

AMOREPACIFIC Corporation and Subsidiaries

**Consolidated Financial Statements
December 31, 2014 and 2013**

AMOREPACIFIC Corporation and Subsidiaries
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December 31, 2014 and 2013

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
AMOREPACIFIC Corporation

We have audited the accompanying consolidated financial statements of AMOREPACIFIC Corporation and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AMOREPACIFIC Corporation and its subsidiaries as of December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

Other Matters

The consolidated financial statements of the Group as of and for the year ended December 31, 2013, were audited in accordance with the previous Korean Standards on Auditing. 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 as of December 31, 2013 and sales of ₩476,502 million for the year then ended. These statements were audited by other auditors whose reports have been furnished to 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.

The accompanying consolidated financial statements as of and for the years ended December 31, 2014 and 2013, have been translated into U.S. 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.



Seoul, Korea
March 12, 2015

This report is effective as of March 12, 2015, 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, 2014 and 2013

	Notes	<i>(in thousands of Korean won)</i>		<i>(in thousands of U.S. dollars (Note 4))</i>	
		2014	2013	2014	2013
Assets					
Current assets					
Cash and cash equivalents	6,7,8	₩ 342,559,076	₩ 294,011,508	US\$ 311,644	US\$ 267,478
Bank deposits	6,7,35	166,324,456	140,193,106	151,314	127,541
Available-for-sale financial assets	6,7,11,35,39	127,358,575	-	115,865	-
Trade receivables	6,7,9,36	196,682,415	197,428,215	178,932	179,611
Other receivables	6,7,9,36	31,641,821	25,858,615	28,786	23,525
Other current assets	6,17	56,661,248	27,321,806	51,548	24,856
Inventories	10	304,872,731	282,760,617	277,359	257,242
Non-current assets held for sale	5,16	201,155,041	-	183,001	-
		<u>1,427,255,363</u>	<u>967,573,867</u>	<u>1,298,449</u>	<u>880,253</u>
Non-current assets					
Bank deposits	6,7,35	8,762,184	6,698,866	7,971	6,094
Other receivables	6,7,9,36	131,820,131	105,797,149	119,924	96,249
Available-for-sale financial assets	6,7,11,39	8,171,200	7,014,630	7,434	6,382
Property, plant and equipment	5,13	1,743,590,019	1,936,043,714	1,586,235	1,761,321
Investment Property	15,39	329,426,756	201,631,987	299,697	183,435
Intangible assets	5,14	174,237,666	132,571,507	158,513	120,607
Investments in associates	12	2,134,069	7,885,630	1,941	7,174
Deferred income tax assets	27	29,153,592	36,606,084	26,523	33,302
Other non-current assets	17	26,577	25,506	25	24
		<u>2,427,322,194</u>	<u>2,434,275,073</u>	<u>2,208,263</u>	<u>2,214,588</u>
Total assets		<u>₩ 3,854,577,557</u>	<u>₩ 3,401,848,940</u>	<u>US\$ 3,506,712</u>	<u>US\$ 3,094,841</u>
Liabilities					
Current liabilities					
Trade payables	6,36,38	₩ 156,545,891	₩ 115,349,723	US\$ 142,418	US\$ 104,940
Borrowings	6,19,36,38	33,789,746	82,397,440	30,740	74,961
Other payables	6,36,38	210,789,094	182,667,870	191,766	166,183
Current income tax liabilities	27	93,885,865	55,623,820	85,413	50,604
Deferred revenue		48,819,748	38,657,215	44,414	35,169
Provisions for other liabilities	20	5,323,709	3,621,507	4,843	3,295
Other current liabilities	6,21,38	101,971,577	64,381,511	92,769	58,570
		<u>651,125,630</u>	<u>542,699,086</u>	<u>592,363</u>	<u>493,722</u>
Non-current liabilities					
Borrowings	6,19,38	114,484,623	68,991,606	104,153	62,765
Retirement benefit obligations	22	36,298,038	44,273,590	33,022	40,278
Deferred income tax liabilities	27	131,804,234	158,098,533	119,909	143,831
Other non-current liabilities	6,18,21,37,38,39	42,542,755	19,654,592	38,704	17,881
		<u>325,129,650</u>	<u>291,018,321</u>	<u>295,788</u>	<u>264,755</u>
Total liabilities		<u>976,255,280</u>	<u>833,717,407</u>	<u>888,151</u>	<u>758,477</u>
Equity attributable to owners of the Parent					
Capital stock	1	34,508,160	34,508,160	31,394	31,394
Additional paid-in capital		712,701,764	712,701,764	648,382	648,382
Capital surplus		7,769,673	7,769,673	7,068	7,068
Other components of equity	23	(19,496,242)	(1,810,164)	(17,737)	(1,647)
Accumulated other comprehensive income	24	(13,146,997)	(14,020,628)	(11,960)	(12,755)
Retained earnings	25	2,136,384,662	1,815,257,266	1,943,582	1,651,435
		<u>2,858,721,020</u>	<u>2,554,406,071</u>	<u>2,600,729</u>	<u>2,323,877</u>
Non-controlling interest		<u>19,601,257</u>	<u>13,725,462</u>	<u>17,832</u>	<u>12,487</u>
Total equity		<u>2,878,322,277</u>	<u>2,568,131,533</u>	<u>2,618,561</u>	<u>2,336,364</u>
Total liabilities and equity		<u>₩ 3,854,577,557</u>	<u>₩ 3,401,848,940</u>	<u>US\$ 3,506,712</u>	<u>US\$ 3,094,841</u>

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, 2014 and 2013

	Notes	<i>(in thousands of Korean won, except per share amounts)</i>		<i>(in thousands of U.S. dollars (Note 4), except per share amounts)</i>	
		2014	2013	2014	2013
Sales	5,28,36	₩ 3,874,007,758	₩ 3,100,413,236	US\$ 3,524,388	US\$ 2,820,609
Cost of sales	10,29,36	1,028,190,573	911,806,525	935,399	829,518
Gross profit		2,845,817,185	2,188,606,711	2,588,989	1,991,091
Selling and administrative expenses	29,30	2,282,066,065	1,818,768,517	2,076,115	1,654,630
Operating profit	5	563,751,120	369,838,194	512,874	336,461
Finance income	6,31	13,725,467	11,345,251	12,487	10,321
Finance costs	6,31	2,604,218	2,664,425	2,369	2,424
Other non-operating gains(losses) - net	6,10,13,14,18,32	(44,803,587)	(18,148,861)	(40,760)	(16,511)
Share of profit of associates	12	156,843	3,155,995	143	2,871
		(33,525,495)	(6,312,040)	(30,499)	(5,743)
Profit before income tax		530,225,625	363,526,154	482,375	330,718
Income tax expense	27	145,091,897	96,167,100	131,999	87,488
Profit for the year		₩ 385,133,728	₩ 267,359,054	US\$ 350,376	US\$ 243,230
Profit attributable to:					
Owners of the parent		₩ 379,104,301	₩ 267,975,302	US\$ 344,891	US\$ 243,791
Non-controlling interests		₩ 6,029,427	₩ (616,248)	US\$ 5,485	US\$ (561)
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of post employment benefit obligations	22,27	(13,088,954)	(263,712)	(11,908)	(240)
Items that will be reclassified subsequently to profit or loss:					
Change in value of available-for-sale financial assets	6,11,24,27	266,136	(87,344)	242	(79)
Share of other comprehensive income of associates	12,24,27	421,277	(286,371)	383	(261)
Foreign currency translation adjustment	24,27	613,436	(1,927,286)	559	(1,753)
Total comprehensive income for the year, net of income taxes		₩ 373,345,623	₩ 264,794,341	US\$ 339,652	US\$ 240,897
Attributable to:					
Equity holders of the Parent Company		366,888,978	265,686,691	333,778	241,709
Non-controlling interest		6,456,645	(892,350)	5,874	(812)
Total comprehensive income for the year, net of income taxes		₩ 373,345,623	₩ 264,794,341	US\$ 339,652	US\$ 240,897
Earnings per share	33				
Earnings per share to the ordinary equity holders		₩ 54,953	₩ 38,842	US\$ 49.99	US\$ 35.34
Earnings per share to the preferred equity holders		₩ 55,004	₩ 38,893	US\$ 50.04	US\$ 35.38

The accompanying notes are an integral part of these consolidated financial statements.
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AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2014 and 2013

(in thousands of Korean won)

