and liabilities as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013				2012			
	Assets		Liabilities		Assets		Liabilities	
Cosmetics	₩	2,855,748	₩	735,542	₩	2,526,808	₩	628,004
MC & Sulloc		546,101		98,175		499,385		54,402
Group asset and liability	₩	3,401,849	₩	833,717	₩	3,026,193	₩	682,406

Additions to non-current assets for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		2013		2012
Cosmetics	₩	297,062	₩	220,296
MC & Sulloc		37,698		29,180
	₩	334,760	₩	249,476

Financial instruments and associates are excluded from additions to non-current assets.

External revenues by geographic areas for the years ended December 31, 2013 and 2012, and non-current assets as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	Revenues		Non-current assets[1]	
	2013	2012	2013	2012
Korea	₩ 2,560,871	₩ 2,414,680	₩ 1,839,380	₩ 1,760,617
North America	23,489	18,883	249	609
Europe	74,193	77,009	56,530	59,936
China	336,518	259,313	152,701	53,397
Other	105,342	79,577	19,755	13,456
	₩ 3,100,413	₩ 2,849,462	₩ 2,068,615	₩ 1,888,015

[1] Non-current assets consist of property, plant and equipment, and intangible assets.

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2013 and 2012.

6. Financial Instruments by Category

Categorizations of financial assets as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)			**2013**		**2012**
Loans and receivables	Cash and cash equivalents	₩	294,012	₩	170,707
	Current financial institutions deposits		140,193		142,499
	Non-current financial institutions deposits		6,699		5,158
	Trade receivables		197,428		170,180
	Current other receivables		25,859		20,076
	Non-current other receivables		105,797		82,383
	Other current assets[1]		1,005		999
Available-for-sale financial assets	Non-marketable securities		1,676		1,791
	Debt investments		5,339		4,452
		₩	778,008	₩	598,245

[1] Other current assets mainly represent accrued revenues (Note 16).

Categorizations of financial liabilities as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)			**2013**		**2012**
Financial liabilities at fair value through profit or loss	Derivative financial instruments	₩	181	₩	-
Financial liabilities at amortized cost	Trade payables		115,350		100,405
	Short-term borrowings		82,397		22,553
	Long-term borrowings		68,992		42,850
	Other payables		182,668		150,721
	Other current liabilities[2]		18,996		8,899
	Other non-current liabilities[3]		18,729		24,429
		₩	487,313	₩	349,857

[2] Other current liabilities are comprised of dividend payables and accrued expenses (Note 20).
[3] Other non-current liabilities are comprised of deposits received, long-term accrued expenses and financial lease liabilities (Note 20).

Income and loss of financial instruments by category for the years ended December 31, 2012 and 2013, are as follows:

(in millions of Korean won)		**2013**		**2012**
Available-for-sale financial assets				
Gain(Loss) on valuation (Other comprehensive income(loss))	₩	(87)	₩	(1,892)
Gain(Loss) on disposal (Profit or loss)		(76)		1,947
Gain(Loss) on disposal (Reclassification)[1]		-		2,215
Interest income		85		95
Dividend income		32		61
Loans and receivables				
Interest income		11,260		12,113
Gain(Loss) on foreign currency translation		(26)		(2,080)
Impairment(Recovery)		(284)		3,878
Financial liabilities at fair value through profit or loss				
Loss on valuation of derivative financial instruments		(185)		-
Financial liabilities at amortized cost				
Interest expense		(2,479)		(2,125)
Gain(Loss) on foreign currency translation		462		297

[1] Reclassification to profit/loss represents amounts transferred from components of other comprehensive income.

7. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates as of December 31, 2013 and 2012:

Trade receivables

(in millions of Korean won)		**2013**		**2012**
Counterparties with external credit rating				
A	₩	108,791	₩	95,281
BBB		748		303
		109,539		95,584
Counterparties without external credit rating				
Group 1[1]		1,882		1,002
Group 2[2]		62,100		48,603
Group 3[3]		-		-
		63,982		49,605
	₩	173,521	₩	145,189

[1] New customers/related parties (less than 6 months)
[2] Existing customers/related parties (more than 6 months) with no defaults in the past
[3] Existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

Other receivables

(in millions of Korean won)	**2013**	**2012**
Counterparties with external credit rating		
A	₩ 335	₩ 73
Counterparties without external credit rating		
Group 1[1]	656	1,212
Group 2[2]	130,662	98,011
Group 3[3]	-	-
	131,318	99,223
	₩ 131,653	₩ 99,296

(in millions of Korean won)	**2013**	**2012**
Cash equivalents and financial institutions deposits[1]		
A A A	₩ 440,844	₩ 318,294

[1] The rest of 'cash and cash equivalents' and 'bank deposits' in the statement of financial position is cash in hand.

8. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**	**2012**
Cash on hand	₩ 59	₩ 71
Ordinary deposits	22,592	28,855
Checking accounts	60,138	28,260
MMDA	211,223	113,521
	₩ 294,012	₩ 170,707

Cash and cash equivalents include bank deposits maturing within three months from acquisition date.

9. Trade and Other Receivables

Trade and other receivables as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013	2012
Trade receivables	₩ 200,181	₩ 172,808
Less: provision for impairment of trade receivables	(2,753)	(2,628)
Trade receivables, net	₩ 197,428	₩ 170,180
Current other receivables	₩ 26,139	₩ 20,352
Less: provision for impairment of current other receivables	(280)	(276)
Current other receivables, net	₩ 25,859	₩ 20,076
Non-current other receivables	₩ 105,797	₩ 82,383
Less: provision for impairment of non-current other receivables	-	-
Non-current other receivables, net	₩ 105,797	₩ 82,383

Details of other receivables are as follows:

(in millions of Korean won)	2013		2012	
	Current	Non-current	Current	Non-current
Non-trade receivables	₩ 25,859	₩ -	₩ 20,076	₩ -
Loans	-	28,200	-	22,823
Deposits provided	-	77,597	-	59,560
	₩ 25,859	₩ 105,797	₩ 20,076	₩ 82,383

The aging analysis of trade and other receivables as of December 31, 2013 and 2012, is as follows:

(in millions of Korean won)	**2013**				**2012**			
	Trade receivables		**Other receivables**		**Trade receivables**		**Other receivables**	
Receivables not past due	₩	173,521	₩	131,653	₩	145,189	₩	99,296
Past due but not impaired[1]								
Up to 3 months		14,895		-		18,628		1,149
4 to 6 months		2,328		-		2,200		1,959
7 to 12 months		2,781		-		1,163		54
Over 12 months		1,970		3		981		1
Impaired								
Over 3 months		4,686		280		4,647		276
	₩	200,181	₩	131,936	₩	172,808	₩	102,735

[1] Trade receivables past due but not impaired relate to a number of independent customers who have no recent history of default.

Movements on the provision for impairment of trade receivables for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**		**2012**	
Beginning	₩	2,628	₩	6,507
Provision for receivables impairment (Reversal)		113		(3,878)
Receivables written off during the year as uncollectible		(74)		(1)
Bad debt recovery		86		-
Ending	₩	2,753	₩	2,628

The creation and release of provision for impaired receivables have been included in ‘selling and administrative expenses’ in the statement of income (Note 29). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The Group does not hold any collateral as security.

The Group’s trade and other receivables are spread to a great number of customers, so there is no important credit risk concentrated. The maximum exposure of trade and other receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

10. Inventories

Inventories as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		2013		2012
Merchandise	₩	58,958	₩	42,999
Finished goods		119,542		112,100
Semi-finished goods		19,832		25,217
Work-in-process		2,142		2,180
Raw materials		31,568		41,942
Subsidiary materials		23,689		20,197
Supplies		5,041		3,676
Materials in transit		21,989		19,122
	₩	282,761	₩	267,433

The cost of inventories recognized as expense and included in ‘cost of sales’ amounted to ₩855,731 million (2012: ₩783,710 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2013 and 2012 are as follows:

(in millions of Korean won)		2013		2012
Loss on valuation of inventories	₩	4,736	₩	(204)
Loss on disposal of inventories		15,430		13,264
	₩	20,166	₩	13,060

11. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		2013		2012
Debt investments				
Government-issued securities	₩	5,340	₩	4,452
Equity securities				
Non-marketable equities		1,675		1,791
GL Pharm Tech Co., Ltd.		191		191
Welskin Co., Ltd.		48		48
I’M Investment Securities Co., Ltd.		352		468
The Korea Economic Daily		81		81
ELANDRETAL Ltd.		3		3
Biogenics Co., Ltd.		1,000		1,000
	₩	7,015	₩	6,243

The changes in available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		**2013**		**2012**
Beginning	₩	6,243	₩	9,209
Additions		1,409		404
Disposals		(522)		(873)
Gains/(losses) on valuation		(115)		427
Gains/(losses) transfer from equity[1]		-		(2,924)
Ending	₩	7,015	₩	6,243

[1] The Company reclassified profits of ₩2,924 million (deferred tax: ₩709 million) for the year ended December 31, 2012, from equity into the statement of income (Notes 6 and 23).

