

# ***AMOREPACIFIC Corporation and Subsidiaries***

Consolidated Financial Statements  
December 31, 2015 and 2014



**AMOREPACIFIC Corporation and Subsidiaries**  
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**December 31, 2015 and 2014**

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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, 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.

A handwritten signature in black ink that reads "Samil PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

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**

			(in thousands of Korean won)		(in thousands of U.S. dollars (Note 4))				
	Notes		2015	2014		2015	2014		
<b>Assets</b>									
<b>Current assets</b>									
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
			<u>1,833,178,444</u>		<u>1,427,255,363</u>		<u>1,564,146</u>		<u>1,217,795</u>
<b>Non-current assets</b>									
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
			<u>2,609,922,987</u>		<u>2,427,322,194</u>		<u>2,226,896</u>		<u>2,071,094</u>
<b>Total assets</b>		₩	<u>4,443,101,431</u>	₩	<u>3,854,577,557</u>	US\$	<u>3,791,042</u>	US\$	<u>3,288,889</u>
<b>Liabilities</b>									
<b>Current liabilities</b>									
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
			<u>871,900,751</u>		<u>651,125,630</u>		<u>743,941</u>		<u>555,568</u>
<b>Non-current liabilities</b>									
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		112,464
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
			<u>198,869,919</u>		<u>325,129,650</u>		<u>169,685</u>		<u>277,414</u>
<b>Total liabilities</b>			<u>1,070,770,670</u>		<u>976,255,280</u>		<u>913,626</u>		<u>832,982</u>
<b>Equity attributable to owners of the Parent</b>									
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
			<u>3,345,587,417</u>		<u>2,858,721,020</u>		<u>2,854,597</u>		<u>2,439,182</u>
<b>Non-controlling interest</b>			<u>26,743,344</u>		<u>19,601,257</u>		<u>22,819</u>		<u>16,725</u>
<b>Total equity</b>			<u>3,372,330,761</u>		<u>2,878,322,277</u>		<u>2,877,416</u>		<u>2,455,907</u>
<b>Total liabilities and equity</b>		₩	<u>4,443,101,431</u>	₩	<u>3,854,577,557</u>	US\$	<u>3,791,042</u>	US\$	<u>3,288,889</u>

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 Comprehensive Income**  
**Years Ended December 31, 2015 and 2014**

	Notes	(in thousands of Korean won, except per share amounts)		(in thousands of U.S. dollars (Note 4), except per share amounts)	
		2015	2014	2015	2014
<b>Sales</b>	5,28,36	₩ 4,766,627,213	₩ 3,874,007,758	US\$ 4,067,088	US\$ 3,305,467
<b>Cost of sales</b>	10,29,36	1,169,406,019	1,028,190,573	997,787	877,296
<b>Gross profit</b>		3,597,221,194	2,845,817,185	3,069,301	2,428,171
<b>Selling and administrative expenses</b>	29,30	2,824,311,249	2,282,066,065	2,409,822	1,947,155
<b>Operating profit</b>	5	772,909,945	563,751,120	659,479	481,016
Finance income	6,31	25,538,571	13,725,467	21,791	11,711
Finance costs	6,31	3,067,385	2,604,218	2,617	2,222
Other non-operating gains(losses) - net	6,10,13,14,18,32	(17,124,779)	(44,803,587)	(14,612)	(38,228)
Share of profit of associates	12	44,769	156,843	38	134
		5,391,176	(33,525,495)	4,600	(28,605)
Profit before income tax		778,301,121	530,225,625	664,079	452,411
Income tax expense	27	193,505,066	145,091,897	165,107	123,799
<b>Profit for the year</b>		₩ 584,796,055	₩ 385,133,728	US\$ 498,972	US\$ 328,612
<b>Profit attributable to:</b>					
Owners of the parent		₩ 577,523,478	₩ 379,104,301	US\$ 492,767	US\$ 323,468
Non-controlling interests		₩ 7,272,577	₩ 6,029,427	US\$ 6,205	US\$ 5,144
<b>Other comprehensive income</b>					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of post employment benefit obligations	22,27	(28,704,191)	(13,088,954)	(24,492)	(11,168)
Items that will be reclassified subsequently to profit or loss:					
Change in value of available-for-sale financial assets	6,11,24,27	(322,128)	266,136	(275)	227
Share of other comprehensive income of associates	12,24,27	52,727	421,277	45	359
Foreign currency translation adjustment	24,27	(124,041)	613,436	(106)	524
<b>Total comprehensive income for the year, net of income taxes</b>		₩ 555,698,422	₩ 373,345,623	US\$ 474,144	US\$ 318,554
<b>Attributable to:</b>					
Equity holders of the Parent Company		547,877,631	366,888,978	467,472	313,045
Non-controlling interest		7,820,791	6,456,645	6,672	5,509
<b>Total comprehensive income for the year, net of income taxes</b>		₩ 555,698,422	₩ 373,345,623	US\$ 474,144	US\$ 318,554
<b>Earnings per share to the equity holders of the Company during the year</b>	33				
<b>Earnings per share to the ordinary equity holders</b>		₩ 8,372	₩ 5,495	US\$ 7.14	US\$ 4.69
<b>Earnings per share to the preferred equity holders</b>		₩ 8,377	₩ 5,500	US\$ 7.15	US\$ 4.69