	Attributable to equity holders of the Company								
	Capital Stock	Additional 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, 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	-	-	-	-	-	267,975,302	267,975,302	(616,248)	267,359,054
Profit for the year	-	-	-	-	-	(279,052)	(279,052)	15,340	(263,712)
Remeasurements of post employment benefit obligations	-	-	-	-	-	(87,344)	(87,344)	-	(87,344)
Change in value of available-for-sale financial assets	-	-	-	-	(257,734)	-	(257,734)	(28,637)	(286,371)
Share of other comprehensive income of associates	-	-	-	-	(1,664,481)	-	(1,664,481)	(262,805)	(1,927,286)
Foreign currency translation adjustment	-	-	-	-	(14,020,628)	1,860,145,270	2,599,265,742	9,295,864	2,608,581,406
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	₩ 2,599,265,742	₩ 9,295,864	₩ 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\$ 31,394	US\$ 648,382	US\$ 7,068	US\$ (1,647)	US\$ (12,755)	US\$ 1,651,435	US\$ 2,323,877	US\$ 12,487	US\$ 2,336,364
Balance at January 1, 2014	₩ 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
Comprehensive income	-	-	-	-	-	379,104,301	379,104,301	6,029,427	385,133,728
Profit for the year	-	-	-	-	-	(13,088,954)	(13,088,954)	-	(13,088,954)
Remeasurements of post employment benefit obligations	-	-	-	-	-	273,814	273,814	(7,678)	266,136
Change in value of available-for-sale financial assets	-	-	-	-	379,149	-	379,149	42,128	421,277
Share of other comprehensive income of associates	-	-	-	-	220,668	-	220,668	392,768	613,436
Foreign currency translation adjustment	-	-	-	-	(13,146,997)	2,181,272,613	2,921,295,049	20,182,107	2,941,477,156
Total comprehensive income for the year	₩ 34,508,160	₩ 712,701,764	₩ 7,769,673	₩ (1,810,164)	₩ (13,146,997)	₩ 2,181,272,613	₩ 2,921,295,049	₩ 20,182,107	₩ 2,941,477,156
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(44,887,951)	(44,887,951)	(652,517)	(45,540,468)
Change in non-controlling interest	-	-	-	-	-	-	-	2,036,787	2,036,787
Acquisition of subsidiaries	-	-	-	(17,686,078)	-	-	(17,686,078)	(1,965,120)	(19,651,198)
Balance at December 31, 2014	₩ 34,508,160	₩ 712,701,764	₩ 7,769,673	₩ (19,496,242)	₩ (13,146,997)	₩ 2,136,364,662	₩ 2,858,721,020	₩ 19,601,257	₩ 2,878,322,277
(in thousands of U.S. dollars (Note 4))	US\$ 31,394	US\$ 648,382	US\$ 7,068	US\$ (17,737)	US\$ (11,960)	US\$ 1,943,562	US\$ 2,600,729	US\$ 17,832	US\$ 2,618,561

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AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	Notes	<i>(in thousands of Korean won)</i>		<i>(in thousands of U.S. dollars (Note 4))</i>	
		2014	2013	2014	2013
Cash flows from operating activities					
Cash generated from operations	34	₩ 700,715,227	₩ 498,058,444	US\$ 637,477	US\$ 453,110
Interest received		10,576,117	9,180,186	9,622	8,352
Interest paid		(2,580,118)	(2,653,590)	(2,347)	(2,414)
Income tax paid		(122,599,857)	(77,927,845)	(111,536)	(70,895)
Net cash generated from operating activities		<u>586,111,369</u>	<u>426,657,195</u>	<u>533,216</u>	<u>388,153</u>
Cash flows from investing activities					
Decrease in current bank deposits		-	2,247,052	-	2,044
Disposal of current available-for-sale financial assets		50,052,970	-	45,536	-
Decrease in other receivables		10,206,087	8,801,810	9,285	8,007
Disposal of property, plant and equipment		4,189,113	16,645,735	3,811	15,143
Disposal of intangible assets		1,489,873	880,247	1,355	801
Disposal of available-for-sale financial assets		227,320	522,915	207	476
Cash inflows from acquisition of subsidiaries	37	2,048,811	-	1,864	-
Increase in current bank deposits		(25,448,608)	-	(23,152)	-
Increase in current available-for-sale financial assets		(175,000,000)	-	(159,207)	-
Increase in non-current bank deposits		(1,979,218)	(1,500,003)	(1,801)	(1,365)
Increase in other receivables		(32,215,438)	(33,026,371)	(29,308)	(30,046)
Purchases of available-for-sale financial assets		(999,790)	(1,409,460)	(910)	(1,282)
Purchases of property, plant and equipment		(267,182,719)	(323,496,314)	(243,070)	(294,302)
Purchases of intangible assets		(56,105,391)	(18,508,423)	(51,042)	(16,838)
Net cash used in investing activities		<u>(490,716,990)</u>	<u>(348,842,812)</u>	<u>(446,432)</u>	<u>(317,362)</u>
Cash flows from financing activities					
Proceeds from short-term borrowings		-	19,239,223	-	17,503
Proceeds from long-term borrowings		-	70,574,540	-	64,205
Stock issuance of non-controlling Interest		2,036,787	4,438,130	1,853	4,038
Repayments of short-term borrowings		(2,789,635)	(189,459)	(2,538)	(172)
Dividends paid to equity holders of the Company		(45,524,091)	(44,867,847)	(41,416)	(40,819)
Net cash provided by (used in) financing activities		<u>(46,276,939)</u>	<u>49,194,587</u>	<u>(42,101)</u>	<u>44,755</u>
Changes in cash and cash equivalents from currency translation		(569,872)	(3,704,797)	(517)	(3,369)
Net increase in cash and cash equivalents		<u>48,547,568</u>	<u>123,304,173</u>	<u>44,166</u>	<u>112,177</u>
Cash and cash equivalents at the beginning of year		<u>294,011,508</u>	<u>170,707,335</u>	<u>267,478</u>	<u>155,301</u>
Cash and cash equivalents at the end of year		<u>₩ 342,559,076</u>	<u>₩ 294,011,508</u>	<u>US\$ 311,644</u>	<u>US\$ 267,478</u>

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AMOREPACIFIC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

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, 2014, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, seventeen overseas local subsidiaries including AMOREPACIFIC Global Operations Limited, located in Hongkong, and one domestic subsidiary.

As of December 31, 2014, 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, 2014, 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, 2014, 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
	<u>5,845,849</u>	<u>100</u>

¹ Including 3,298 treasury shares

AMOREPACIFIC Corporation and Subsidiaries

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The Company's consolidated subsidiaries as of December 31, 2014, 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	₩ 169,564	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	49,103	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Corporation	We-Dream Co.,Ltd	Packaging of products and managing of facilities	50	100.00	Dec.31	Korea
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	16,240	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	31,092	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	13,414	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	7,200	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	5,292	4.17	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	888	99.80	Dec.31	India
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC HongKong Co.,Limited	Marketing of cosmetics	12	77.00	Dec.31	Hong Kong

AMOREPACIFIC Corporation and Subsidiaries

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The summary of the consolidated subsidiaries' financial information as of December 31, 2014 and 2013, and the results of their operations for the years then ended, which are included in the consolidated financial statements is as follows:

December 31, 2014 <i>(in millions of Korean won)</i>	Total assets	Total liabilities	Sales	Net income (loss)	Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited. ¹	₩ 202,010	₩ 50,939	₩ 39,856	₩ 3,879	₩ 10,120
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. ¹	4,886	8	-	(7)	(13)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	184,547	105,482	60,685	17,600	17,971
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	2,155	272	2,130	140	172
AMOREPACIFIC Trading Co.,Ltd.	227,015	153,709	490,787	29,946	31,819
AMOREPACIFIC EUROPE S.A.S	64,209	44,148	63,769	(10,305)	(12,701)
Anninck Goutal S.A.S	22,073	15,248	17,942	(3,050)	(2,773)
AMOREPACIFIC US, Inc.	17,309	9,582	34,871	1,894	2,206
AMOREPACIFIC Japan CO.,LTD.	10,940	12,719	45,708	(4,409)	(4,238)
AMOREPACIFIC Taiwan Co.,Ltd.	10,319	4,573	18,389	1,433	1,397
AMOREPACIFIC SINGAPORE PTE., LTD.	21,192	7,167	31,819	(1,476)	(1,496)
AMOREPACIFIC MALAYSIA SDN. BHD.	5,833	2,103	11,154	828	752
AMOREPACIFIC VIETNAM JSC	6,014	3,157	3,221	(404)	(335)
AMOREPACIFIC (Thailand) LIMITED	7,522	4,357	12,871	(588)	(448)
PT. LANEIGE INDONESIA PACIFIC	2,823	1,352	2,860	(579)	(722)
Innisfree Cosmetics India Private Limited	867	-	-	-	13
AMOREPACIFIC HongKong Co.,Limited	66,893	28,257	119,379	15,451	16,834
We-Dream Co.,Ltd	50	-	-	-	-

December 31, 2013 <i>(in millions of Korean won)</i>	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)

¹Represents 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.

Subsidiaries newly included in the consolidation for the year ended December 31, 2014, are as follows:

Name of a company	Reason
AMOREPACIFIC HongKong Co., Limited	Reclassified from an associate into a subsidiary, since AMOREPACIFIC Global Operations Limited., a subsidiary, acquired additional 47% of ownership during 2014 (Note 37).
We-Dream Co., Ltd	Newly established through acquiring 100% of ownership during 2014.

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Subsidiaries excluded from the consolidation for the year ended December 31, 2014, are as follows:

Name of a company	Reason
AMOREPACIFIC New Cosmetics (Shanghai) Co.,Ltd.	Merged with AMORE Cosmetics (Shanghai) Co.,Ltd., a subsidiary.

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 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, 2014:

- Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, is applied to a liability to pay a levy imposed by the 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 application of this interpretation does not have a material impact on the 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. The application of this amendment does not have a material impact on the consolidated financial statements.