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available-for-sale.

None of the available-for sale financial assets is either past due or impaired.

12. Associates

Associates as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**Percentage of Ownership**	**2013**			**2012**		
		Acquisition cost	**Net asset value**	**Book value**	**Acquisition cost**	**Net asset value**	**Book value**
Taiwan AMORE Co.,Ltd.	50.00	₩ 131	₩ 1,935	₩ 2,118	₩ 131	₩ 1,808	₩ 1,953
AMOREPACIFIC HongKong Co.,Limited	30.00	1,220	5,951	7,371	1,220	3,285	4,744
		₩ 1,351	₩ 7,886	₩ 9,489	₩ 1,351	₩ 5,093	₩ 6,697

Changes in investments in associates for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**					
		Taiwan AMORE Co.,Ltd.		**AMOREPACIFIC HongKong Co.,Limited**		**Total**
Beginning	₩	1,808	₩	3,285	₩	5,093
Acquisition		-		-		-
Share of profit		260		2,896		3,156
Changes in other comprehensive income		(95)		(191)		(286)
Dividends		-		-		-
Exchange differences		(38)		(39)		(77)
Ending	₩	1,935	₩	5,951	₩	7,886

(in millions of Korean won)	2012			
	Taiwan AMORE Co.,Ltd.	AMOREPACIFIC HongKong Co.,Limited	AMOREPACIFIC (Thailand) LIMITED	Total
Beginning	₩ 1,715	₩ 2,836	₩ 114	₩ 4,665
Acquisition	-	-	(114)	(114)
Share of profit(loss)	383	1,292	-	1,675
Changes in other comprehensive income	(71)	(80)	-	(151)
Dividends	(124)	(436)	-	(560)
Exchange differences	(95)	(327)		(422)
Ending	₩ 1,808	₩ 3,285	₩ -	₩ 5,093

Summary of financial information of associates as of and for the years ended December 31, 2013 and 2012, follows:

(in millions of Korean won)	2013				
	Total Assets	Total Liabilities	Revenue	Net Income	Comprehensive Income
Taiwan AMORE Co.,Ltd.	₩ 5,198	₩ 962	₩ 7,530	₩ 520	₩ 330
AMOREPACIFIC HongKong Co.,Limited.	40,176	15,607	84,766	9,330	8,755

(in millions of Korean won)	2012				
	Total Assets	Total Liabilities	Revenue	Net Income	Comprehensive Income
Taiwan AMORE Co.,Ltd.	₩ 5,129	₩ 1,223	₩ 7,174	₩ 766	₩ 636
AMOREPACIFIC HongKong Co.,Limited.	28,936	13,122	66,524	5,222	4,148

13. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013			2012		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 906,590	₩ -	₩ 906,590	₩ 860,425	₩ -	₩ 860,425
Buildings	547,790	(95,221)	452,569	543,648	(90,124)	453,524
Structures	49,116	(14,527)	34,589	49,065	(13,251)	35,814
Machinery	299,979	(125,483)	174,496	266,774	(108,326)	158,448
Vehicles	2,837	(2,007)	830	2,855	(2,097)	758
Tools	139,928	(119,502)	20,426	128,810	(108,178)	20,632
Fixtures and furniture	572,022	(396,361)	175,661	488,841	(337,388)	151,453
Other	2,192	(1,229)	963	1,629	(977)	652
Construction in progress	169,920	-	169,920	85,101	-	85,101
	₩ 2,690,374	₩ (754,330)	₩ 1,936,044	₩ 2,427,148	₩ (660,341)	₩ 1,766,807

Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**						
	Opening net book value	**Acquisition**	**Reclassification**	**Disposal[1]**	**Depreciation**	**Currency translation differences**	**Closing net book value**
Land	₩ 860,425	₩ 1	₩ 47,000	₩ (908)	₩ -	₩ 72	₩ 906,590
Buildings	453,524	13,683	25,984	(25,172)	(15,700)	250	452,569
Structures	35,814	147	1,577	(478)	(2,482)	11	34,589
Machinery	158,448	8,655	25,867	(699)	(17,884)	109	174,496
Vehicles	758	326	-	(7)	(249)	2	830
Tools	20,632	12,477	94	(2)	(12,778)	3	20,426
Fixtures and furniture	151,453	70,661	19,371	(2,577)	(62,342)	(905)	175,661
Other	652	855	-	(36)	(474)	(34)	963
Construction in progress	85,101	208,944	(122,415)	-	-	(1,710)	169,920
	₩ 1,766,807	₩ 315,749	₩ (2,522)	₩ (29,879)	₩ (111,909)	₩ (2,202)	₩ 1,936,044

[1] During 2013, the Company moved the headquarters to build a new building of the Company. The Company recognized impairment loss on existing buildings and structures with carrying amounts of ₩14,420 million and ₩283 million, and the expenses were recorded as non-operating expenses (Note 31.) In addition, as of December 31, 2013, the remaining carrying amount is derecognized resulting from the completion of the assets removal.

(in millions of Korean won)	**2012**							
	Opening net book value	**Acquisition**	**Reclassification**	**Disposal**	**Depreciation**	**Acquisition in the business combination**	**Currency translation differences**	**Closing net book value**
Land	₩ 798,986	₩ 10,031	₩ 58,980	₩ (7,428)	₩ -	₩ -	₩ (144)	₩ 860,425
Buildings	437,161	1,541	31,799	(593)	(15,204)	-	(1,180)	453,524
Structures	36,692	199	1,428	-	(2,513)	-	8	35,814
Machinery	146,238	10,212	17,496	(1)	(15,174)	-	(323)	158,448
Vehicles	869	114	-	(2)	(220)	-	(3)	758
Tools	16,959	13,455	1,639	-	(11,370)	-	(51)	20,632
Fixtures and furniture	129,359	61,972	8,218	(1,178)	(46,201)	426	(1,143)	151,453
Other	632	473	-	(5)	(417)	-	(31)	652
Construction in progress	88,579	133,797	(136,829)	-	-	91	(537)	85,101
	₩ 1,655,475	₩ 231,794	₩ (17,269)	₩ (9,207)	₩ (91,099)	₩ 517	₩ (3,404)	₩ 1,766,807

Depreciation of property, plant and equipment is charged to the following accounts:

(in millions of Korean won)	**2013**	**2012**
Selling and administrative expenses[1]	₩ 58,775	₩ 51,324
Cost of sales	53,134	39,775
	₩ 111,909	₩ 91,099

[1] Depreciation expense is included as part of development expense.

Details of property, plant and equipment provided as collaterals as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**			
	Secured amount	**Related line item**	**Related amount**	**Secured party**
Land and Buildings	₩ 415	LeaseHold Deposits Received	₩ 319	Samsung Life Insurance Co., Ltd.
Land and Buildings	1,249	LeaseHold Deposits Received	961	National Pension Service
Land and Buildings	73	LeaseHold Deposits Received	56	Hanwha General Insurance Co., Ltd.

(in millions of Korean won)	2012					
	Secured amount		**Related line item**	**Related amount**		**Secured party**
Land and Buildings	₩	415	LeaseHold Deposits Received	₩	319	Samsung Life Insurance Co., Ltd.
Land and Buildings		1,249	LeaseHold Deposits Received		961	National Pension Service
Land and Buildings		73	LeaseHold Deposits Received		56	Hanwha General Insurance Co., Ltd.
Land and Buildings		597	LeaseHold Deposits Received		459	AJU CAPITAL CO., LTD.
Land and Buildings		1,752	LeaseHold Deposits Received		1,246	Wooribank

Details of finance lease as of December 31, 2013 and 2012, are as follows:

One of the subsidiaries, AMOREPACIFIC EUROPE S.A.S leases land and buildings under non-cancellable finance lease agreements. The lease term is up to 2018 and after termination of the lease term, the ownership is transferred to AMOREPACIFIC EUROPE S.A.S.