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(in thousands of Korean won)

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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)		(in thousands of U.S. dollars(Note 4))	
		2015	2014	2015	2014
<b>Cash flows from operating activities</b>					
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)
<b>Net cash generated from operating activities</b>		<u>627,503,451</u>	<u>586,111,369</u>	<u>535,412</u>	<u>500,096</u>
<b>Cash flows from investing activities</b>					
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)
<b>Net cash used in investing activities</b>		<u>(216,948,798)</u>	<u>(490,716,990)</u>	<u>(185,110)</u>	<u>(418,702)</u>
<b>Cash flows from financing activities</b>					
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)
<b>Net cash provided by (used in) financing activities</b>		<u>(69,419,541)</u>	<u>(46,276,939)</u>	<u>(59,231)</u>	<u>(39,485)</u>
Changes in cash and cash equivalents from currency translation		3,473,623	(569,872)	2,964	(486)
<b>Net increase in cash and cash equivalents</b>		<u>344,608,735</u>	<u>48,547,568</u>	<u>294,035</u>	<u>41,423</u>
<b>Cash and cash equivalents at the beginning of year</b>		<u>342,559,076</u>	<u>294,011,508</u>	<u>292,286</u>	<u>250,863</u>
<b>Cash and cash equivalents at the end of year</b>		<u>₩ 687,167,811</u>	<u>₩ 342,559,076</u>	<u>US\$ 586,321</u>	<u>US\$ 292,286</u>

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

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# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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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 <sup>1</sup>	31,498,180	54
	<u>58,458,490</u>	<u>100</u>

<sup>1</sup> Including 33,040 treasury shares

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	2,223	96.32	Dec.31	India
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC HongKong Co.,Limited	Marketing of cosmetics	12	100.00	Dec.31	Hong Kong
				77.00	Dec.31	

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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. <sup>1</sup>	₩ 180,133	₩ 63,034	₩ 57,381	₩ (169)	₩ 6,009
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. <sup>1</sup>	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)
Annick 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. <sup>1</sup>	₩ 202,010	₩ 50,939	₩ 39,856	₩ 3,879	₩ 10,120
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. <sup>1</sup>	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)
Annick 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	-	-	-	-

<sup>1</sup>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.

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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## 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*

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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- 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.

# **AMOREPACIFIC Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2015 and 2014**

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#### **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.

## **AMOREPACIFIC Corporation and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2015 and 2014**

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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.

# **AMOREPACIFIC Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2015 and 2014**

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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:

	<b>Useful life</b>
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.



# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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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 - 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.

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## **Notes to Consolidated Financial Statements**

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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.

# **AMOREPACIFIC Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### **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.

# **AMOREPACIFIC Corporation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### *(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

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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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).

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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: ₩1,172.0, the exchange rate in effect on December 31, 2015. 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, 2014, U.S. dollar amounts, which were previously expressed at US\$1: ₩1,099.20, the rate in effect on December 31, 2014, have been restated to reflect the exchange rate in effect on December 31, 2015.

**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, 2015 and 2014, is as follows:

(in millions of Korean won)

	2015			2014		
	Revenues	Operating profit	Depreciation and amortization	Revenues	Operating profit	Depreciation and amortization
Cosmetics	₩ 4,265,823	₩ 728,549	₩ 131,966	₩ 3,407,497	₩ 531,626	₩ 118,985
MC & Sulloc	500,804	44,361	14,657	466,511	32,125	15,641
	<u>₩ 4,766,627</u>	<u>₩ 772,910</u>	<u>₩ 146,623</u>	<u>₩ 3,874,008</u>	<u>₩ 563,751</u>	<u>₩ 134,626</u>

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015	2014
Total segment revenue	₩ 4,766,627	₩ 3,874,008
Eliminating intercompany transactions, others	-	-
Group revenue	<u>₩ 4,766,627</u>	<u>₩ 3,874,008</u>

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Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Total segment operating profit	₩ 772,910	₩ 563,751
Eliminating intercompany transactions, others	-	-
Group operating profit	<u>₩ 772,910</u>	<u>₩ 563,751</u>

Assets and liabilities as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Cosmetics	₩ 3,750,481	₩ 955,379	₩ 3,244,550	₩ 866,246
MC & Sulloc	692,620	115,392	610,028	110,009
Group asset and liability	<u>₩ 4,443,101</u>	<u>₩ 1,070,771</u>	<u>₩ 3,854,578</u>	<u>₩ 976,255</u>

Non-current asset held for sale amounting to ₩201,155 million (2014: ₩201,155 million) and investments in associates amounting to ₩2,375 million (2014: ₩2,134 million) were all included in cosmetics business division.