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- Amendment to Korean IFRS 1036, *Impairment of Assets*

Amendment to Korean IFRS 1036, *Impairment of Assets*, removed certain disclosures of the recoverable amount of cash-generating units which had been included in this amendment by the issuance of Korean IFRS 1113.

- 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. The application of this amendment does not have a material impact on the consolidated financial statements.

Other standards, amendments and interpretations which are effective for the annual period beginning on January 1, 2014, do not have a material impact on the consolidated financial statements of the Group.

(b) New standards and interpretations not yet adopted by the Group

The Group expects that new standards, amendments and interpretations issued but not effective for the annual period beginning on January 1, 2014 and not early adopted 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.

(b) Associates

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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 Assets

(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

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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.

(c) Derecognition

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

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.

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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 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.9 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.

2.10 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.

2.11 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 for the period in which the related expenses for the purpose of the government grants are incurred.

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2.12 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

2.13 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.

2.14 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.

2.15 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.

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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.

2.16 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.

2.17 Current and Deferred Income 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.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

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.

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2.18 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.

2.19 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.

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(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.

2.20 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.

2.21 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.

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2.22 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2014 financial statements of the Company was approved by the Board of Directors on February 3, 2015, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

3. Critical Accounting Estimates and Assumptions

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 27).

(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 39).

(d) Provisions

As described in Note 20, 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 22).

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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: ₩1,099.20, the exchange rate in effect on December 31, 2014. 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, 2013, U.S. dollar amounts, which were previously expressed at US\$1: ₩1,055.30, the rate in effect on December 31, 2013, have been restated to reflect the exchange rate in effect on December 31, 2014.

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, 2014 and 2013, is as follows:

(in millions of Korean won)

	2014			2013		
	Revenues	Operating profit	Depreciation and amortization	Revenues	Operating profit	Depreciation and amortization
Cosmetics	₩ 3,407,497	₩ 531,626	₩ 118,985	₩ 2,627,708	₩ 331,933	₩ 103,869
MC & Sulloc	466,511	32,125	15,641	472,705	37,905	18,098
	<u>₩ 3,874,008</u>	<u>₩ 563,751</u>	<u>₩ 134,626</u>	<u>₩ 3,100,413</u>	<u>₩ 369,838</u>	<u>₩ 121,967</u>

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014	2013
Total segment revenue	₩ 3,874,008	₩ 3,100,413
Eliminating intercompany transactions, others	-	-
Group revenue	<u>₩ 3,874,008</u>	<u>₩ 3,100,413</u>

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Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Total segment operating profit	₩	563,751	₩	369,838
Eliminating intercompany transactions, others		-		-
Group operating profit	₩	<u>563,751</u>	₩	<u>369,838</u>

Assets and liabilities as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Cosmetics	₩ 3,244,550	₩ 866,246	₩ 2,855,748	₩ 735,542
MC & Sulloc	610,028	110,009	546,101	98,175
Group asset and liability	<u>₩ 3,854,578</u>	<u>₩ 976,255</u>	<u>₩ 3,401,849</u>	<u>₩ 833,717</u>

Non-current asset held for sale amounting to ₩201,155 million and investments in associates amounting to ₩2,134 million (2013: ₩7,886 million) were all included in cosmetics business division.

Additions to non-current assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Cosmetics	₩	297,106	₩	297,062
MC & Sulloc		38,932		37,698
	₩	<u>336,038</u>	₩	<u>334,760</u>

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

External revenues by geographic areas for the years ended December 31, 2014 and 2013, and non-current assets as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	Revenues		Non-current assets¹	
	2014	2013	2014	2013
Korea	₩ 3,044,901	₩ 2,560,871	₩ 1,671,972	₩ 1,839,380
North America	34,871	23,489	1,176	249
Europe	63,984	74,193	40,357	56,530
China	464,933	336,518	167,986	152,701
Other	265,319	105,342	36,337	19,755
	<u>₩ 3,874,008</u>	<u>₩ 3,100,413</u>	<u>₩ 1,917,828</u>	<u>₩ 2,068,615</u>

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, 2014 and 2013.

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6. Financial Instruments by Category

Categorizations of financial assets as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>			2014		2013
Loans and receivables	Cash and cash equivalents	₩	342,559	₩	294,012
	Current financial institutions deposits		166,324		140,193
	Non-current financial institutions deposits		8,762		6,699
	Trade receivables		196,682		197,428
	Current other receivables		31,642		25,859
	Non-current other receivables		131,820		105,797
	Other current assets ¹		24,981		1,005
Available-for-sale financial assets	Non-marketable securities		2,060		1,675
	Current debt securities		127,359		-
	Non-current debt securities		6,111		5,339
		₩	<u>1,038,300</u>	₩	<u>778,007</u>

¹ Other current assets represent accrued revenues (Note 17).

Categorizations of financial liabilities as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>			2014		2013
Financial liabilities at fair value through profit or loss	Derivative financial instruments	₩	196	₩	181
Financial liabilities at amortized cost	Trade payables		156,546		115,350
	Short-term borrowings		33,790		40,188
	Current portion of long-term borrowings		-		42,209
	Long-term borrowings		114,485		68,992
	Other payables		210,789		182,668
	Other current liabilities ²		37,834		18,996
	Other non-current liabilities ³		41,573		18,729
		₩	<u>595,017</u>	₩	<u>487,313</u>

² Other current liabilities are comprised of dividend payables and accrued expenses (Note 21).

³ Other non-current liabilities are comprised of deposits received, long-term accrued expenses, financial lease liabilities, and other financial liabilities (Note 21).

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Income and loss of financial instruments by category for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Available-for-sale financial assets		
Gain(Loss) on valuation (Other comprehensive income(loss))	₩ 266	₩ (87)
Gain(Loss) on disposal (Profit or loss)	-	(76)
Interest income	1,717	85
Dividend income	20	32
Loans and receivables		
Interest income	12,008	11,260
Gain(Loss) on foreign currency translation	969	(26)
Impairment	(707)	(284)
Financial liabilities at fair value through profit or loss		
Loss on valuation of derivative financial instruments	(12)	(185)
Financial liabilities at amortized cost		
Interest expense	(2,592)	(2,479)
Gain(Loss) on foreign currency translation	262	462

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, 2014 and 2013:

<i>(in millions of Korean won)</i>	2014	2013
Trade receivables		
Counterparties with external credit rating		
A	₩ 89,335	₩ 108,791
BBB	1,340	748
	<u>90,675</u>	<u>109,539</u>
Counterparties without external credit rating		
Group 1 ¹	1,670	1,882
Group 2 ²	86,281	62,100
Group 3 ³	-	-
	<u>87,951</u>	<u>63,982</u>
	<u>₩ 178,626</u>	<u>₩ 173,521</u>

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.

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Other receivables (in millions of Korean won)		
	2014	2013
Counterparties with external credit rating		
A	₩ 24,100	₩ 335
Counterparties without external credit rating		
Group 1	1,908	656
Group 2	137,452	130,662
Group 3	-	-
	<u>139,360</u>	<u>131,318</u>
	<u>₩ 163,460</u>	<u>₩ 131,653</u>

(in millions of Korean won)	2014	2013
Cash equivalents and financial institutions deposits ¹		
AAA	₩ 517,572	₩ 440,844

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

(in millions of Korean won)	2014	2013
Available-for-sale debt securities		
AAA	₩ 133,470	₩ 5,340

8. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014	2013
Cash on hand	₩ 73	₩ 59
Ordinary deposits	32,821	22,592
Checking accounts	97,001	60,138
MMDA	<u>212,664</u>	<u>211,223</u>
	<u>₩ 342,559</u>	<u>₩ 294,012</u>

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

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9. Trade and Other Receivables

Trade and other receivables as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Trade receivables	₩	199,545	₩	200,181
Less: provision for impairment of trade receivables		<u>(2,863)</u>		<u>(2,753)</u>
Trade receivables, net	₩	<u>196,682</u>	₩	<u>197,428</u>
Current other receivables	₩	31,928	₩	26,139
Less: provision for impairment of current other receivables		<u>(286)</u>		<u>(280)</u>
Current other receivables, net	₩	<u>31,642</u>	₩	<u>25,859</u>
Non-current other receivables	₩	131,820	₩	105,797
Less: provision for impairment of non-current other receivables		<u>-</u>		<u>-</u>
Non-current other receivables, net	₩	<u>131,820</u>	₩	<u>105,797</u>

Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Current	Non-current	Current	Non-current
Non-trade receivables	₩ 31,642	₩ -	₩ 25,859	₩ -
Loans	-	28,462	-	28,200
Deposits provided	-	103,358	-	77,597
	<u>₩ 31,642</u>	<u>₩ 131,820</u>	<u>₩ 25,859</u>	<u>₩ 105,797</u>

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The aging analysis of trade and other receivables as of December 31, 2014 and 2013, is as follows:

(in millions of Korean won)

	2014		2013	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 178,626	₩ 163,460	₩ 173,521	₩ 131,653
Past due but not impaired ¹				
Up to 3 months	12,893	2	14,895	-
4 to 6 months	1,170	-	2,328	-
7 to 12 months	711	-	2,781	-
Over 12 months	1,525	-	1,970	3
Impaired				
Over 3 months	4,620	286	4,686	280
	<u>₩ 199,545</u>	<u>₩ 163,748</u>	<u>₩ 200,181</u>	<u>₩ 131,936</u>

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, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014	2013
Beginning	₩ 2,753	₩ 2,628
Provision for receivables impairment (Reversal)	903	113
Receivables written off during the year as uncollectible	(701)	(74)
Bad debt recovery	-	86
Exchange differences	(92)	-
Ending	<u>₩ 2,863</u>	<u>₩ 2,753</u>

The creation and release of provision for impaired receivables have been included in 'selling and administrative expenses' in the statement of income (Note 30). 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.