Land and buildings include the following amounts where the Company is a lessee under a finance lease as of December 31, 2013 and 2012:

(in millions of Korean won)	**2013**				**2012**			
	Land		**Buildings**		**Land**		**Buildings**	
Cost- capitalized finance leases	₩	1,777	₩	18,851	₩	2,613	₩	26,051
Accumulated depreciation		-		(5,712)		-		(7,625)
Net book value	₩	1,777	₩	13,139	₩	2,613	₩	18,426

The total of future minimum lease payments as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**		**2012**	
Total minimum lease payments				
Not later than 1 year	₩	1,803	₩	2,601
1 year to 5 years		7,212		10,093
Later than 5 years		-		1,753
	₩	9,015	₩	14,447
Unearned finance income		(769)		(1,524)
Net minimum lease payments				
Not later than 1 year		1,526		2,103
1 year to 5 years		6,720		9,091
Later than 5 years		-		1,729
	₩	8,246	₩	12,923

The Group leases head office, warehouses and computer facilities under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years. The lease payments recognized as expenses for the years ended December 31, 2013 is ₩92,983 million (2012: ₩66,674 million).

The total of future minimum lease payments under non-cancellable operating lease agreements as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**	**2012**
No later than 1 year	₩ 70,346	₩ 62,219
1 year to 5 years	48,129	34,118
	₩ 118,475	₩ 96,337

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**				
	Goodwill	**Industrial property**	**Software**	**Other**	**Total**
Beginning balance	₩ 35,997	₩ 10,440	₩ 23,112	₩ 51,659	₩ 121,208
Acquisition	-	3,795	3,496	11,720	19,011
Reclassification	-	-	10,284	(7,762)	2,522
Disposal	-	-	(320)	(631)	(951)
Amortization	-	(1,071)	(8,560)	(427)	(10,058)
Currency translation differences	301	69	9	461	840
Ending balance	₩ 36,298	₩ 13,233	₩ 28,021	₩ 55,020	₩ 132,572

(in millions of Korean won)	**2012**				
	Goodwill	**Industrial property**	**Software**	**Other**	**Total**
Beginning balance	₩ 34,666	₩ 10,559	₩ 23,444	₩ 46,535	₩ 115,204
Acquisition	-	1,140	4,643	11,899	17,682
Reclassification	-	-	3,047	(4,952)	(1,905)
Disposal	-	(223)	-	(171)	(394)
Amortization	-	(898)	(7,949)	(206)	(9,053)
Acquisition in the business combination	4,771	-	6	-	4,777
Currency translation differences	(3,440)	(138)	(79)	(1,446)	(5,103)
Ending balance	₩ 35,997	₩ 10,440	₩ 23,112	₩ 51,659	₩ 121,208

Amortization of intangible assets is charged to the following accounts:

(in millions of Korean won)	**2013**	**2012**
Selling and administrative expenses[1]	₩ 8,865	₩ 8,167
Cost of sales	1,193	886
	₩ 10,058	₩ 9,053

[1] Amortization expense is included as part of development expense.

The Group recognized research and development costs as expenses totalling ₩63,572 million (2012: ₩62,231 million).

Goodwill is monitored by the management at the cash-generating units. The following is a summary of goodwill allocation for each operating segment:

(in millions of Korean won)	2013		2012	
Annick Goutal CGU	₩	24,171	₩	23,507
China CGU		4,233		4,179
Vietnam CGU		3,640		3,742
Singapore Etude House CGU		3,406		3,581
Thailand CGU		513		559
Indonesia CGU		335		429
	₩	36,298	₩	35,997

The recoverable amounts of all CGUs have been determined based on value-in-use calculations, and the key assumptions used for value-in-use calculations in 2013 are as follows:

	Annick Goutal CGU	China CGU	Vietnam CGU	Singapore Etude House CGU
Gross margin rate	6.42%	0.70%	0.15%	2.23%
Growth rate[1]	8.60%	29.80%	17.92%	6.63%
Pre-tax discount rate	8.65%	12.10%	14.99%	7.91%

[1] Weighted average revenue growth rate used to extrapolate cash flows for a five-year period is measured based on the past performance and expectation of market development.

The impairment test suggests that the carrying value of all cash generating units does not exceed the recoverable amount.

As of December 31, 2013, the recoverable amount of the Annick Goutal operating segment exceeded its carrying value by ₩373 million. Nevertheless, there is a possibility that reasonable changes in key assumptions may offset the excess amount. A reduction in gross margin to 6.31% or a fall in growth rate to 7.37% or a rise in discount rate to 8.71% would offset the excess amount.

15. Investment Property

Details of investment property as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013			2012		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
Land	₩ 185,551	₩ -	₩ 185,551	₩ 185,546	₩ -	₩ 185,546
Buildings	39,259	(24,542)	14,717	39,259	(23,099)	16,160
Structures	5,082	(3,718)	1,364	5,082	(3,556)	1,526
	₩ 229,892	₩ (28,260)	₩ 201,632	₩ 229,887	₩ (26,655)	₩ 203,232

Changes in investment property for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013				2012			
	Land	Building	Structures	Total	Land	Building	Structures	Total
Beginning balance	₩ 185,546	₩ 16,160	₩ 1,526	₩ 203,232	₩ 185,546	₩ -	₩ -	₩ 185,546
Acquisition	5	-	-	5	-	-	-	-
Reclassification	-	-	-	-	-	17,497	1,678	19,175
Depreciation	-	(1443)	(162)	(1605)	-	(1337)	(152)	(1489)
Disposal	-	-	-	-	-	-	-	-
Ending balance	₩ 185,551	₩ 14,717	₩ 1,364	₩ 201,632	₩ 185,546	₩ 16,160	₩ 1,526	₩ 203,232

Fair value of investment property as of December 31, 2013, is ₩223,798 million (2012: ₩220,230 million).

There was no gain related to investment property for the years ended December 31, 2013 and 2012.

16. Other Assets

Other assets as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 1,005	₩ -	₩ 999	₩ -
Advance payments	9,425	-	15,249	-
Prepaid expenses	16,387	14	13,943	10
Others	505	12	3,103	-
	₩ 27,322	₩ 26	₩ 33,294	₩ 10

17. Derivative Financial Instruments

Details of derivative financial instruments as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Non-current derivative financial instruments				
Currency forward exchange contracts	₩ -	₩ 181	₩ -	₩ -

The maximum exposure to credit risk as of the reporting date is the fair value of derivatives as of December 31, 2013. The Group entered into the currency forward contracts to hedge the risk of changes in borrowings related to changes in foreign exchange rates. The details of currency forward contracts as of December 31, 2013 are as follows:

(in millions of Korean won, CNY and USD)

Type	Counter party	Contract period	Contract amount				Statement of Income	
			Sales		Purchase		Gain on valuation	Loss on valuation
Currency Forward	Citibank	Sep 9,2013~July 8,2016	CNY	192,264,000	USD	30,000,000	-	185

18. Borrowings

Details of carrying amount of borrowings as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	Bank	Interest rate at December 31, 2013		2013		2012
Short-term Borrowings						
Bank overdrafts of EUR 13,313,954 (2012: EUR 4,372,954)	Credit Agricole and others	1.40	₩	19,389	₩	6,193
Loans for working capital of EUR 5,000,000	Citibank	1.40		7,281		7,082
Bank overdrafts of USD - (2012: USD 173,136)	Citibank	2.31		-		185
Borrowings from an associate of HKD 5,950,000	Etude Co., Ltd.	3.40		810		822
Loans for working capital of JPY 600,000,000 (2012: JPY 429,000,000)	Shinhan Bank Japan	1.15		6,028		5,352
Borrowings from an associate of JPY 234,000,000	Etude Co., Ltd.	2.83		2,351		2,919
Bank overdrafts of EUR 2,973,329	KEB	1.90		4,329		-
				40,188		22,553
Current portion of Long-term Borrowings						
Loans for working capital of USD 40,000,000	Citibank and others	1.75	₩	42,209		-
Long-term Borrowings						
Loans for working capital of USD 65,000,000 (2012: USD 40,000,000)	Citibank and others	1.55	₩	68,992		42,850
			₩	151,389	₩	65,403