Additions to non-current assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Cosmetics	₩ 279,001	₩ 297,106
MC & Sulloc	34,196	38,932
	<u>₩ 313,197</u>	<u>₩ 336,038</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, 2015 and 2014, and non-current assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	Revenues		Non-current assets <sup>1</sup>	
	2015	2014	2015	2014
Korea	₩ 3,546,483	₩ 3,044,901	₩ 1,821,796	₩ 1,671,972
North America	48,488	34,871	3,212	1,176
Europe	50,517	63,984	32,102	40,357
China	765,786	464,933	181,387	167,986
Other	355,353	265,319	43,725	36,337
	<u>₩ 4,766,627</u>	<u>₩ 3,874,008</u>	<u>₩ 2,082,222</u>	<u>₩ 1,917,828</u>

<sup>1</sup> 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, 2015 and 2014.

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**6. Financial Instruments by Category**

Categorizations of financial assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>			<b>2015</b>		<b>2014</b>
Loans and receivables	Cash and cash equivalents	₩	687,168	₩	342,559
	Current financial institutions deposits		183,131		166,324
	Non-current financial institutions deposits		10,695		8,762
	Trade receivables		279,859		196,682
	Current other receivables		37,471		31,642
	Non-current other receivables		166,224		131,820
	Other current assets <sup>1</sup>		14,573		24,981
Available-for-sale financial assets	Non-marketable securities		2,100		2,060
	Current debt securities		62,210		127,359
	Non-current debt securities		2,999		6,111
Financial assets at fair value	Derivative financial instruments		802		-
		₩	<u>1,447,232</u>	₩	<u>1,038,300</u>

<sup>1</sup> Other current assets represent accrued revenues (Note 17).

Categorizations of financial liabilities as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>			<b>2015</b>		<b>2014</b>
Financial liabilities at fair value through profit or loss	Derivative financial instruments	₩	-	₩	196
Financial liabilities at amortized cost	Trade payables		158,353		156,546
	Short-term borrowings		100,225		33,790
	Long-term borrowings		46,877		114,485
	Other payables		224,340		210,789
	Other current liabilities <sup>2</sup>		72,146		37,834
	Other non-current liabilities <sup>3</sup>		13,870		41,573
		₩	<u>615,811</u>	₩	<u>595,213</u>

<sup>2</sup> Other current liabilities are comprised of dividend payables, accrued expenses and other financial liabilities (Note 21).

<sup>3</sup> Other non-current liabilities are comprised of deposits received, 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, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Available-for-sale financial assets		
Gain(Loss) on valuation (Other comprehensive income(loss))	₩ (322)	₩ 266
Gain(Loss) on disposal (Profit or loss)	579	-
Interest income	3,356	1,717
Dividend income	-	20
Loans and receivables		
Interest income	12,255	12,008
Gain(Loss) on foreign currency translation	(4,439)	969
Impairment	-	(707)
Financial assets at fair value through profit or loss		
Gain on valuation of derivative financial instruments	1,005	-
Financial liabilities at fair value through profit or loss		
Loss on valuation of derivative financial instruments	-	(12)
Financial liabilities at amortized cost		
Interest expense	(3,067)	(2,592)
Gain(Loss) on foreign currency translation	(323)	262
Gain on valuation of financial liabilities	8,923	-

**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, 2015 and 2014:

Trade receivables		
<i>(in millions of Korean won)</i>	2015	2014
Counterparties with external credit rating		
A	₩ 153,580	₩ 89,335
BBB	1,207	1,340
	<u>154,787</u>	<u>90,675</u>
Counterparties without external credit rating		
Group 1 <sup>1</sup>	2,937	1,670
Group 2 <sup>2</sup>	107,057	86,281
Group 3 <sup>3</sup>	-	-
	<u>109,994</u>	<u>87,951</u>
	<u>₩ 264,781</u>	<u>₩ 178,626</u>

<sup>1</sup> New customers/related parties (less than 6 months)

<sup>2</sup> Existing customers/related parties (more than 6 months) with no defaults in the past