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10. Inventories

Inventories as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Merchandise	₩	67,753	₩	58,958
Finished goods		132,417		119,542
Semi-finished goods		18,741		19,832
Work-in-process		2,134		2,142
Raw materials		25,622		31,568
Subsidiary materials		21,771		23,689
Supplies		5,449		5,041
Materials in transit		30,986		21,989
		<u>₩ 304,873</u>		<u>₩ 282,761</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩1,020,655 million (2013: ₩855,731 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2014 and 2013 are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Loss on valuation of inventories	₩	119	₩	4,736
Loss on disposal of inventories		50,955		15,430
		<u>₩ 51,074</u>		<u>₩ 20,166</u>

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11. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Debt securities		
Asset backed securities	₩ 125,000	-
Government-issued securities	6,111	5,340
Investment securities	2,359	-
Equity securities		
Non-marketable equities		
GL Pharm Tech Co., Ltd.	191	191
Welskin Co., Ltd.	48	48
I'M Investment Securities Co., Ltd.	737	352
The Korea Economic Daily	81	81
ELANDRETAIL Ltd.	3	3
Biogenics Co., Ltd.	1,000	1,000
	<u>₩ 135,530</u>	<u>₩ 7,015</u>

The changes in available-for-sale financial assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Beginning	₩ 7,015	₩ 6,243
Acquisition of subsidiaries	2,347	-
Additions	176,000	1,409
Disposals	(50,280)	(522)
Gains/(losses) on valuation	359	(115)
Exchange differences	89	-
Ending	<u>₩ 135,530</u>	<u>₩ 7,015</u>

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.

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12. Associates

Associates as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	Percentage of Ownership	2014			2013		
		Acquisition cost	Book value	Net asset value	Acquisition cost	Book value	Net asset value
Taiwan AMORE Co.,Ltd. AMOREPACIFIC	50.0	₩ 131	₩ 2,134	₩ 2,237	₩ 131	₩ 1,935	₩ 2,118
HongKong Co.,Limited ¹	-	-	-	-	1,220	5,951	7,371
		₩ 131	₩ 2,134	₩ 2,237	₩ 1,351	₩ 7,886	₩ 9,489

¹ During 2014, AMOREPACIFIC Hong Kong Co., Limited was classified as a subsidiary by acquiring additional 47% of ownership (Note 37).

Changes in investments in associates for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		
	Taiwan AMORE Co.,Ltd.	AMOREPACIFIC HongKong Co.,Limited	Total
Beginning	₩ 1,935	₩ 5,951	₩ 7,886
Acquisition	-	(5,951)	(5,951)
Share of profit	157	-	157
Changes in other comprehensive income	(38)	459	421
Losses transferred from equity ¹	-	(459)	(459)
Exchange differences	80	-	80
Ending	₩ 2,134	₩ -	₩ 2,134

¹ Share of other comprehensive loss of associates which was recognized in equity amounting to ₩ (459) million was reclassified into loss for the year ended December 31, 2014.

(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)
Receipt of dividends	-	-	-
Exchange differences	(38)	(39)	(77)
Ending	₩ 1,935	₩ 5,951	₩ 7,886

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Summary of financial information of associates as of and for the years ended December 31, 2014 and 2013, is as follows:

	2014				
	Total Assets	Total Liabilities	Revenue	Net Income	Comprehensive Income
Taiwan AMORE Co.,Ltd.	₩ 5,211	₩ 737	₩ 5,911	₩ 314	₩ 238

(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

13. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2014 and 2013, are as follows:

	2014			2013		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 668,505	₩ -	₩ 668,505	₩ 906,590	₩ -	₩ 906,590
Buildings	640,896	(104,697)	536,199	547,790	(95,221)	452,569
Structures	48,928	(16,644)	32,284	49,116	(14,527)	34,589
Machinery	315,737	(141,998)	173,739	299,979	(125,483)	174,496
Vehicles	3,032	(2,172)	860	2,837	(2,007)	830
Tools	148,536	(131,026)	17,510	139,928	(119,502)	20,426
Fixtures and furniture	637,981	(462,083)	175,898	572,022	(396,361)	175,661
Other	3,916	(1,842)	2,074	2,192	(1,229)	963
Construction in progress	136,521	-	136,521	169,920	-	169,920
	₩ 2,604,052	₩ (860,462)	₩ 1,743,590	₩ 2,690,374	₩ (754,330)	₩ 1,936,044

Changes in property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows:

	2014							
	Opening net book value	Acquisition	Reclassification ¹	Disposal ²	Acquisition of subsidiaries	Depreciation	Currency translation differences	Closing net book value
Land	₩ 906,590	₩ 1	₩ (237,940)	₩ -	₩ -	₩ -	₩ (146)	₩ 668,505
Buildings	452,569	1,563	103,519	(6,566)	-	(16,779)	1,893	536,199
Structures	34,589	149	9	(17)	-	(2,416)	(30)	32,284
Machinery	174,496	9,093	18,706	(8,564)	-	(20,195)	203	173,739
Vehicles	830	298	(7)	-	-	(261)	-	860
Tools	20,426	9,610	(29)	-	-	(12,517)	20	17,510
Fixtures and furniture	175,661	66,295	3,456	(1,388)	544	(69,064)	394	175,898
Other	963	2,037	3,054	(3,288)	-	(701)	9	2,074
Construction in progress	169,920	189,247	(221,199)	-	-	-	(1,447)	136,521
	₩ 1,936,044	₩ 278,293	₩ (330,431)	₩ (19,823)	₩ 544	₩ (121,933)	₩ 896	₩ 1,743,590

¹ The portion of Land and Construction-in-progress, which were related to the construction of new building in Yongsan were reclassified into investment property by applying planned future rent ratio. In addition, land, buildings and structures with carrying amounts of ₩20,238 million, ₩553 million and ₩123 million, respectively, were reclassified as non-current assets held for sale (Note 16).

² During 2014, there was a loss by fire in certain property, plant and equipment in Daejeon Logistics center and the related loss amounts are included.

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		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	
	<u>₩ 1,766,807</u>	<u>₩ 315,749</u>	<u>₩ (2,522)</u>	<u>₩ (29,879)</u>	<u>₩ (111,909)</u>	<u>₩ (2,202)</u>	<u>₩ 1,936,044</u>	

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 32.) In addition, as of December 31, 2013, the remaining carrying amount is derecognized resulting from the completion of the assets removal.

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

(in millions of Korean won)

	2014	2013
Selling and administrative expenses ¹	₩ 69,548	₩ 58,775
Cost of sales	52,385	53,134
	<u>₩ 121,933</u>	<u>₩ 111,909</u>

¹ Depreciation expense is included as part of development expense.

Details of property, plant and equipment provided as collaterals as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

		2014				
	Book value	Secured amount	Related line item	Related amount	Secured party	
Land and Buildings	₩ 419	₩ 545	LeaseHold Deposits Received	₩ 419	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		303	LeaseHold Deposits Received	253	Lotte Card Co., Ltd.	
Land and Buildings	14,158	105	LeaseHold Deposits Received	81	Samsung Life Service Claim Adjustment Co., Ltd.	
Land and Buildings		151	LeaseHold Deposits Received	116	National Human Rights Commission of Korea	
Buildings	18,916	3,423	LeaseHold Deposits Received	3,423	Korea Workers' Compensation & Welfare Service	
Buildings	394	100	LeaseHold Deposits Received	100	Social welfare organization Cheonggwang	

(in millions of Korean won)

		2013				
	Book value	Secured amount	Related line item	Related amount	Secured party	
Land and Buildings	₩ 319	₩ 415	LeaseHold Deposits Received	₩ 319	Samsung Life Insurance Co., Ltd.	
Land and Buildings	961	1,249	LeaseHold Deposits Received	961	National Pension Service	
Land and Buildings	56	73	LeaseHold Deposits Received	56	Hanwha General Insurance Co., Ltd.	

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Details of finance lease as of December 31, 2014 and 2013, 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, 2014 and 2013:

(in millions of Korean won)

	2014		2013	
	Land	Buildings	Land	Buildings
Cost- capitalized finance leases	₩ 1,631	₩ 17,309	₩ 1,777	₩ 18,851
Accumulated depreciation	-	(5,652)	-	(5,712)
Net book value	₩ 1,631	₩ 11,657	₩ 1,777	₩ 13,139

The total of future minimum lease payments as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
Total minimum lease payments				
Not later than 1 year	₩	1,655	₩	1,803
1 year to 5 years		4,965		7,212
Later than 5 years		-		-
	₩	6,620	₩	9,015
Unearned finance income		(453)		(769)
Net minimum lease payments				
Not later than 1 year		1,455		1,526
1 year to 5 years		4,712		6,720
Later than 5 years		-		-
	₩	6,167	₩	8,246

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, 2014 is ₩165,642 million (2013: ₩92,983 million).