Annual redemption plan as of the reporting date is as follows:

(in millions of Korean won) Year		Amount
2014.01.01 ~ 2014.12.31	₩	42,209
2015.01.01 ~ 2016.12.31		68,992

19. Provisions for Liabilities and Charges

Changes of provisions for liabilities and charges as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013				2012			
	Provision for sales return	Profit-sharing and bonuses	Provision for restructuring	Total	Provision for sales return	Profit-sharing and bonuses	Provision for restructuring	Total
Beginning	₩ 2,471	₩ 80	₩ 4,151	₩ 6,702	₩ 5,617	₩ 138	₩ -	₩ 5,755
Increase	2,277	1,791	-	4,068	1,952	30,837	4,245	37,034
Decrease	(1,225)	(1,772)	(4,260)	(7,257)	(5,069)	(30,883)	-	(35,952)
Currency translation differences	(3)	3	109	109	(29)	(12)	(94)	(135)
Ending	₩ 3,520	₩ 102	₩ -	₩ 3,622	₩ 2,471	₩ 80	₩ 4,151	₩ 6,702

20. Other Liabilities

Other liabilities as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Current	Non-current	Current	Non-current
Withholdings	₩ 10,563	₩ -	₩ 9,195	₩ -
Value added tax withheld	23,269	-	23,539	-
Advances from customers	10,147	-	10,039	-
Deposits received	-	7,465	-	8,900
Accrued expenses	18,751	3,018	8,671	2,606
Financial liabilities	-	8,246	-	12,923
Dividends payable	245	-	228	-
Others	1,407	926	1,526	641
	₩ 64,382	₩ 19,655	₩ 53,198	₩ 25,070

21. Post-employment Benefits

21.1 Defined Benefit Plan

Defined benefit liability recognized on the statements of financial position as of December 31, 2013 and 2012, is as follows:

(in millions of Korean won)		2013		2012
Present value of funded defined benefit liability	₩	157,042	₩	148,080
Present value of unfunded defined benefit liability		2,000		2,188
		159,042		150,268
Fair value of plan assets[1]		(114,768)		(102,726)
Liability in the statement of financial position	₩	44,274	₩	47,542

[1] The contributions to the National Pension Fund of ₩ 289 million are included in the fair value of plan assets as of December 31, 2013 (2012: ₩ 363 million).

Changes in the defined benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		2013		2012
Beginning balance	₩	150,268	₩	122,125
Current service cost		22,541		21,161
Interest expense		6,778		6,772
Remeasurements:				
Actuarial gains and losses arising from changes in demographic assumptions		-		673
Actuarial gains and losses arising from changes in financial assumptions		(4,550)		7,501
Actuarial gains and losses arising from experience adjustments		3,557		4,287
Exchange differences		(135)		(101)
Payments from plans:				
Benefit payments		(17,061)		(11,113)
Transfer to associates		(2,356)		(1,037)
Ending balance	₩	159,042	₩	150,268

Changes in the fair value of plan assets for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		**2013**		**2012**
Beginning balance	₩	102,726	₩	82,123
Interest income		4,716		4,939
Remeasurements:				
Return on plan assets		(1,390)		(1,349)
Contributions:				
Employers		25,000		25,000
Payments from plans:				
Benefit payments		(14,252)		(7,344)
Transfer to associates		(2,032)		(643)
Ending balance	₩	114,768	₩	102,726

The principal actuarial assumptions as of December 31, 2013 and 2012, were as follows:

	2013	**2012**
Discount rate	3.15% ~ 4.90%	2.75% ~ 4.75%
Future salary increases	3.00% ~ 6.22%	5.00% ~ 6.42%

The sensitivity of the defined benefit obligations as of December 31, 2013, to changes in the weighted principal assumptions is:

(in percentage, %)	**Effect on defined benefit obligation**		
	Changes in principal assumption	**Increase in principal assumption**	**Decrease in principal assumption**
Discount rate	1.00%	7.25% decrease	8.29% increase
Salary growth rate	1.00%	8.56 % increase	7.57% decrease

The defined benefit liabilities are exposed to a significant risk on changes in corporate bond yields rate.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Plan assets as of December 31, 2013 and 2012, consist of as follows:

(in millions of Korean won)	2013		2012	
	Unquoted price	**Composition**	**Unquoted price**	**Composition**
Deposits	₩ 114,479	99.75 %	₩ 102,363	99.65 %
Other	289	0.25	363	0.35
	₩ 114,768	100.00 %	₩ 102,726	100.00 %

The weighted average maturity of the defined benefit obligations are 8.18 years and the maturity analysis of the undiscounted pension benefits as of December 31, 2013, is as follows:

(in millions of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 5 and 5 years**	**Over 5 years**	**Total**
Pension benefits	₩ 12,842	₩ 14,665	₩ 47,904	₩ 106,228	₩ 181,639

The Group reviews the funding level on an annual basis and has a policy to contribute deficit in the fund. Expected contributions for the year ended December 31, 2014 are ₩21,715 million.

21. 2 Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2013, is ₩73 million (₩84 million).

22. Other Components of Equity

Other components of equity as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	**2013**	**2012**
Treasury stock[1]	₩ (1,381)	₩ (1,381)
Other capital adjustments	(429)	(429)
	₩ (1,810)	₩ (1,810)

[1] Represents 3,297 common shares and 613 preferred shares of treasury stock. The Company intends to dispose of the remaining treasury stock depending on the market conditions.

23. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2013 and 2012, consists of the following:

(in millions of Korean won)		**2013**		**2012**
Change in value of available-for-sale financial assets	₩	(361)	₩	(274)
Currency translation differences		(13,221)		(11,557)
Share of other comprehensive income of associates		(439)		(180)
	₩	(14,021)	₩	(12,011)

Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013									
		Beginning balance		**Increase (Decrease)**		**Reclassification to profit or loss**		**Reclassification to non-controlling interest**		**Ending Balance**
Change in value of available-for-sale financial assets	₩	(274)	₩	(87)	₩	-	₩	-	₩	(361)
Currency translation differences		(11,557)		(1,927)		-		263		(13,221)
Share of other comprehensive income of associates		(180)		(286)		-		27		(439)
	₩	(12,011)	₩	(2,300)	₩	-	₩	290	₩	(14,021)

(in millions of Korean won)	2012									
		Beginning balance		**Increase (Decrease)**		**Reclassification to profit or loss**		**Reclassification to non-controlling interest**		**Ending Balance**
Change in value of available-for-sale financial assets	₩	1,618	₩	323	₩	(2,215)	₩	-	₩	(274)
Currency translation differences		(4,009)		(8,160)		-		612		(11,557)
Share of other comprehensive income of associates		(44)		(151)		-		15		(180)
	₩	(2,435)	₩	(7,988)	₩	(2,215)	₩	627	₩	(12,011)

24. Retained Earnings

Retained earnings as of December 31, 2013 and 2012, consist of:

(in millions of Korean won)		2013		2012
Legal reserves[1]	₩	18,109	₩	18,109
Discretionary reserves		1,194,000		973,000
Unappropriated retained earnings		603,148		601,340
	₩	1,815,257	₩	1,592,449

[1]The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

25. Dividends

The dividends paid in 2013 and 2012, are as follows:

	2013				2012			
	Common stock		Preferred stock		Common stock		Preferred stock	
Dividends paid	₩	37,977 million	₩	6,911 million	₩	37,977 million	₩	6,911 million
Dividends per share		6,500		6,550		6,500		6,550

Dividends in respect of the year ended December 31, 2013, of ₩6,500 per common share and ₩6,550 per preferred share, amounting to a total dividend of ₩37,977 million on common shares and ₩6,911 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 21, 2014. These financial statements do not reflect these dividend payables.

