AMOREPACIFIC Corporation and Subsidiaries
Index
December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

Other Matter

The accompanying consolidated financial statements as of and for the years ended December 31, 2015 and 2014, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 4 to the consolidated financial statements.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Samil PricewaterhouseCoopers

Seoul, Korea
March 10, 2016

This report is effective as of March 10, 2016, 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, 2015 and 2014

	Notes	*(in thousands of Korean won)* 2015	2014	*(in thousands of U.S. dollars (Note 4))* 2015	2014
Assets					
Current assets					
Cash and cash equivalents	6,7,8	₩ 687,167,811	₩ 342,559,076	US$ 586,321	US$ 292,286
Bank deposits	6,7,35	183,130,528	166,324,456	156,255	141,915
Available-for-sale financial assets	6,7,11,35,39	62,209,928	127,358,575	53,080	108,668
Trade receivables	6,7,9,36	279,858,926	196,682,415	238,787	167,818
Other receivables	6,7,9,36	37,471,465	31,641,821	31,972	26,998
Other current assets	6,17	58,246,685	56,661,248	49,699	48,346
Inventories	10	323,938,060	304,872,731	276,398	260,130
Non-current assets held for sale	5,16	201,155,041	201,155,041	171,634	171,634
		1,833,178,444	1,427,255,363	1,564,146	1,217,795
Non-current assets					
Bank deposits	6,7,35	10,694,871	8,762,184	9,125	7,476
Other receivables	6,7,9,36	166,223,764	131,820,131	141,829	112,474
Available-for-sale financial assets	6,7,11,39	5,099,146	8,171,200	4,351	6,972
Property, plant and equipment	5,13	1,870,575,969	1,743,590,019	1,596,055	1,487,705
Investment Property	15,39	316,164,766	329,426,756	269,765	281,081
Intangible assets	5,14	211,646,123	174,237,666	180,585	148,667
Investments in associates	12	2,374,790	2,134,069	2,026	1,821
Deferred income tax assets	27	26,241,224	29,153,592	22,390	24,875
Other non-current assets	17	902,334	26,577	770	23
		2,609,922,987	2,427,322,194	2,226,896	2,071,094
Total assets		₩ 4,443,101,431	₩ 3,854,577,557	US$ 3,791,042	US$ 3,288,889
Liabilities					
Current liabilities					
Trade payables	6,36,38	₩ 158,352,567	₩ 156,545,891	US$ 135,113	US$ 133,572
Borrowings	6,19,36,38	100,225,160	33,789,746	85,516	28,831
Other payables	6,36,38	224,340,015	210,789,094	191,416	179,854
Current income tax liabilities	27	129,916,438	93,885,865	110,850	80,107
Deferred revenue		53,833,501	48,819,748	45,933	41,655
Provisions for other liabilities	20	7,459,168	5,323,709	6,364	4,542
Other current liabilities	6,21,38	197,773,902	101,971,577	168,749	87,007
		871,900,751	651,125,630	743,941	555,568
Non-current liabilities					
Borrowings	6,19,38	46,876,914	114,484,623	39,997	97,683
Retirement benefit obligations	22	29,869,199	36,298,038	25,486	30,971
Deferred income tax liabilities	27	104,917,089	131,804,234	89,520	112,461
Provisions for other liabilities and charges	19	2,536,000	-	2,164	-
Other non-current liabilities	6,18,21,37,38,39	14,670,717	42,542,755	12,518	36,299
		198,869,919	325,129,650	169,685	277,414
Total liabilities		1,070,770,670	976,255,280	913,626	832,982
Equity attributable to owners of the Parent					
Capital stock	1	34,508,160	34,508,160	29,444	29,444
Additional paid-in capital		712,701,764	712,701,764	608,107	608,107
Capital surplus		7,768,771	7,769,673	6,629	6,629
Other components of equity	23	(18,374,353)	(19,496,242)	(15,678)	(16,635)
Accumulated other comprehensive income	24	(14,088,653)	(13,146,997)	(12,021)	(11,218)
Retained earnings	25	2,623,071,728	2,136,384,662	2,238,116	1,822,855
		3,345,587,417	2,858,721,020	2,854,597	2,439,182
Non-controlling interest		26,743,344	19,601,257	22,819	16,725
Total equity		3,372,330,761	2,878,322,277	2,877,416	2,455,907
Total liabilities and equity		₩ 4,443,101,431	₩ 3,854,577,557	US$ 3,791,042	US$ 3,288,889