The total of future minimum lease payments under non-cancellable operating lease agreements as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
No later than 1 year	₩	81,799	₩	70,346
1 year to 5 years		64,674		48,129
	₩	146,473	₩	118,475

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14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014				
	Goodwill	Industrial property	Software	Other	Total
Beginning balance	₩ 36,298	₩ 13,233	₩ 28,021	₩ 55,020	₩ 132,572
Acquisition	-	631	6,109	51,005	57,745
Reclassification	-	4,428	7,426	(11,802)	52
Disposal	-	(47)	(81)	(228)	(356)
Amortization	-	(1,459)	(10,293)	(941)	(12,693)
Acquisition of subsidiaries	7,586	-	-	2,207	9,793
Impairment	(11,438)	-	-	-	(11,438)
Currency translation differences	(1,003)	(211)	64	(287)	(1,437)
Ending balance	<u>₩ 31,443</u>	<u>₩ 16,575</u>	<u>₩ 31,246</u>	<u>₩ 94,974</u>	<u>₩ 174,238</u>

(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	<u>₩ 36,298</u>	<u>₩ 13,233</u>	<u>₩ 28,021</u>	<u>₩ 55,020</u>	<u>₩ 132,572</u>

Amortization of intangible assets is charged to the following accounts:

(in millions of Korean won)

	2014	2013
Selling and administrative expenses ¹	₩ 10,540	₩ 8,865
Cost of sales	2,153	1,193
	<u>₩ 12,693</u>	<u>₩ 10,058</u>

¹ Amortization expense is included as part of development expense.

The Group recognized research and development costs as expenses totalling ₩69,554 million (2013: ₩63,572 million).

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

<i>(in millions of Korean won)</i>	2014		2013	
Annick Goutal CGU	₩	11,255	₩	24,171
AMOREPACIFIC Hong Kong CGU		7,877		-
China CGU		4,299		4,233
Vietnam CGU		3,734		3,640
Singapore Etude House CGU		3,402		3,406
Thailand CGU		534		513
Indonesia CGU		342		335
	₩	31,443	₩	36,298

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 2014 are as follows:

	Annick Goutal CGU	AMOREPACIFIC Hong Kong CGU	China CGU	Vietnam CGU	Singapore Etude House CGU
Gross margin rate	74.69%	79.13%	69.76%	73.87%	73.33%
Growth rate ¹	4.41%	46.38%	36.78%	18.27%	13.14%
Pre-tax discount rate	4.25%	9.02%	10.14%	13.57%	8.62%

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, except for Annik Goutal operating segment, the carrying value of cash generating units does not exceed the recoverable amount. Impairment losses of Annik Goutal operating segment were incurred due to a decrease in future cash flows, which were calculated according to the business plan approved by the Group management in 2014. Impairment losses amounting to ₩11,438 million were all allocated to goodwill, and recognized as the other gains(losses)-net (Note 32).

As of December 31, 2014, the recoverable amount of the Vietnam operating segment exceeded its carrying value by ₩ 93 million. Nevertheless, there is a possibility that reasonable changes in key assumptions may offset the excess amount. A reduction in gross margin to 73.69%, a fall in growth rate to 18.21% or a rise in discount rate to 13.89% would offset the excess amount.

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15. Investment Property

Details of investment property as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014			2013		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
Land	₩ 282,141	₩ -	₩ 282,141	₩ 185,551	₩ -	₩ 185,551
Buildings	9,628	(5,213)	4,415	39,259	(24,543)	14,716
Structures	115	(72)	43	5,082	(3,717)	1,365
Construction in progress	42,828	-	42,828	-	-	-
	<u>₩ 334,712</u>	<u>₩ (5,285)</u>	<u>₩ 329,427</u>	<u>₩ 229,892</u>	<u>₩ (28,260)</u>	<u>₩ 201,632</u>

Changes in investment property for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014					2013			
	Land	Building	Structures	Construction in process	Total	Land	Building	Structures	Total
Beginning balance	₩ 185,551	₩ 14,716	₩ 1,365	₩ -	₩ 201,632	₩ 185,546	₩ 16,160	₩ 1,526	₩ 203,232
Acquisition	-	-	-	-	-	5	-	-	5
Reclassification (Increase) ¹	266,637	-	-	42,828	309,465	-	-	-	-
Reclassification (Decrease) ²	(170,047)	(9,013)	(1,181)	-	(180,241)	-	-	-	-
Depreciation	-	(1,289)	(140)	-	(1,429)	-	(1,444)	(161)	(1,605)
Disposal	-	-	-	-	-	-	-	-	-
Ending balance	<u>₩ 282,141</u>	<u>₩ 4,414</u>	<u>₩ 44</u>	<u>₩ 42,828</u>	<u>₩ 329,427</u>	<u>₩ 185,551</u>	<u>₩ 14,716</u>	<u>₩ 1,365</u>	<u>₩ 201,632</u>

¹ Land located in Yongsan and construction in progress with respect to the construction of a new building, which will be leased in the future, were reclassified from property, plant and equipment.

² The related book values were reclassified as non-current assets held for sale, since the Group decided to sell land and buildings of the plant located in Yongin during 2014 (Note 16).

Fair value of investment property as of December 31, 2014, is ₩425,554 million (2013: ₩223,798 million).

There was no gain related to investment property for the years ended December 31, 2014 and 2013.

16. Non-current Assets Held-for-sale

Details of non-current assets held-for-sale as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014			2013		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
Land	₩ 190,286	₩ -	₩ 190,286	₩ -	₩ -	₩ -
Buildings	31,294	(21,728)	9,566	-	-	-
Structures	5,255	(3,952)	1,303	-	-	-
	<u>₩ 226,835</u>	<u>₩ (25,680)</u>	<u>₩ 201,155</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>

Changes in non-current assets held-for-sale for the year ended December 31, 2014, are as follows:

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<i>(in millions of Korean won)</i>	2014			
	Land	Buildings	Structures	Total
Beginning balance	₩ -	₩ -	₩ -	₩ -
Reclassification ¹	190,286	9,566	1,303	201,155
Ending balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155

¹ The related book value was reclassified as non-current assets held for sale, since the Group decided to sell land, buildings and structures of the plant located in Yongin during 2014. These assets are scheduled to be disposed in September 2015.

There is no cumulative income or loss directly recognized in other comprehensive income in relation to the above non-current assets held-for-sale for the year ended December 31, 2014.

17. Other Assets

Other assets as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Current	Non-current	Current	Non-current
Accrued revenues	₩ 24,981	₩ -	₩ 1,005	₩ -
Advance payments	10,998	-	9,425	-
Prepaid expenses	18,826	15	16,387	14
Current income tax asset	1,014	-	-	-
Others	842	12	505	12
	₩ 56,661	₩ 27	₩ 27,322	₩ 26

18. Derivative Financial Instruments

Details of derivative financial instruments as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Non-current derivative financial instruments				
Currency forward exchange contracts	₩ -	₩ 196	₩ -	₩ 181

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The maximum exposure to credit risk as of the reporting date is the fair value of derivatives as of December 31, 2014. 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, 2014 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	-	12

19. Borrowings

Details of carrying amount of borrowings as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	Bank	Interest rate at December 31, 2014	2014	2013
Short-term borrowings				
Bank overdrafts of EUR 10,586,527 (2013: EUR 13,313,954)	Credit Agricole and others	1.20	₩ 14,149	₩ 19,389
Loans for working capital of EUR 7,000,000 (2013: EUR 5,000,000)	Citibank	1.20	9,356	7,281
Borrowings from an associate of HKD - (2013: HKD 5,950,000)	Etude Co., Ltd.	3.40	-	810
Loans for working capital of JPY 700,000,000 (2013: JPY 600,000,000)	Shinhan Bank Japan	1.15	6,441	6,028
Borrowings from an associate of JPY 234,000,000 (2013: JPY 234,000,000)	Etude Co., Ltd.	3.40	2,153	2,351
Bank overdrafts of EUR 1,265,147 (2013: EUR 2,973,329)	KEB	1.50	1,691	4,329
			<u>33,790</u>	<u>40,188</u>
Current portion of long-term borrowings				
Loans for working capital of USD - (2013: USD 40,000,000)	Citibank and others	-	-	42,209
Long-term borrowings				
Loans for working capital of USD 65,000,000 (2013: USD 65,000,000)	Citibank and others	1.76	70,516	68,992
Loans for working capital of USD 40,000,000 (2013: USD -)	Citibank and others	1.26	43,969	-
			<u>₩ 148,275</u>	<u>₩ 151,389</u>

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

(in millions of Korean won)