26. Tax Expense and Deferred Income Tax

Income tax expense for the years ended December 31, 2013 and 2012, consists of:

(in millions of Korean won)		2013		2012
Current income tax	₩	91,604	₩	81,334
Deferred income tax		4,563		11,126
Income tax expense	₩	96,167	₩	92,460

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(in millions of Korean won)		**2013**		**2012**
Profit before tax	₩	363,526	₩	361,718
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩	86,234	₩	84,463
Tax effects of:				
Income not subject to tax		(585)		(3,521)
Expenses not deductible for tax purposes		1,847		4,947
Tax losses for which no deferred income tax asset was recognized		5,514		3,731
Utilization of previously unrecognized tax losses		(469)		(11)
Tax credits		(2,750)		(5,107)
Adjustment in respect of prior years		2,691		8,756
Others		3,685		(798)
Income taxes	₩	96,167	₩	92,460

The weighted average applicable tax rate of the Group is 26.45% (2012: 25.56%).

Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013						2012					
	Before tax		Tax effect		After tax		Before tax		Tax effect		After tax	
Gain on valuation of available-for-sale securities	₩	(115)	₩	28	₩	(87)	₩	(2,496)	₩	604	₩	(1,892)
Remeasurements		(397)		133		(264)		(13,810)		3,265		(10,545)
Deferred income tax charged to other comprehensive income		(286)		-		(286)		(151)		-		(151)
Currency translation differences		(1,927)		-		(1,927)		(8,160)		-		(8,160)
	₩	(2,725)	₩	161	₩	(2,564)	₩	(24,617)	₩	3,869	₩	(20,748)

The analysis of deferred tax assets and liabilities as of December 31, 2013 and 2012, is as follows:

(in millions of Korean won)		**2013**		**2012**
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	74,227	₩	70,309
Deferred tax asset to be recovered within 12 months		10,262		11,129
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months		(203,482)		(196,342)
Deferred tax liability to be recovered within 12 months		(2,499)		(2,931)
Deferred tax assets(liabilities), net	₩	(121,492)	₩	(117,835)

Changes in deferred tax assets and liabilities for the years ended December 31, 2013 and 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(in millions of Korean won)	2013				
	Beginning balance	**Statement of income**	**Other comprehensive income**	**Currency translation differences**	**Ending balance**
Deferred tax assets					
Allowance for doubtful accounts	₩ 19	₩ (14)	₩ -	₩ -	₩ 5
Inventory	1	883	-	-	884
Property, plant and equipment	3,449	133	-	6	3,588
Intangible assets	5	-	-	-	5
Government grants	755	109	-	-	864
Available-for-sale financial assets	647	-	28	-	675
Subsidiaries	3,350	49	-	-	3,399
Deferred revenue	15,974	(3,479)	-	17	12,512
Accrued expenses	2,151	2,475	-	(28)	4,598
Provision liability	631	24	-	4	659
Other current liabilities	1,084	(1,083)	-	-	1
Retirement benefit obligation	28,043	2,995	133	6	31,177
Selling and administrative expenses	1,917	(441)	-	-	1,476
Tax loss carryforwards	22,814	-	-	647	23,461
Others	598	(342)	-	-	256
	81,438	1,309	161	652	83,560
Deferred tax liabilities					
Accrued revenue	(239)	(1)	-	-	(240)
Other receivables	(40)	(21)	-	-	(61)
Property, plant and equipment	(103,543)	-	-	-	(103,543)
Intangible assests	(4,321)	(173)	-	93	(4,401)
Plan assets	(24,579)	(3,125)	-	-	(27,704)
Reserve for technology development	(57,677)	(2,985)	-	-	(60,662)
Advanced depreciation provision	(6,184)	-	-	-	(6,184)
Selling and administrative expenses	(2,690)	433	-	-	(2,257)
	(199,273)	(5,872)	-	93	(205,052)
	₩ (117,835)	₩ (4,563)	₩ 161	₩ 745	₩ (121,492)

(in millions of Korean won)	2012				
	Beginning balance	**Statement of income**	**Other comprehensive income**	**Currency translation differences**	**Ending balance**
Deferred tax assets					
Allowance for doubtful accounts	₩ 441	₩ (422)	₩ -	₩ -	₩ 19
Inventory	682	(681)	-	-	1
Property, plant and equipment	5,671	(2,151)	-	(71)	3,449
Intangible assets	371	(366)	-	-	5
Government grants	711	44	-	-	755
Available-for-sale financial assets	559	-	88	-	647
Subsidiaries	2,164	1,186	-	-	3,350
Deferred revenue	17,222	(1,140)	-	(108)	15,974
Accrued expenses	2,316	(31)	-	(134)	2,151
Provision liability	1,462	(822)	-	(9)	631
Other current liabilities	1,563	(479)	-	-	1,084
Retirement benefit obligation	20,049	4,739	3,265	(10)	28,043
Selling and administrative expenses	157	1,760	-	-	1,917
Tax loss carryforwards	19,266	4,654	-	(1,106)	22,814
Others	394	204	-	-	598
	73,028	6,495	3,353	(1,438)	81,438
Deferred tax liabilities					
Accrued revenue	(284)	45	-	-	(239)
Other receivables	(140)	100	-	-	(40)
Property, plant and equipment	(110,102)	6,559	-	-	(103,543)
Intangible assests	(5,147)	189	-	637	(4,321)
Available-for-sale financial assets	(516)	-	516	-	-
Plan assets	(19,776)	(4,803)	-	-	(24,579)
Reserve for technology development	(39,446)	(18,231)	-	-	(57,677)
Advanced depreciation provision	(6,184)	-	-	-	(6,184)
Selling and administrative expenses	(1,210)	(1,480)	-	-	(2,690)
	(182,805)	(17,621)	516	637	(199,273)
	₩ (109,777)	₩ (11,126)	₩ 3,869	₩ (801)	₩ (117,835)

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩11,940 million (2012: ₩13,879 million) in respect of losses amounting to ₩35,825 million (2012: ₩41,640 million) that can be carried forward against future taxable income. There is no limit to expiration of tax losses.

The temporary differences from the subsidiaries whose disposal is not in the foreseeable future were not recognized because of the uncertainty in realizability of the deferred tax assets, and the amount as of December 31, 2013, and 2012, are as follows :

(in millions of Korean won)	**2013**	**2012**
Taxable temporary differences	₩ (11,872)	₩ (18,705)
Deductible temporary differences	90,493	101,710
	₩ 78,621	₩ 83,005

27. Revenues

Revenues for the years ended December 31, 2013 and 2012, consist of the following:

(in millions of Korean won)			**2013**		**2012**
	Sales of finished goods	₩	2,371,736	₩	2,266,489
Sale of goods	Sales of merchandise		710,505		555,697
			3,082,241		2,822,186
Rendering of services			11,655		21,491
	Rental income		3,403		3,100
	Royalty income		2,028		1,385
Others	Others		1,086		1,300
			6,517		5,785
		₩	3,100,413	₩	2,849,462

28. Expenses by Nature

Expenses by nature for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		**2013**		**2012**
Changes in inventories	₩	(15,259)	₩	(41,630)
Purchase of raw materials and merchandise		870,990		825,340
Employee benefit expense		430,230		400,578
Depreciation and amortization		121,241		100,152
Advertising expense		388,544		399,026
Research and development		63,572		62,231
Commission expense		249,980		229,587
Distribution commission		434,149		369,109
Other expenses		187,128		139,731
Total[1]	₩	2,730,575	₩	2,484,124

[1] Sum of cost of sales and selling and administrative expenses on the statements of comprehensive income

29. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		**2013**		**2012**
Employee benefits	₩	325,851	₩	297,058
Welfare and fringe benefits		48,878		44,118
Advertising expense		388,544		399,026
Depreciation and amortization		67,640		53,599
Commission expense		218,201		201,277
Distribution commission		434,149		369,109
Freight expense		65,481		57,190
Taxes and dues		33,101		27,098
Research and development		63,572		62,231
Other		173,352		126,214
	₩	1,818,769	₩	1,636,920

30. Finance Income and Costs

Financial income and costs for the years ended December 31, 2013 and 2012, are as follows:

(*in millions of Korean won*)		**2013**		**2012**
Finance income				
Interest income on loans and receivables	₩	11,260	₩	12,113
Interest income on available-for-sale financial assets		85		95
	₩	11,345	₩	12,208
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(2,479)	₩	(2,125)
Loss on valuation of derivative instruments		(185)		-
	₩	(2,664)	₩	(2,125)

31. Other non-operating gains/(losses)

Other non-operating gains/(losses) for the years ended December 31, 2013 and 2012, consist of:

(in millions of Korean won)		2013		2012
Other non-operating gains				
Gain on foreign currency transactions	₩	4,638	₩	2,401
Gain on foreign currency translation		1,639		506
Gain on disposal of property, plant and equipment		8,446		219
Gain on disposal of intangible assets		5		77
Gain on disposal of available-for-sale financial assets		-		4,162
Others		6,063		5,860
		20,791		13,225
Other non-operating losses				
Loss on foreign currency transactions		(4,100)		(3,688)
Loss on foreign currency translation		(1,740)		(1,002)
Loss on disposal of property, plant and equipment		(6,977)		(294)
Impairment losses of property, plant and equipment		(14,703)		-
Loss on disposal of available-for-sale financial assets		(76)		-
Donations		(5,426)		(3,945)
Others		(5,918)		(19,675)
		(38,940)		(28,604)
	₩	(18,149)	₩	(15,379)

32. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the year excluding ordinary shares purchased by the Group and held as treasury shares (Note 22).