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

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2015 and 2014

(in thousands of Korean won)

	Attributable to equity holders of the Company								
	Capital Stock	Additoinal paid-in capital	Capital Surplus	Other Components of Equity	Accumulated Other Comprehensive Income	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 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									
Profit for the year	-	-	-	-	-	379,104,301	379,104,301	6,029,427	385,133,728
Remeasurements of post employment benefit obligations	-	-	-	-	-	(13,088,954)	(13,088,954)	-	(13,088,954)
Change in value of available-for-sale financial assets	-	-	-	-	273,814	-	273,814	(7,678)	266,136
Share of other comprehensive income of associates	-	-	-	-	379,149	-	379,149	42,128	421,277
Foreign currency translation adjustment	-	-	-	-	220,668	-	220,668	392,768	613,436
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 subisidiaries	-	-	-	(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)	₩ 2,136,384,662	₩ 2,858,721,020	₩ 19,601,257	₩ 2,878,322,277
(in thousands of U.S. dollars (Note 4))	US$ 29,444	US$ 608,107	US$ 6,629	US$ (16,635)	US$ (11,218)	US$ 1,822,855	US$ 2,439,182	US$ 16,725	US$ 2,455,907
Balance at January 1, 2015	₩ 34,508,160	₩ 712,701,764	₩ 7,769,673	₩ (19,496,242)	₩ (13,146,997)	₩ 2,136,384,662	₩ 2,858,721,020	₩ 19,601,257	₩ 2,878,322,277
Comprehensive income									
Profit for the year	-	-	-	-	-	577,523,478	577,523,478	7,272,577	584,796,055
Remeasurements of post employment benefit obligations	-	-	-	-	-	(28,704,191)	(28,704,191)	-	(28,704,191)
Change in value of available-for-sale financial assets	-	-	-	-	(322,128)	-	(322,128)	-	(322,128)
Share of other comprehensive income of associates	-	-	-	-	47,454	-	47,454	5,273	52,727
Foreign currency translation adjustment	-	-	-	-	(666,982)	-	(666,982)	542,941	(124,041)
Total comprehensive income for the year	34,508,160	712,701,764	7,769,673	(19,496,242)	(14,088,653)	2,685,203,949	3,406,598,651	27,422,048	3,434,020,699
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(62,132,221)	(62,132,221)	(555,848)	(62,688,069)
Other	-	-	(902)	1,121,889	-	-	1,120,987	(122,856)	998,131
Balance at December 31, 2015	₩ 34,508,160	₩ 712,701,764	₩ 7,768,771	₩ (18,374,353)	₩ (14,088,653)	₩ 2,623,071,728	₩ 3,345,587,417	₩ 26,743,344	₩ 3,372,330,761
(in thousands of U.S. dollars (Note 4))	US$ 29,444	US$ 608,107	US$ 6,629	US$ (15,678)	US$ (12,021)	US$ 2,238,116	US$ 2,854,597	US$ 22,819	US$ 2,877,416