	Amount	
July 21, 2017	₩	43,969
May 27, 2016		70,516
	₩	<u>114,485</u>

20. Provisions for Liabilities and Charges

Changes of provisions for liabilities and charges for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014				2013			
	Provision for sales return	Profit-sharing and bonuses	Levies	Total	Provision for sales return	Profit-sharing and bonuses	Provision for restructuring	Total
Beginning	₩ 3,520	₩ 102	₩ -	₩ 3,622	₩ 2,471	₩ 80	₩ 4,151	₩ 6,702
Increase	1,453	109,229	6,740	117,422	2,277	1,791	-	4,068
Decrease	(1,421)	(107,615)	(6,740)	(115,776)	(1,225)	(1,772)	(4,260)	(7,257)
Currency translation differences	2	54	-	56	(3)	3	109	109
Ending	<u>₩ 3,554</u>	<u>₩ 1,770</u>	<u>₩ -</u>	<u>₩ 5,324</u>	<u>₩ 3,520</u>	<u>₩ 102</u>	<u>₩ -</u>	<u>₩ 3,622</u>

21. Other Liabilities

Other liabilities as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)	2014		2013	
	Current	Non-current	Current	Non-current
Withholdings	₩ 20,764	₩ -	₩ 10,563	₩ -
Value added tax withheld	23,268	-	23,269	-
Advances from customers	15,319	-	10,147	-
Deposits received	-	8,185	-	7,465
Accrued expenses	37,573	1,926	18,751	3,018
Financial liabilities	-	6,167	-	8,246
Dividends payable	261	-	245	-
Derivative financial instruments	-	196	-	181
Other financial liabilities	-	25,295	-	-
Others	4,787	774	1,407	745
	<u>₩ 101,972</u>	<u>₩ 42,543</u>	<u>₩ 64,382</u>	<u>₩ 19,655</u>

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22. Post-employment Benefits

22.1 Defined Benefit Plan

Defined benefit liability recognized on the statements of financial position as of December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Present value of funded defined benefit liability	₩	189,073	₩	157,042
Present value of unfunded defined benefit liability		2,230		2,000
		191,303		159,042
Fair value of plan assets ¹		(155,005)		(114,768)
Liability in the statement of financial position	₩	36,298	₩	44,274

¹ The contributions to the National Pension Fund of ₩ 226 million are included in the fair value of plan assets as of December 31, 2014 (2013: ₩ 289 million).

Changes in the defined benefit obligations for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Beginning balance	₩	159,042	₩	150,268
Current service cost		21,989		22,541
Interest expense		7,469		6,778
Remeasurements:				
Actuarial gains and losses arising from changes in financial assumptions		9,910		(4,550)
Actuarial gains and losses arising from experience adjustments		4,747		3,557
Exchange differences		(13)		(135)
Payments from plans:				
Benefit payments		(15,028)		(17,061)
Transfer to associates		3,187		(2,356)
Ending balance	₩	191,303	₩	159,042

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Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Beginning balance	₩	114,768	₩	102,726
Interest income		5,605		4,716
Remeasurements:				
Return on plan assets		(2,612)		(1,390)
Contributions:				
Employers		49,000		25,000
Payments from plans:				
Benefit payments		(14,368)		(14,252)
Transfer to associates		2,612		(2,032)
Ending balance	₩	155,005	₩	114,768

The principal actuarial assumptions as of December 31, 2014 and 2013, were as follows:

	2014	2013
Discount rate	1.70% ~ 3.80%	3.15% ~ 4.90%
Future salary increases	2.75% ~ 5.76%	3.00% ~ 6.22%

The sensitivity of the defined benefit obligations as of December 31, 2014, to changes in the weighted principal assumptions is:

	Effect on defined benefit obligation		
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	1.00%	7.92% decrease	9.18% increase
Salary growth rate	1.00%	8.90% increase	7.85% 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.

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Plan assets as of December 31, 2014 and 2013, consist of as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Unquoted price	Composition	Unquoted price	Composition
Deposits	₩ 154,779	99.85 %	₩ 114,479	99.75 %
Other	226	0.15	289	0.25
	<u>₩ 155,005</u>	<u>100.00 %</u>	<u>₩ 114,768</u>	<u>100.00 %</u>

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, 2014, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩ 15,009	₩ 16,091	₩ 53,859	₩ 116,951	₩ 201,910

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 ₩26,818 million.

22. 2 Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2014, is ₩342 million (₩73 million).

23. Other Components of Equity

Other components of equity as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Treasury stock ¹	₩ (1,381)	₩ (1,381)
Other capital adjustments	(18,115)	(429)
	<u>₩ (19,496)</u>	<u>₩ (1,810)</u>

¹ Represents 3,298 common shares and 616 preferred shares of treasury stock. The Company intends to dispose of the remaining treasury stock depending on the market conditions.

24. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2014 and 2013, consists of the following:

<i>(in millions of Korean won)</i>	2014	2013
Change in value of available-for-sale financial assets	₩ (88)	₩ (361)
Currency translation differences	(13,000)	(13,221)
Share of other comprehensive income of associates	(59)	(439)
	<u>₩ (13,147)</u>	<u>₩ (14,021)</u>

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Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

	2014				
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Reclassification to non-controlling interest	Ending Balance
<i>(in millions of Korean won)</i>					
Change in value of available-for-sale financial assets	₩ (361)	₩ 266	₩ -	₩ 7	₩ (88)
Currency translation differences	(13,221)	613	-	(392)	(13,000)
Share of other comprehensive income of associates	(439)	(38)	459	(41)	(59)
	<u>₩ (14,021)</u>	<u>₩ 841</u>	<u>₩ 459</u>	<u>₩ (426)</u>	<u>₩ (13,147)</u>
<i>(in millions of Korean won)</i>					
	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)
	<u>₩ (12,011)</u>	<u>₩ (2,300)</u>	<u>₩ -</u>	<u>₩ 290</u>	<u>₩ (14,021)</u>

25. Retained Earnings

Retained earnings as of December 31, 2014 and 2013, consist of:

	2014		2013	
<i>(in millions of Korean won)</i>				
Legal reserves ¹	₩	18,109	₩	18,109
Discretionary reserves		1,419,000		1,194,000
Unappropriated retained earnings		699,276		603,148
	<u>₩</u>	<u>2,136,385</u>	<u>₩</u>	<u>1,815,257</u>

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).

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26. Dividends

The dividends paid in 2014 and 2013, are as follows:

	2014		2013	
	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, 2014, of ₩9,000 per common share and ₩9,050 per preferred share, amounting to a total dividend of ₩52,583 million on common shares and ₩9,549 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 20, 2015. These financial statements do not reflect these dividend payables.

27. Tax Expense and Deferred Income Tax

Income tax expense for the years ended December 31, 2014 and 2013, consists of:

<i>(in millions of Korean won)</i>	2014	2013
Current income tax	₩ 160,541	₩ 91,604
Deferred income tax	(15,449)	4,563
Income tax expense	₩ 145,092	₩ 96,167

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:

<i>(in millions of Korean won)</i>	2014	2013
Profit before tax	₩ 530,226	₩ 363,526
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩ 124,876	₩ 86,234
Tax effects of:		
Income not subject to tax	(170)	(585)
Expenses not deductible for tax purposes	5,102	1,847
Tax losses for which no deferred income tax asset was recognized	17,974	5,514
Utilization of previously unrecognized tax losses	(3,219)	(469)
Tax credits	(2,058)	(2,750)
Adjustment in respect of prior years	1,679	2,691
Others	908	3,685
Income tax expense	₩ 145,092	₩ 96,167

The weighted average applicable tax rate of the Group is 27.36% (2013: 26.45%).

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Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014			2013		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain (loss) on valuation of available-for-sale securities	₩ 359	₩ (93)	₩ 266	₩ (115)	₩ 28	₩ (87)
Remeasurements	(17,268)	4,179	(13,089)	(397)	133	(264)
Share of other comprehensive income of associates	421	-	421	(286)	-	(286)
Currency translation differences	613	-	613	(1,927)	-	(1,927)
	<u>₩ (15,875)</u>	<u>₩ 4,086</u>	<u>₩ (11,789)</u>	<u>₩ (2,725)</u>	<u>₩ 161</u>	<u>₩ (2,564)</u>

The analysis of deferred tax assets and liabilities as of December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 77,274	₩ 73,298
Deferred tax asset to be recovered within 12 months	14,666	10,262
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(193,998)	(202,482)
Deferred tax liability to be recovered within 12 months	(593)	(2,499)
Deferred tax assets(liabilities), net	<u>₩ (102,651)</u>	<u>₩ (121,492)</u>

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Changes in deferred tax assets and liabilities for the years ended December 31, 2014 and 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(in millions of Korean won)