Basic earnings per share for the years ended December 31, 2013 and 2012, is as follows:

(in millions of Korean won)		2013		2012
Profit attributable to owners of the Parent company	₩	267,975	₩	270,430
Net income attributable to common stock		226,937		229,016
Weighted average number of ordinary shares in issue (unit: shares)		5,842,552		5,842,556
Basic earnings per ordinary share	₩	38,842	₩	39,198

Basic earnings per preferred share[1] for the years ended December 31, 2013 and 2012, is as follows:

(in millions of Korean won)		**2013**		**2012**
Profit attributable to owners of the Parent company	₩	267,975	₩	270,430
Net income attributable to preferred stock		41,038		41,414
Weighted average number of ordinary shares in issue (unit: shares)		1,055,170		1,055,176
Basic earnings per preferred share	₩	38,893	₩	39,248

[1]Although there is no preferred right on the preferred share, it is determined as an ordinary share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share and therefore, it is included in calculation of basic earnings per share.

The group did not issue potential ordinary shares. Therefore, basic earnings per share is identical earnings per share.

33. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2013 and 2012, is as follows:

(*in millions of Korean won*)		**2013**		**2012**
Net income	₩	267,359	₩	269,258
Adjustments for:				
Interest income, net		(8,681)		(9,263)
Loss(gain) on foreign currency translation		830		1,193
Impairment losses of property, plant and equipment		14,703		-
Depreciation and amortization		123,572		101,641
Gain on disposal of property, plant and equipment and intangible assets		(1,398)		14
Income tax		96,167		92,460
Gain from associates		(3,156)		(1,675)
Provision for severance benefits		24,603		22,994
Gain on disposal of available-for-sale financial assets		-		(4,162)
Others		2,449		(256)
Changes in working capital				
Increase in trade receivables		(28,295)		(16,251)
Increase in other receivables		(5,815)		(6,236)
Increase in inventories		(15,328)		(41,324)
Decrease(increase) in other assets		5,985		(13,369)
Increase in trade payables		14,996		22,027
Increase(decrease) in other payables		39,200		(30,546)
Increase(decrease) in provisions		(3,081)		947
Increase(decrease) in other liabilities		2,081		(11,928)
Payment of severance benefits		(17,061)		(11,113)
Net transfer-out of severance benefits of associates		(2,356)		(1,037)
Increase in plan assets, net		(8,716)		(17,013)
Cash generated from operations	₩	498,058	₩	346,361

Significant transactions not affecting cash flows for the years ended December 31, 2013 and 2012 are as follows:

(in t millions of Korean won)	2013	2012
Reclassification of construction in-progress to property, plant and equipment	₩ 122,415	₩ 136,829
Reclassification of land to investment property	-	19,174

34. Commitments and Contingencies

As of the reporting date, the Company has a bank overdraft agreement with a limit of ₩8,000 million and a loan agreement with a limit of ₩25,000 million with Woori Bank with trade receivables as collateral in which the Company guarantees payment to the bank if the factoring of trade receivables takes place before the payment is due. As of the reporting date, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩7,807 million (2012: ₩12,320 million). Additionally, as of the reporting date, the Company has a letter of credit agreement with a limit of USD 4,000 thousand with Woori Bank and the amount USD 311 thousand (2012: USD 49 thousand) has been drawn.

Important contracts subsidiaries entered into with financial institutions as of the reporting date are as follows:

Subsidiaries	Contracts
AMOREPACIFIC Global Operations Limited	Subsidiary has a syndicated loan agreement with Citibank and five other banks with a limit of USD 40,000 thousand and the outstanding balance is USD 40,000 thousand(2012: ₩40,000 thousand). Subsidiary has a bank overdraft agreement with a limit of USD 10,000 thousand with Citibank and there is no outstanding balance (2012: USD 173 thousand).
AMOREPACIFIC Trading Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of USD 10,000 thousand with Citibank and there is no outstanding balance(2012: USD -thousand).
AMOREPACIFIC Cosmetics New (Shanghai) Co.,Ltd.	Subsidiary has a syndicated loan agreement with Citibank and two other banks with a limit of USD 65,000 thousand and the outstanding balance is USD 65,000 thousand(2012: ₩- thousand).
AMOREPACIFIC EUROPE S.A.S	Subsidiary has a finance lease agreement with Societe Generale Bank and one other bank amounting to EUR 8,765 thousand, and a loan agreement with Societe Generale Bank and two other banks with a limit of EUR 20,000 thousand and the outstanding balance is EUR 18,314 thousand(2012: EUR 9,373 thousand).
Annick Goutal S.A.S	Subsidiary has a bank overdraft agreement with a limit of EUR 3,000 thousand with Korea Exchange Bank and the outstanding balance is EUR 2,973 thousand (2012: EUR - thousand).
AMOREPACIFIC Japan Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of JPY 1,000,000 thousand with Shinhan Bank Japan and the outstanding balance is JPY 600,000 thousand (2012: JPY 492,000 thousand).

As of the reporting date, Seoul Guarantee Insurance has provided the Company with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩2,135 million (2012: ₩2,284 million).

As of the reporting date, current bank deposits amounting to ₩15,000 million(2012: ₩8,000 million) and non-current bank deposits amounting to ₩6 million(2012: ₩6 million) are restricted in use for guarantees provided for subsidiaries' borrowings and as guarantee deposits for the maintenance of checking accounts. Non-current bank deposits amounting to ₩3,482 million (RMB 20,000 thousand)(2012:₩3,438 million (RMB 20,000 thousand)) are restricted in use for permission of door-to-door sales.

35. Related Party Transactions

Details of the parents and subsidiaries as of the reporting date are as follows:

Classfication	Name
Ultimate parent	Kyung-Bae Suh
Immediate parent	AMOREPACIFIC Group, Inc.
Ultimate parent presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Subsidiaries	AMOREPACIFIC Global Operations Limited.
	AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.
	AMORE Cosmetics (Shanghai) Co., Ltd.
	AMOREPACIFIC New Cosmetics (Shanghai) Co., Ltd.
	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.
	AMOREPACIFIC Trading Co., Ltd.
	AMOREPACIFIC EUROPE S.A.S
	Annick Goutal S.A.S
	AMOREPACIFIC US, INC.
	AMOREPACIFIC Japan CO., Ltd.
	AMOREPACIFIC Taiwan Co., Ltd.
	AMOREPACIFIC SINGAPORE PTE. LTD.
	AMOREPACIFIC MALAYSIA SDN. BHD.
	AMOREPACIFIC VIETNAM JSC
	AMOREPACIFIC (Thailand) LIMITED
	PT. LANEIGE INDONESIA PACIFIC
	Innisfree Cosmetics India Private Limited
Associates	AMOREPACIFIC Hong Kong Co.,Limited
	Taiwan AMORE Co.,Ltd.
A subsidiary of the Controlling Company	Etude Corporation
	Innisfree Corporation
	AMOS Professional Corporation
	PACIFICPHARMA Corporation
	PACIFICGLAS, Inc.
	PACIFICPACKAGE Corporation
	Jangwon Co., Ltd.
	COSVISION CO.,LTD.
An associate of the Controlling Company	BBDO Korea Inc.
Other related parties	Taeshin Inpack Corporation

Significant transactions with related parties for the years ended December 31, 2013 and 2012, are as follows:

(in millions of Korean won)