The accompanying notes are an integral part of these consolidated financial statements.
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AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	Notes	*(in thousands of Korean won)* 2015	2014	*(in thousands of U.S. dollars(Note 4))* 2015	2014
Cash flows from operating activities					
Cash generated from operations	34	₩ 788,051,928	₩ 700,715,227	US$ 672,399	US$ 597,880
Interest received		13,667,306	10,576,117	11,661	9,024
Interest paid		(3,047,531)	(2,580,118)	(2,600)	(2,201)
Income tax paid		(171,168,252)	(122,599,857)	(146,048)	(104,607)
Net cash generated from operating activities		627,503,451	586,111,369	535,412	500,096
Cash flows from investing activities					
Decrease in current available-for-sale financial assets		65,296,263	-	55,714	-
Decrease in other receivables		13,091,304	10,206,087	11,170	8,708
Disposal of property, plant and equipment		1,746,784	4,189,113	1,490	3,574
Disposal of intangible assets		-	1,489,873	-	1,271
Disposal of Non-current assets held for sale		40,000,000	-	34,130	-
Disposal of available-for-sale financial assets		3,165,330	227,320	2,701	194
Cash inflows from acquisition of subsidiaries	37	-	2,048,811	-	1,748
Increase in current bank deposits		(16,577,606)	(25,448,608)	(14,145)	(21,714)
Increase in current available-for-sale financial assets		-	(124,947,030)	-	(106,610)
Increase in non-current bank deposits		(1,500,003)	(1,979,218)	(1,280)	(1,689)
Increase in other receivables		(46,071,221)	(32,215,438)	(39,310)	(27,488)
Purchases of available-for-sale financial assets		(52,790)	(999,790)	(45)	(853)
Purchases of property, plant and equipment		(215,342,168)	(267,182,719)	(183,739)	(227,972)
Purchases of intangible assets		(60,704,691)	(56,105,391)	(51,796)	(47,871)
Net cash used in investing activities		(216,948,798)	(490,716,990)	(185,110)	(418,702)
Cash flows from financing activities					
Stock issuance of non-controlling Interest		-	2,036,787	-	1,738
Repayments of short-term borrowings		(6,753,371)	(2,789,635)	(5,762)	(2,380)
Dividends paid to equity holders of the Company		(62,666,170)	(45,524,091)	(53,469)	(38,843)
Net cash provided by (used in) financing activities		(69,419,541)	(46,276,939)	(59,231)	(39,485)
Changes in cash and cash equivalents from currency translation		3,473,623	(569,872)	2,964	(486)
Net increase in cash and cash equivalents		344,608,735	48,547,568	294,035	41,423
Cash and cash equivalents at the beginning of year		342,559,076	294,011,508	292,286	250,863
Cash and cash equivalents at the end of year		₩ 687,167,811	₩ 342,559,076	US$ 586,321	US$ 292,286

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

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1. General Information

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

As of December 31, 2015, 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, 2015, 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 275,000,000 shares of stock.

The Company declared stock split based on the resolution of annual shareholder's meeting dated March 20, 2015 and re-listed new stocks in the stock market. As a result of the stock split, the par value was changed to ₩500 from ₩5,000. And the shares of common and preferred stock were changed to 58,458,490 from 5,845,849 and to 10,557,830 from 1,055,783, respectively. The earnings per share for the year ended December 31, 2014 is recalculated based on the changed number of shares (Note 26, 33).

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, 2015, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group,Inc.	20,695,860	35
Kyung-Bae Suh	6,264,450	11
Others[1]	31,498,180	54
	58,458,490	100

[1] Including 33,040 treasury shares

The Company's consolidated subsidiaries as of December 31, 2015, 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	33,105	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	3.68	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited				96.32	Dec.31	
AMOREPACIFIC Global Operations Limited	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	2,223	100.00	Dec.31	India
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC HongKong Co.,Limited	Marketing of cosmetics	12	77.00	Dec.31	Hong Kong

The summary of the consolidated subsidiaries' financial information as of December 31, 2015 and 2014, and the results of their operations for the years then ended, which are included in the consolidated financial statements is as follows:

December 31, 2015 *(in millions of Korean won)*	**Total assets**	**Total liabilities**	**Sales**	**Net income (loss)**	**Total comprehensive income(loss)**
AMOREPACIFIC Global Operations Limited.[1]	₩ 180,133	₩ 63,034	₩ 57,381	₩ (169)	₩ 6,009
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]	4,957	3	-	96	75
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	227,893	120,802	114,160	18,558	19,343
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	2,343	321	3,433	95	112
AMOREPACIFIC Trading Co.,Ltd.	341,394	230,196	787,105	37,966	41,133
AMOREPACIFIC EUROPE S.A.S	36,245	26,253	49,169	(10,066)	(11,809)
Anninck Goutal S.A.S	15,037	12,554	16,286	(1,595)	(2,112)
AMOREPACIFIC US, Inc.	28,504	19,980	48,488	326	844
AMOREPACIFIC Japan CO.,LTD.	10,414	10,019	43,164	84	(135)
AMOREPACIFIC Taiwan Co.,Ltd.	14,961	7,543	27,431	1,542	1,672
AMOREPACIFIC SINGAPORE PTE., LTD.	26,474	10,496	46,319	2,845	2,747
AMOREPACIFIC MALAYSIA SDN. BHD.	11,748	7,878	17,981	669	139
AMOREPACIFIC VIETNAM JSC	2,971	3,526	4,228	111	26
AMOREPACIFIC (Thailand) LIMITED	12,632	9,757	19,861	(210)	(307)
PT. LANEIGE INDONESIA PACIFIC	3,318	1,071	4,726	84	(586)
Innisfree Cosmetics India Private Limited	1,486	200	233	(901)	(916)
AMOREPACIFIC HongKong Co.,Limited	86,333	35,491	153,527	12,047	14,604
We-Dream Co.,Ltd	49	-	-	(1)	(1)

December 31, 2014 *(in millions of Korean won)*	**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	-	-	-	-

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

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

There is no subsidiary newly added to or excluded from consolidation.

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 periods beginning January 1, 2015, do not have a material impact on the consolidated financial statements of the Group.

- Amendment to Korean IFRS 1019, *Employee Benefits*
- Annual Improvements to Korean IFRS 2010-2012 Cycle:
- Annual Improvements to Korean IFRS 2011-2013 Cycle:

(b) New and amended standards not yet adopted

New standards and amendments issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these standards and amendments would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1041, *Agriculture and fishing: Productive plants*
- Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements,* Korean IFRS 1028*, Investments in Associates and Joint Ventures,* and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*
- Korean IFRS 1111, *Joint Agreements*

- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Furthermore, new standards issued, but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

- Korean IFRS 1109, *Financial Instruments*
- Korean IFRS 1115*, Revenue from Contracts with Customers*

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

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 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.

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.

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 - 10 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.

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.

2.18 Employee Benefits

(a) Post-employment 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.

(b) Other long-term employee benefits

Certain Group companies provide long-term employee benefits, which are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by independent qualified actuaries.

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.

(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.

2.22 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2015 financial statements of the Company was approved by the Board of Directors on February 2, 2016, 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).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(c) Provisions

As described in Note 20, the Company recognizes provisions for estimated returns, profit-sharing and bonuses, estimated short-term payroll expenses related with accumulated paid leave and estimated other long-term payroll expenses as of the reporting date. The amounts are estimated based on past experience.

(d) 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.

(e) 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).

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

(in millions of Korean won)		**2015**		**2014**
Annick Goutal CGU	₩	5,796	₩	11,255
AMOREPACIFIC Hong Kong CGU		8,405		7,877
China CGU		4,340		4,299
Vietnam CGU		3,792		3,734
Singapore Etude House CGU		3,387		3,402
Thailand CGU		519		534
Indonesia CGU		329		342
	₩	26,568	₩	31,443

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 2015 are as follows:

	Annick Goutal CGU	**AMOREPACIFIC Hong Kong CGU**	**China CGU**	**Vietnam CGU**	**Singapore Etude House CGU**
Gross margin rate	72.60%	72.61%	66.42%	73.91%	78.46%
Growth rate[1]	2.58%	19.72%	55.76%	22.05%	5.90%
Pre-tax discount rate	5.77%	8.72%	10.68%	12.73%	7.46%

[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 Annick 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 2015. Impairment losses amounting to ₩4,889 million were all allocated to goodwill, and recognized as the other gains(losses)-net (Note 32).

Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)		**2015**		**2014**
Beginning balance	₩	155,005	₩	114,768
Interest income		5,852		5,605
Remeasurements:				
Return on plan assets		(1,913)		(2,612)
Contributions:				
Employers		70,000		49,000
Payments from plans:				
Benefit payments		(15,084)		(14,368)
Transfer to associates		(1,221)		2,612
Ending balance	₩	212,639	₩	155,005

The principal actuarial assumptions as of December 31, 2015 and 2014, were as follows:

	2015	**2014**
Discount rate	2.20% ~ 3.50%	1.70% ~ 3.80%
Future salary increases	2.50% ~ 6.06%	2.75% ~ 5.76%

The sensitivity of the defined benefit obligations as of December 31, 2015, 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%	(9.09)% decrease	10.66% increase
Salary growth rate	1.00%	10.27% increase	(8.97)% 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.

30. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)		2015		2014
Employee benefits	₩	478,158	₩	404,661
Welfare and fringe benefits		71,094		54,574
Advertising expense		538,846		424,813
Depreciation and amortization		92,682		80,087
Commission expense		275,140		236,493
Distribution commission		830,923		657,743
Freight expense		92,812		77,024
Taxes and dues		35,916		29,750
Research and development		79,951		71,097
Other		328,789		245,824
	₩	2,824,311	₩	2,282,066

31. Finance Income and Costs

Financial income and costs for the years ended December 31, 2015 and 2014, are as follows:

(*in millions of Korean won*)		2015		2014
Finance income				
Interest income on loans and receivables	₩	12,255	₩	12,008
Interest income on available-for-sale financial assets		3,356		1,717
Gain on valuation of derivative instruments		1,005		-
Gain on valuation of financial liabilities carried at amortized cost		8,923		-
	₩	25,539	₩	13,725
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(3,067)	₩	(2,592)
Loss on valuation of derivative instruments		-		(12)
	₩	(3,067)	₩	(2,604)

32. Other Non-operating Gains/(Losses)

Other non-operating gains/(losses) for the years ended December 31, 2015 and 2014, consist of:

(in millions of Korean won)		**2015**		**2014**
Other non-operating gains				
Gain on foreign currency transactions	₩	8,307	₩	4,474
Gain on foreign currency translation		4,147		2,834
Gain on disposal of property, plant and equipment		424		324
Gain on disposal of intangible assets		-		1,269
Others		30,640		45,113
		43,518		54,014
Other non-operating losses				
Loss on foreign currency transactions		(7,217)		(3,717)
Loss on foreign currency translation		(9,998)		(2,360)
Loss on disposal of property, plant and equipment		(7,526)		(15,968)
Loss on disposal of intangible assets		(70)		-
Impairment losses of intangible assets		(4,889)		(11,438)
Donations		(11,170)		(17,233)
Others		(19,773)		(48,102)
		(60,643)		(98,818)
	₩	(17,125)	₩	(44,804)

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, 2015 and 2014, is as follows:

(in millions of Korean won)		**2015**		**2014**
Profit attributable to owners of the Parent company	₩	577,523	₩	379,104
Net income attributable to common stock		489,131		321,066
Weighted average number of ordinary shares in issue (unit: shares)		58,425,461		58,425,511
Basic earnings per ordinary share	₩	8,372	₩	5,495

Basic earnings per preferred share[1] for the years ended December 31, 2015 and 2014, is as follows:

(in millions of Korean won)		**2015**		**2014**
Profit attributable to owners of the Parent company	₩	577,523	₩	379,104
Net income attributable to preferred stock		88,392		58,038
Weighted average number of ordinary shares in issue (unit: shares)		10,551,629		10,551,674
Basic earnings per preferred share	₩	8,377	₩	5,500

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

The Group did not issue potential ordinary shares. Therefore, basic earnings per share are identical earnings per share.

34. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2015 and 2014, is as follows:

(*in millions of Korean won*)		**2015**		**2014**
Net income	₩	584,796	₩	385,134
Adjustments for:				
Interest income, net		(22,472)		(11,121)
Loss(gain) on foreign currency translation		8,550		(789)
Impairment losses of property, plant and equipment and intangible assets		4,889		11,438
Depreciation and amortization		146,864		136,055
Loss (gain) on disposal of property, plant and equipment and intangible assets		12,060		14,500
Income tax		193,505		145,092
Gain from associates		(45)		(157)
Provision for severance benefits		26,750		23,853
Others		472		(2,962)
Changes in working capital				
Decrease(increase) in trade receivables		(92,366)		7,269
Increase in other receivables		(9,934)		(5,783)
Increase in inventories		(19,065)		(15,239)
Increase in other assets		(19,046)		(26,086)
Increase in trade payables		1,787		31,418
Increase(decrease) in other payables		(23,679)		15,066
Increase in provisions		2,135		998
Increase in other liabilities		63,717		41,113
Payment of severance benefits		(15,532)		(15,028)
Net transfer-in(out) of severance benefits of associates		(1,375)		3,187
Increase in plan assets, net		(53,959)		(37,243)
Cash generated from operations	₩	788,052	₩	700,715

Significant transactions not affecting cash flows for the years ended December 31, 2015 and 2014 are as follows:

(in millions of Korean won)		**2015**		**2014**
Reclassification of construction in-progress to property, plant and equipment	₩	117,702	₩	168,822
Reclassification of property, plant and equipment to investment property		(13,022)		309,465
Reclassification to non-current assets held-for-sale		-		201,155
Reclassification of borrowings to long-term borrowings		74,928		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 ₩4,958 million (2014: ₩9,041 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 180 thousand (2014: USD 256 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 ₩4,322 million (2014: ₩3,891 million).

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 (2014: 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 (2014: USD 10,000 thousand).
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.	Subsidiary has a syndicated loan agreement with Citibank and three other banks with a limit of USD 65,000 thousand and the outstanding balance is USD 65,000 thousand(2014: 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 2,401 thousand, and a loan agreement with a limit of EUR 7,000 thousand with Citi Bank N.A. and the outstanding balance is EUR 7,000 thousand(2014: EUR 7,000 thousand). Subsidiary has a bank overdraft agreement with a limit of EUR 13,000 thousand with Korea Exchange Bank and the outstanding balance is EUR 6,934 thousand (2014: EUR 10,587 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 781 thousand (2014: EUR 1,265 thousand).
AMOREPACIFIC Japan Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of JPY 1,000,000 thousand with Shinhan Bank Japan and the outstanding balance is JPY 600,000 thousand (2014: JPY 700,000 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 (2014: ₩15,000 million) and ₩4,000 million (2014: ₩3,500 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 (2014: ₩6 million) and ₩3,570 million (RMB 20,000 thousand) (2014:₩3,536 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 ₩2,210 million (HKD 14,615 thousand) (2014: ₩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 ₩545,898 million.

36. Related Party Transactions

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

Classfication	Name
Ultimate parent	Kyung-Bae Suh
Immediate parent	AMOREPACIFIC Group, Inc.
Ultimate parent presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Subsidiaries	AMOREPACIFIC Global Operations Limited.
	AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.
	AMORE Cosmetics (Shanghai) Co., Ltd.
	AMOREPACIFIC (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
	We-Dream Co., Ltd
Associates	Taiwan AMORE Co.,Ltd.
A subsidiary of the Controlling Company	Etude Corporation
	Espoir Corporation[1]
	Innisfree Corporation
	AMOS Professional Corporation
	AESTURA Corporation (formerly, 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] Incorporated by spin-off from Etude Corporation during 2015.