	2014					
	Beginning balance	Acquisition of subsidiaries	Statement of income	Other comprehensive income	Currency translation differences	Ending balance
Deferred tax assets						
Allowance for doubtful accounts	₩ 5	₩ -	₩ (5)	₩ -	₩ -	₩ -
Inventory	884	-	(883)	-	-	1
Property, plant and equipment	3,588	-	965	-	32	4,585
Intangible assets	5	-	-	-	-	5
Government grants	864	-	(252)	-	-	612
Available-for-sale financial assets	675	-	-	(93)	-	582
Subsidiaries	3,399	528	4,660	-	-	8,587
Deferred revenue	12,512	-	5,777	-	29	18,318
Accrued expenses	4,598	-	(44)	-	116	4,670
Provision liability	659	-	20	-	-	679
Other current liabilities	1	-	-	-	-	1
Retirement benefit obligation	31,177	-	3,739	4,179	(48)	39,047
Selling and administrative expenses	1,476	-	791	-	-	2,267
Tax loss carryforwards	23,461	-	(11,266)	-	(1,431)	10,764
Others	256	-	1,566	-	-	1,822
	<u>83,560</u>	<u>528</u>	<u>5,068</u>	<u>4,086</u>	<u>(1,302)</u>	<u>91,940</u>
Deferred tax liabilities						
Accrued revenue	(240)	-	(211)	-	-	(451)
Other receivables	(61)	-	(11)	-	-	(72)
Property, plant and equipment	(103,543)	-	-	-	-	(103,543)
Intangible assets	(4,401)	-	6	-	80	(4,315)
Plan assets	(27,704)	-	(10,604)	-	-	(38,308)
Reserve for technology development	(60,662)	-	17,021	-	-	(43,641)
Advanced depreciation provision	(6,184)	-	2,061	-	-	(4,123)
Selling and administrative expenses	(2,257)	-	2,119	-	-	(138)
	<u>(205,052)</u>	<u>-</u>	<u>10,381</u>	<u>-</u>	<u>80</u>	<u>(194,591)</u>
	<u>₩ (121,492)</u>	<u>528</u>	<u>₩ 15,449</u>	<u>₩ 4,086</u>	<u>₩ (1,222)</u>	<u>₩ (102,651)</u>

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(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
	<u>81,438</u>	<u>1,309</u>	<u>161</u>	<u>652</u>	<u>83,560</u>
Deferred tax liabilities					
Accrued revenue	(239)	(1)	-	-	(240)
Other receivables	(40)	(21)	-	-	(61)
Property, plant and equipment	(103,543)	-	-	-	(103,543)
Intangible assets	(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)
	<u>(199,273)</u>	<u>(5,872)</u>	<u>-</u>	<u>93</u>	<u>(205,052)</u>
	<u>₩ (117,835)</u>	<u>₩ (4,563)</u>	<u>₩ 161</u>	<u>₩ 745</u>	<u>₩ (121,492)</u>

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 ₩21,996 million (2013: ₩11,940 million) in respect of losses amounting to ₩65,994 million (2013: ₩35,825 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, 2014, and 2013, are as follows :

(in millions of Korean won)

	2014	2013
Taxable temporary differences	₩ (72,712)	₩ (11,872)
Deductible temporary differences	94,323	90,493
	<u>₩ 21,611</u>	<u>₩ 78,621</u>

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28. Revenues

Revenues for the years ended December 31, 2014 and 2013, consist of the following:

<i>(in millions of Korean won)</i>		2014		2013	
	Sales of finished goods	₩	2,772,861	₩	2,371,736
Sale of goods	Sales of merchandise		1,088,384		710,505
			<u>3,861,245</u>		<u>3,082,241</u>
Rendering of services			<u>5,849</u>		<u>11,655</u>
	Rental income		3,071		3,403
	Royalty income		1,750		2,028
Others	Others		2,093		1,086
			<u>6,914</u>		<u>6,517</u>
		₩	<u>3,874,008</u>	₩	<u>3,100,413</u>

29. Expenses by Nature

Expenses by nature for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>		2014		2013	
Changes in inventories		₩	(15,239)	₩	(15,259)
Purchase of raw materials and merchandise			1,035,894		870,990
Employee benefit expense			560,818		430,230
Depreciation and amortization			134,626		121,967
Advertising expense			424,813		388,544
Research and development			71,097		63,572
Commission expense			273,562		249,980
Distribution commission			657,743		434,149
Other expenses			166,943		186,402
Total ¹		₩	<u>3,310,257</u>	₩	<u>2,730,575</u>

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

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30. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Employee benefits	₩	404,661	₩	325,851
Welfare and fringe benefits		54,574		48,878
Advertising expense		424,813		388,544
Depreciation and amortization		80,087		67,640
Commission expense		236,493		218,201
Distribution commission		657,743		434,149
Freight expense		77,024		65,481
Taxes and dues		29,750		33,101
Research and development		71,097		63,572
Other		245,824		173,352
	₩	<u>2,282,066</u>	₩	<u>1,818,769</u>

31. Finance Income and Costs

Financial income and costs for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Finance income				
Interest income on loans and receivables	₩	12,008	₩	11,260
Interest income on available-for-sale financial assets		1,717		85
	₩	<u>13,725</u>	₩	<u>11,345</u>
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(2,592)	₩	(2,479)
Loss on valuation of derivative instruments		(12)		(185)
	₩	<u>(2,604)</u>	₩	<u>(2,664)</u>

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32. Other Non-operating Gains/(Losses)

Other non-operating gains/(losses) for the years ended December 31, 2014 and 2013, consist of:

<i>(in millions of Korean won)</i>	2014	2013
Other non-operating gains		
Gain on foreign currency transactions	₩ 4,474	₩ 4,638
Gain on foreign currency translation	2,834	1,639
Gain on disposal of property, plant and equipment	324	8,446
Gain on disposal of intangible assets	1,269	5
Gain on valuation of investments	4,328	-
Others	40,785	6,063
	<u>54,014</u>	<u>20,791</u>
Other non-operating losses		
Loss on foreign currency transactions	(3,717)	(4,100)
Loss on foreign currency translation	(2,360)	(1,740)
Loss on disposal of property, plant and equipment	(15,968)	(6,977)
Impairment losses of property, plant and equipment	-	(14,703)
Impairment losses of intangible assets	(11,438)	-
Loss on disposal of available-for-sale financial assets	-	(76)
Donations	(17,233)	(5,426)
Others	(48,102)	(5,918)
	<u>(98,818)</u>	<u>(38,940)</u>
	<u>₩ (44,804)</u>	<u>₩ (18,149)</u>

33. 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 23).

Basic earnings per share for the years ended December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Profit attributable to owners of the Parent company	₩ 379,104	₩ 267,975
Net income attributable to common stock	321,066	226,937
Weighted average number of ordinary shares in issue (unit: shares)	5,842,551	5,842,552
Basic earnings per ordinary share	<u>₩ 54,953</u>	<u>₩ 38,842</u>

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Basic earnings per preferred share¹ for the years ended December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Profit attributable to owners of the Parent company	₩	379,104	₩	267,975
Net income attributable to preferred stock		58,038		41,038
Weighted average number of ordinary shares in issue (unit: shares)		1,055,167		1,055,170
Basic earnings per preferred share	₩	<u>55,004</u>	₩	<u>38,893</u>

¹Although 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 are identical earnings per share.

34. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Net income	₩	385,134	₩	267,359
Adjustments for:				
Interest income, net		(11,121)		(8,681)
Loss(gain) on foreign currency translation		(789)		830
Impairment losses of property, plant and equipment and intangible assets		11,438		14,703
Depreciation and amortization		136,055		123,572
Loss (gain) on disposal of property, plant and equipment and intangible assets		14,500		(1,398)
Income tax		145,092		96,167
Gain from associates		(157)		(3,156)
Provision for severance benefits		23,853		24,603
Others		(2,962)		2,449
Changes in working capital				
Decrease(increase) in trade receivables		7,269		(28,295)
Increase in other receivables		(5,783)		(5,815)
Increase in inventories		(15,239)		(15,328)
Decrease(increase) in other assets		(26,086)		5,985
Increase in trade payables		31,418		14,996
Increase in other payables		15,066		39,200
Increase(decrease) in provisions		998		(3,081)
Increase in other liabilities		41,113		2,081
Payment of severance benefits		(15,028)		(17,061)
Net transfer-out of severance benefits of associates		3,187		(2,356)
Increase in plan assets, net		(37,243)		(8,716)
Cash generated from operations	₩	<u>700,715</u>	₩	<u>498,058</u>

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Significant transactions not affecting cash flows for the years ended December 31, 2014 and 2013 are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Reclassification of construction in-progress to property, plant and equipment	₩ 168,822	₩ 122,415
Reclassification of property, plant and equipment to investment property	309,465	-
Reclassification to non-current assets held-for-sale	201,155	-
Reclassification of borrowings to long-term borrowings	41,645	-

35. 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 ₩40,000 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 ₩9,041 million (2013: ₩7,807 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 256 thousand (2013: USD 311 thousand) has been drawn.

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 ₩3,891 million (2013: ₩2,135 million).

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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 two other banks with a limit of USD 40,000 thousand and the outstanding balance is USD 40,000 thousand (2013: USD 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 (2013: USD - 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 (2013: USD -thousand).
AMOREPACIFIC Cosmetics (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(2013: USD 65,000 thousand).
AMOREPACIFIC EUROPE S.A.S	Subsidiary has a finance lease agreement with Societe Generale Bank and one other bank amounting to EUR 4,631 thousand, and a loan agreement with Citi Bank N.A. and two other banks with a limit of EUR 20,000 thousand and the outstanding balance is EUR 17,587 thousand(2013: EUR 18,314 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 1,265 thousand (2013: EUR 2,973 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 700,000 thousand (2013: JPY 600,000 thousand).
AMOREPACIFIC Hong Kong Co., Limited	Subsidiary has a bank overdraft agreement with a limit of HKD 4,500 thousand with Hang Seng Bank and there is no outstanding balance. Also, Hang Seng Bank has provided the subsidiary with payment guarantee with a limit of HKD 10,000 thousand in relation to the rental fee payment for store lease.