	2013					
	Sales of goods	Purchase of raw materials	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost
Immediate parent						
AMOREPACIFIC Group,Inc.	₩ 864	₩ 13,393	₩ -	₩ -	₩ 64	₩ -
Associates						
AMOREPACIFIC Hong Kong Co.,Limited	17,911	-	-	-	-	-
Taiwan AMORE Co.,Ltd. and others	249	-	-	-	-	-
Subsidiaries of the Controlling Company						
Etude Corporation	3,909	20,260	-	165	248	-
Innisfree Corporation	3,363	13,195	-	3,758	127	-
AMOS Professional Corporation	17,330	146	-	-	51	-
PACIFICPHARMA Corporation	1,338	35,789	-	765	74	-
PACIFICGLAS, Inc.	127	29,336	-	-	11	36
PACIFICPACKAGE Corporation	134	46,763	-	-	18	41
Jangwon Co.,Ltd	70	2,958	-	-	3	33
COSVISION CO.,LTD.	1,055	9,981	-	115	5	66
An associate of the Controlling Company						
BBDO Korea Inc.	-	15,637	-	-	-	-
Other related parties						
Taeshin Inpack Corporation	-	18,583	-	-	-	-
	₩ 46,350	₩ 206,041	₩ -	₩ 4,803	₩ 601	₩ 176

(in millions of Korean won)

	2012					
	Sales of goods	Purchase of raw materials	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost
Immediate parent						
AMOREPACIFIC Group,Inc.	₩ 535	₩ 7,573	₩ -	₩ -	₩ 66	₩ -
Associates						
AMOREPACIFIC Hong Kong Co.,Limited	16,496	-	-	-	-	-
Taiwan AMORE Co.,Ltd. and others	332	-	-	-	-	-
Subsidiaries of the Controlling Company						
Etude Corporation	3,460	13,218	-	-	225	-
Innisfree Corporation	5,028	4,503	-	35	203	-
AMOS Professional Corporation	14,771	192	-	-	84	-
PACIFICPHARMA Corporation	1,249	50,892	-	-	78	-
PACIFICGLAS, Inc.	196	29,952	-	-	12	-
PACIFICPACKAGE Corporation	129	46,177	-	-	13	-
Jangwon Co.,Ltd	108	5,768	6	-	110	-
COSVISION CO.,LTD.	682	5,430	-	-	1	-
An associate of the Controlling Company						
BBDO Korea Inc.	-	11,673	-	-	-	-
Other related parties						
Taeshin Inpack Corporation	-	20,330	-	-	-	-
	₩ 42,986	₩ 195,708	₩ 6	₩ 35	₩ 792	₩ -

Year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Immediate parent					
AMOREPACIFIC Group,Inc.	₩ -	₩ 130	₩ 1,141	₩ -	₩ 419
Associates					
AMOREPACIFIC Hong Kong Co.,Limited	2,829	-	-	-	-
Taiwan AMORE Co.,Ltd. and others	118	-	-	-	-
Subsidiaries of the Controlling Company					
Etude Corporation	211	433	5,899	3,161	268
Innisfree Corporation	11	531	6,860	-	2,349
AMOS Professional Corporation	2,114	35	1	-	113
PACIFICPHARMA Corporation	-	1,458	3,282	-	1,339
PACIFICGLAS, Inc.	-	13	3,644	-	446
PACIFICPACKAGE Corporation	-	15	5,164	-	-
Jangwon Co.,Ltd	-	5	8	-	-
COSVISION CO.,LTD.	-	19,234	2,836	-	-
An associate of the Controlling Company					
BBDO Korea Inc.	-	-	4,653	-	-
Other related parties					
Taeshin Inpack Corporation	-	-	2,498	-	-
	₩ 5,283	₩ 21,854	₩ 35,986	₩ 3,161	₩ 4,934

(in millions of Korean won)	2012				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Immediate parent					
AMOREPACIFIC Group,Inc.	₩ -	₩ 462	₩ 616	₩ -	₩ 300
Associates					
AMOREPACIFIC Hong Kong Co.,Limited	2,746	-	-	-	-
Taiwan AMORE Co.,Ltd. and others	29	-	-	-	-
Subsidiaries of the Controlling Company					
Etude Corporation	445	313	3,512	3,741	88
Innisfree Corporation	402	525	241	-	1,006
AMOS Professional Corporation	1,832	296	5	-	92
PACIFICPHARMA Corporation	-	414	5,298	-	276
PACIFICGLAS, Inc.	-	14	3,297	-	647
PACIFICPACKAGE Corporation	-	13	4,827	-	-
Jangwon Co.,Ltd	-	3	1	-	25
COSVISION CO.,LTD.	-	14,717	506	-	-
An associate of the Controlling Company					
BBDO Korea Inc.	-	-	3,261	-	-
Other related parties					
Taeshin Inpack Corporation	-	-	2,838	-	-
	₩ 5,454	₩ 16,757	₩ 24,402	₩ 3,741	₩ 2,434

The trade receivables from related parties are due three months after the date of sale. The receivables from related parties are unsecured in nature and bear no interest.

Fund transactions with related parties for the years ended December 31, 2012, are as follows:

(in millions of Korean won)	2012							
	Loan transactions				Borrowing transactions			
	Loans		Repayments		Borrowings		Repayments	
A subsidiary of the Controlling Company								
Etude Corporation		-		-		3,838		-
	₩	-	₩	-	₩	3,838	₩	-

As of December 31, 2013, there are no collaterals and payment guarantees provided to or provided by related parties other than the Group.

Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2013 and 2012, consists of:

(In millions of Korean won)	2013		2012	
Short-term employee benefits	₩	6,103	₩	11,202
Post-employment benefits		1,000		1,629
	₩	7,103	₩	12,831

36. Acquisition of subsidiary

36.1 AMOREPACIFIC (Thailand) LIMITED

On January 30, 2012, the Group's subsidiary, AMOREPACIFIC Global Operations Limited acquired an additional 51% ownership in AMOREPACIFIC (Thailand) LIMITED, on top of its 49% ownership, to expand its cosmetic market and strengthen competitiveness.

The fair value of consideration transferred and the assets acquired and liabilities assumed at the date of acquisition are summarized below:

(In millions of Korean won)	Amount	
Cash and cash equivalents	₩	2,435
Trade and other receivables[1]		164
Other assets		80
Inventories		132
Property, plant and equipment		117
Intangible assets		6
Trade payables		(87)
Borrowings		(108)
Other liabilities		(137)
Net assets acquired	₩	2,602

[1] Fair value of trade and other receivables are ₩164 million, and trade receivables amounting to ₩163 million are included. Gross amount of trade and other receivables on arrangement at acquisition date is ₩164 million. There are no receivables expected to be uncollectible.

The amount of goodwill recognized is as follows:

(In millions of Korean won)		**Amount**
Gross consideration transferred	₩	3,179
Fair value of net assets		(2,602)
Goodwill[1]	₩	577

[1] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of AMOREPACIFIC (Thailand) LIMITED is as follows:

(In millions of Korean won)		**Amount**
Gross consideration transferred	₩	3,179
Deducted: cash and cash equivalents of acquiree		(2,435)
Deducted: investments in associates		(114)
Cash and cash equivalents	₩	630

All consideration are in the form of cash and cash equivalents.

The Group provided acquisition-related costs such as legal fees and due diligence fees amounting to ₩69 million, and recognized it as selling and administrative expenses in the consolidated statements of comprehensive income.

The revenue and net income included in prior consolidated statements of comprehensive income contributed by AMOREPACIFIC (Thailand) LIMITED amount to ₩2,867 million and ₩(723) million, respectively.

36.2 AMOREPACIFIC SINGAPORE PTE., LTD's acquisition of Etude House

On July 1, 2012, the Group's subsidiary, AMOREPACIFIC SINGAPORE PTE., LTD. acquired Etude House CGU to expand its cosmetic market and strengthen competitiveness.

The fair value of consideration transferred and the assets acquired and liabilities assumed at the date of acquisition are summarized below:

(In millions of Korean won)		**Amount**
Cash and cash equivalents	₩	74
Other receivables[1]		561
Inventories		175
Property, plant and equipment		344
Trade payables		(202)
Net assets acquired	₩	952

[1] Fair value of other receivables is ₩561 million. Gross amount of other receivables on arrangement at acquisition date is ₩561 million. There are no receivables expected to be uncollectible.

The amount of goodwill recognized is as follows:

(In millions of Korean won)		**Amount**
Gross consideration transferred	₩	4,672
Fair value of net assets		(952)
Goodwill[1]	₩	3,720

[1] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of Etude House is as follows:

(In millions of Korean won)		**Amount**
Gross consideration transferred	₩	4,672
Deducted: cash and cash equivalents of acquiree		(74)
Cash and cash equivalents	₩	4,598

The Group provided acquisition-related costs such as legal fees and due diligence fees amounting to ₩214 million, and recognized it as selling and administrative expenses in the consolidated statements of comprehensive income.

The amount of revenue and net income included in prior consolidated statement of comprehensive income contributed by Etude House amount to ₩3,390 million and ₩(93) million, respectively.

36.3 PT. LANEIGE INDONESIA PACIFIC

On July 1, 2012, the Group's subsidiary, AMOREPACIFIC Global Operations Limited obtained control of PT. LANEIGE INDONESIA PACIFIC by acquiring an additional 70% ownership to expand its cosmetic market and strengthen competitiveness. As of December 31, 2012, the AMOREPACIFIC Global Operations Limited owns 94.18% of PT. LANEIGE INDONESIA PACIFIC through its paid-in capital increase. As of December 31,2013, the Group owns 90.58% of PT. LANEIGE INDONESIA PACIFIC.

The fair value of consideration transferred and the assets acquired and liabilities assumed at the date of acquisition are summarized below:

(In millions of Korean won)		**Amount**
Cash and cash equivalents	₩	16
Other assets		6
Property, plant and equipment		56
Trade payables		(218)
Borrowings		(379)
Net assets acquired	₩	(519)

The amount of goodwill recognized is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	110
Fair value of net assets		519
Deducted: investments in associates[1]		(156)
Goodwill[2]	₩	473

[1] The Group's subsidiary, AMOREPACIFIC Global Operations Limited has stopped applying the equity method on its 30% ownership at the acquisition date. Thus, ₩156 million of loss for the year relating to fair value of net assets was adjusted.
[2] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of PT. LANEIGE INDONESIA PACIFIC is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	110
Deducted: cash and cash equivalents of acquiree		(16)
Cash and cash equivalents	₩	94

All consideration are in the form of cash and cash equivalents.

There is no revenue but the net income included in prior consolidated statement of comprehensive income contributed by PT. LANEIGE INDONESIA PACIFIC amounts to ₩(394) million.

37. Risk Management

37.1 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the board of directors. The board reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and the Japanese yen.

The purpose of foreign exchange risk management is to maximize the Group's value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)	2013		2012	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 48,463	₩ 66,741	₩ 32,732	₩ 65,174
EUR	5,932	1,686	4,954	494
JPY	-	1,715	-	2,488
	₩ 54,395	₩ 70,142	₩ 37,686	₩ 68,156

As of December 31, 2013 and 2012, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

(in millions of Korean won)	2013		2012	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
USD	₩ (1,828)	₩ 1,828	₩ (3,244)	₩ 3,244
EUR	425	(425)	446	(446)
JPY	(171)	171	(249)	249

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not in the Parent Company's functional currency.

ii) Interest rate risk

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

As of December 31, 2013, net interest expenses decrease when interest rates increase because the Group has more floating rate deposits than floating rate borrowings. However, the Group adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Group (internal cash sharing) to minimize external borrowings, avoiding high rate borrowings, reforming capital structure, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, monitoring a fluctuation of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, and balancing floating rate short-term borrowings with floating rate deposits.

The Group invests in fixed interest assets with maturities of one year or less, and if the market interest rate increases, there is risk of decrease in fair value. However, the risk of changes in fair value is minor as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings had been 1% higher/lower with all other variables held constant, profit before income tax for the year would have been ₩963 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit Risk

Credit risk is managed by the Group as a whole. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For general customer, the Group evaluates and manages the collaterals (real estate, pledged deposit, payment guarantees, guarantee insurance, others) Also, to decrease credit risk, only 50~75% of market price of real states are acknowledged as collateral value. If the market price changes suddenly, the Group adjusts the collateral value, calculates credit limit and executes it strictly with authorized discretionary power and procedures.

(c) Liquidity Risk

The Group holds sufficient amount of cash and cash equivalents and maintains a flexible fund capacity within credit limit by brisk business. Financial liabilities involved in sales except borrowings are basically paid within maximum 3 months after purchasing (average within 2 months), so maturity of all financial liabilities (with or without payment condition) are within 3 months. The Company manages liquidity by holding more cash and cash equivalents than monthly payments.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These contracts are managed on a net-fair value basis rather than by maturity date.

(in millions of Korean won)	2013					
	Up to 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book value**
Trade payables	₩ 115,350	₩ -	₩ -	₩ -	₩ 115,350	₩ 115,350
Borrowings	85,370	1,119	69,457	-	155,946	151,389
Derivative financial instruments	-	-	181	-	181	181
Other payables	182,668	-	-	-	182,668	182,668
Other liabilities	20,799	12,305	5,409	-	38,513	37,725

(in millions of Korean won)	2012					
	Up to 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book value**
Trade payables	₩ 100,405	₩ -	₩ -	₩ -	₩ 100,405	₩ 100,405
Borrowings	23,777	43,191	-	-	66,968	65,403
Other payables	150,721	-	-	-	150,721	150,721
Other liabilities	11,500	14,108	7,493	1,753	34,854	33,328

The Group's derivative financial instruments have been included at their fair value of ₩181 million (2012: ₩− million) from the two to five years' time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis rather than by maturity date.

37.2 Capital Management

The Group's capital risk management purpose is maximising shareholders' value through maintaining a sound capital structure. The Group monitors financial ratios, such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

Debt-to-equity ratio and net borrowing ratio are as follows:

(in millions of Korean won, except for ratios)	**2013**	**2012**
Liabilities (A)	833,717	682,406
Equity (B)	2,568,132	2,343,787
Cash and cash equivalents and current financial deposits (C)	440,903	318,364
Borrowings (D)	151,389	65,403
Debt-to-equity ratio (A/B)	32.46%	29.12%
Net Borrowings ratio (D-C)/B	(-)17.17%	(-)13.58%

38. Fair Value

38.1 Fair Value Hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(in millions of Korean won)	**2013**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Available-for-sale financial assets	₩ -	₩ 352	₩ -	₩ 352
Derivative financial assets	-	181	-	181
Disclosed fair value				
Investment property	₩ -	₩ -	₩ 223,798	₩ 223,798

(in millions of Korean won)	**2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Available-for-sale financial assets	₩ -	₩ 468	₩ -	₩ 468
Disclosed fair value				
Investment property	₩ -	₩ -	₩ 220,230	₩ 220,230

38.2 Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2013, are as follows:

(a) Derivative Financial Instruments

The fair value of derivative financial instruments is determined by using valuation techniques based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. The fair value of derivative financial instruments is measured at discount using forward exchange rate as of the reporting date.

(b) Available-for-sale Financial Assets

The fair value of available-for-sale financial assets is determined using the recent transactions which are in an arm's length transaction.

(c) Investment Property

The fair value of investment property is measured on a basis of a valuation by an independent appraiser who holds a recognized and relevant professional qualification or a value of land determined by the local government in Korea for property tax assessment purposes and a valuation by reflecting the similar recent transaction price which is available to use.

38.3 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of December 31, 2013 and 2012, are as follows:

(in millions of Korean won)		**2013**		**2012**
Debt investments				
Government-issued securities	₩	5,340	₩	4,452
Equity securities				
GL Pharm Tech Co., Ltd.	₩	191	₩	191
Welskin Co., Ltd.		48		48
The Korea Economic Daily		81		81
ELANDRETAL Ltd.		3		3
Biogenics Co., Ltd.		1,000		1,000
	₩	6,663	₩	5,775

The above equity securities are measured at cost because the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed or the difference between their acquisition cost and fair value is immaterial. Available-for-sale debt investments are measured at cost because the difference between their acquisition cost and fair value is immaterial.

Other financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the separate fair value disclosures.

39. Events After the Reporting Period

AMOREPACIFIC Global Operations Limited., a subsidiary, acquired control over AMOREPACIFIC Hong Kong Co., Ltd., which was classified as associate with the 30% of equity rate, by acquiring an additional 47% of interests in order to increase its cosmetic market share in Hong Kong and strengthen its competitiveness.