As of the reporting date, current bank deposits amounting to ₩15,000 million (2013: ₩15,000 million) and ₩3,500 million (2013: ₩ - million) are restricted in use for guarantees provided for subsidiaries' borrowings and the agreement of shared growth and cooperation between large and small/medium sized companies, respectively. Non-current bank deposits amounting to ₩6 million (2013: ₩6 million) and ₩3,536 million (RMB 20,000 thousand) (2013:₩3,482 million (RMB 20,000 thousand)) are restricted in use for guarantees provided as guarantee deposits for the maintenance of checking accounts and permission of door-to-door sales, respectively.

In addition, available-for-sale financial assets amounting to ₩2,359 million (HKD 16,645 thousand) are restricted in use for bank overdraft agreement of AMOREPACIFIC Hong Kong Co.,Limited and for payment guarantee in relation to a store lease.

As of the reporting date, the amount of contract for the construction of a new building located in Yongsan is ₩582,590 million.

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36. Related Party Transactions

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

Classification	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 (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 AMOREPACIFIC HongKong Co., Limited ¹ We-Dream Co., Ltd ²
Associates	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

¹ Reclassified from an associate into a subsidiary, since AMOREPACIFIC Global Operations Limited., a subsidiary, acquired additional 47% of ownership during 2014.

² Newly established through acquiring 100% of ownership during 2014.

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Significant transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014					
	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.	₩ 1,833	₩ 22,934	₩ -	₩ -	₩ 54	₩ -
Associates						
Taiwan AMORE Co., Ltd. and others	346	-	-	-	-	-
Subsidiaries of the Controlling Company						
Etude Corporation	3,723	19,235	-	-	117	-
Innisfree Corporation	3,796	23,158	-	-	175	-
AMOS Professional Corporation	20,080	139	-	-	77	-
PACIFICPHARMA Corporation	1,206	35,855	-	1,282	121	-
PACIFICGLAS, Inc.	144	33,393	-	-	11	58
PACIFICPACKAGE Corporation	190	48,372	-	-	8	-
Jangwon Co., Ltd	77	1,309	-	-	4	-
COSVISION CO., LTD.	983	20,505	-	154	13	-
An associate of the Controlling Company						
BBDO Korea Inc.	-	20,311	-	-	-	-
Other related parties						
Taeshin Inpack Corporation	-	12,648	-	-	-	-
	₩ 32,378	₩ 237,859	₩ -	₩ 1,436	₩ 580	₩ 58

(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

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Year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Immediate parent					
AMOREPACIFIC Group, Inc.	₩ -	₩ 223	₩ 1,044	₩ -	₩ 648
Associates					
Taiwan AMORE Co., Ltd. and others	37	-	-	-	-
Subsidiaries of the Controlling Company					
Etude Corporation	151	551	8,875	2,153	272
Innisfree Corporation	35	707	8,792	-	1,676
AMOS Professional Corporation	1,932	69	10	-	113
PACIFICPHARMA Corporation	-	610	1,126	-	1,267
PACIFICGLAS, Inc.	-	15	4,306	-	446
PACIFICPACKAGE Corporation	12	8	6,293	-	2
Jangwon Co., Ltd	-	9	77	-	-
COSVISION CO., LTD.	-	24,586	2,164	-	-
An associate of the Controlling Company					
BBDO Korea Inc.	-	-	4,034	-	-
Other related parties					
Taeshin Inpack Corporation	-	-	2,035	-	-
	₩ 2,167	₩ 26,778	₩ 38,756	₩ 2,153	₩ 4,424

(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

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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, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014			
	Loan transactions		Borrowing transactions	
	Loans	Collection	Borrowings	Repayments
A subsidiary of the Controlling Company Etude Corporation	-	-	-	824
	₩ -	₩ -	₩ -	₩ 824

(in millions of Korean won)

	2013			
	Loan transactions		Borrowing transactions	
	Loans	Collection	Borrowings	Repayments
A subsidiary of the Controlling Company Etude Corporation	-	-	3,838	-
	₩ -	₩ -	₩ 3,838	₩ -

As of December 31, 2014, 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, 2014 and 2013, consists of:

(In millions of Korean won)

	2014		2013	
Short-term employee benefits	₩	11,062	₩	6,103
Post-employment benefits		1,045		1,001
	₩	12,107	₩	7,104

37. Business Combination

On January 15, 2014, the Group's subsidiary, AMOREPACIFIC Global Operations Limited acquired an additional 47% of ownership in AMOREPACIFIC Hong Kong Co., Limited on top of its 30% ownership, to expand its cosmetic market and strengthen competitiveness in Hong Kong and Macau.

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

<i>(In millions of Korean won)</i>	Amount	
Cash and cash equivalents	₩	18,212
Trade and other receivables ¹		9,155
Available-for-sale financial assets		2,347
Other assets		267
Inventories		6,873
Property, plant and equipment		544
Intangible assets		2,207
Deferred income tax assets		528
Trade payables		(9,842)
Other liabilities		(5,753)
Total fair value of identifiable net assets	₩	<u>24,538</u>

¹ Fair value of trade and other receivables are ₩9,155 million, and trade receivables amounting to ₩4,782 million are included. Gross amount of trade and other receivables on arrangement at acquisition date is ₩4,373 million. There are no receivables expected to be uncollectible.

The amount of goodwill recognized is as follows:

<i>(In millions of Korean won)</i>	Amount	
Gross consideration transferred (a)	₩	16,163
Total fair value of identifiable net assets (b)		24,538
Investments in associates (c) ¹		10,317
Amount recognized as identifiable non-controlling interests (d)		5,644
Goodwill (a-(b-c-d)) ²	₩	<u>7,586</u>

¹ The ownership interest of 30% in AMOREPACIFIC Hong Kong Co., Limited by the Group before business combination was measured at its fair value and gains of ₩4,367 million was recognized. The amount is included in other non-operating gains (losses) in the consolidated statements of comprehensive income.

² None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of AMOREPACIFIC Hong Kong Co., Limited. is as follows:

<i>(In millions of Korean won)</i>	Amount	
Gross consideration transferred	₩	16,163
Deducted: cash and cash equivalents of acquiree		(18,212)
Net cash inflow from acquisition of subsidiaries	₩	<u>2,049</u>

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

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 revenue and net income included in prior consolidated statements of comprehensive income contributed by AMOREPACIFIC Hong Kong Co., Limited amount to ₩119,379 million and ₩ 15,451 million, respectively.

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The Group recognized non-controlling interest in AMOREPACIFIC Hong Kong Co., Limited at the non-controlling interest's proportionate share of the amount of acquiree's identifiable net assets at the acquisition date.

AMOREPACIFIC Global Operations Limited has a call option for non-controlling interests in AMOREPACIFIC Hong Kong Co., Limited, and the non-controlling shareholder has a put-back option. The Group recognized the present value of the expected exercise price for the options amounting to ₩25,295 million as financial liabilities.

38. Risk Management

38.1 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, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 67,703	₩ 162,239	₩ 48,463	₩ 66,741
EUR	11,425	24,970	5,932	1,686
JPY	-	4,095	-	1,715
	₩ 79,128	₩ 191,304	₩ 54,395	₩ 70,142

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As of December 31, 2014 and 2013, 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)

	2014		2013	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
USD	₩ (9,454)	₩ 9,454	₩ (1,828)	₩ 1,828
EUR	(1,355)	1,355	425	(425)
JPY	(409)	409	(171)	171

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not in the 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, 2014, 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 ₩1,121 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.

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(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)

	2014						
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total	Book value	
Trade payables	₩ 156,546	₩ -	₩ -	₩ -	₩ 156,546	₩ 156,546	
Borrowings	36,656	889	114,781	-	152,326	148,274	
Derivative financial instruments	-	-	196	-	196	196	
Other payables	210,789	-	-	-	210,789	210,789	
Other liabilities	39,489	11,767	3,309	-	54,565	54,565	

(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	

The Group's derivative financial instruments have been included at their fair value of ₩196 million (2013: ₩181 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.

38.2 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.

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

<i>(in millions of Korean won, except for ratios)</i>	2014		2013	
Liabilities (A)	₩	976,255	₩	833,717
Equity (B)		2,878,322		2,568,132
Cash and cash equivalents and current financial deposits (C)		517,645		440,903
Borrowings (D)		148,275		151,389
Debt-to-equity ratio (A/B)		33.92%		32.46%
Net Borrowings ratio (D-C)/B		(-)12.83%		(-)11.27%

39. Fair Value

39.1 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)

	2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Available-for-sale financial assets	₩ 2,359	₩ 737	₩ -	₩ 3,096
Derivative financial assets	-	196	-	196
Disclosed fair value				
Investment property	₩ -	₩ -	₩ 425,554	₩ 425,554

(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

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39.2 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, 2014, 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.

39.3 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
Debt securities				
Asset backed securities	₩	125,000	₩	-
Government-issued securities		6,111		5,340
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
	₩	132,434	₩	6,663

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.