<sup>3</sup> 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		
<i>(in millions of Korean won)</i>		
	<b>2015</b>	<b>2014</b>
Counterparties with external credit rating		
A	₩ 482	₩ 24,100
Counterparties without external credit rating		
Group 1	943	1,908
Group 2	202,277	137,452
Group 3	-	-
	203,220	139,360
	₩ 203,702	₩ 163,460

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Cash equivalents and financial institutions deposits <sup>1</sup>		
A A A	₩ 880,901	₩ 517,572

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

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Available-for-sale debt securities		
A A A	₩ 65,209	₩ 133,470

**8. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Cash on hand	₩ 92	₩ 73
Ordinary deposits	54,089	32,821
Checking accounts	109,443	97,001
MMDA	523,544	212,664
	₩ 687,168	₩ 342,559

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, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Trade receivables	₩	282,465	₩	199,545
Less: provision for impairment of trade receivables		(2,606)		(2,863)
Trade receivables, net	₩	<u>279,859</u>	₩	<u>196,682</u>
Current other receivables	₩	37,754	₩	31,928
Less: provision for impairment of current other receivables		(283)		(286)
Current other receivables, net	₩	<u>37,471</u>	₩	<u>31,642</u>
Non-current other receivables	₩	166,224	₩	131,820
Less: provision for impairment of non-current other receivables		-		-
Non-current other receivables, net	₩	<u>166,224</u>	₩	<u>131,820</u>

Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Non-trade receivables	₩ 37,471	₩ -	₩ 31,642	₩ -
Loans	-	32,688	-	28,462
Deposits provided	-	133,536	-	103,358
	<u>₩ 37,471</u>	<u>₩ 166,224</u>	<u>₩ 31,642</u>	<u>₩ 131,820</u>

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The aging analysis of trade and other receivables as of December 31, 2015 and 2014, is as follows:

(in millions of Korean won)

	2015		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 264,781	₩ 203,702	₩ 178,626	₩ 163,460
Past due but not impaired <sup>1</sup>				
Up to 3 months	10,961	-	12,893	2
4 to 6 months	587	-	1,170	-
7 to 12 months	788	-	711	-
Over 12 months	1,967	-	1,525	-
Impaired				
Over 3 months	3,381	276	4,620	286
	₩ 282,465	₩ 203,978	₩ 199,545	₩ 163,748

<sup>1</sup> 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, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015	2014
Beginning	₩ 2,863	₩ 2,753
Provision for receivables impairment (Reversal)	(197)	903
Receivables written off during the year as uncollectible	-	(701)
Exchange differences	(60)	(92)
Ending	₩ 2,606	₩ 2,863

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.

**AMOREPACIFIC Corporation and Subsidiaries**  
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**10. Inventories**

Inventories as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Merchandise	₩	108,436	₩	67,753
Finished goods		123,929		132,417
Raw materials		24,619		25,622
Subsidiary materials		19,191		21,771
Others		47,763		57,310
	₩	<u>323,938</u>	₩	<u>304,873</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩1,197,399 million (2014: ₩1,020,655 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2015 and 2014 are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Loss on valuation of inventories	₩	1,437	₩	119
Loss on disposal of inventories		25,709		50,955
	₩	<u>27,146</u>	₩	<u>51,074</u>

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**11. Available-for-sale Financial Assets**

Available-for-sale financial assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Debt securities		
Asset backed securities	₩ 60,000	₩ 125,000
Government-issued securities	2,999	6,111
Investment securities	2,210	2,359
Equity securities		
Marketable equities		
Meritz Securities Co., Ltd. <sup>1</sup>	777	-
Non-marketable equities		
GL Pharm Tech Co., Ltd.	191	191
Welskin Co., Ltd.	48	48
I'M Investment Securities Co., Ltd. <sup>1</sup>	-	737
The Korea Economic Daily	81	81
ELANDRETAIL Ltd.	3	3
Biogenics Co., Ltd.	1,000	1,000
	<u>₩ 67,309</u>	<u>₩ 135,530</u>

<sup>1</sup> I'M Investment Securities Co., Ltd. was merged into Meritz Securities Co., Ltd. during the year ended December 31, 2015.

The changes in available-for-sale financial assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Beginning	₩ 135,530	₩ 7,015
Acquisition of subsidiaries	-	2,347
Additions	236,318	176,000
Disposals	(303,965)	(50,280)
Gains/(losses) on valuation	40	359
Exchange differences	(149)	89
Gains reclassified from equity <sup>1</sup>	(465)	-
Ending	<u>₩ 67,309</u>	<u>₩ 135,530</u>

<sup>1</sup> Other comprehensive income on valuation amounting to ₩465 million (tax effect: ₩112 million), which was recognized in equity, was reclassified into gain on disposal. The gain on disposal is included in other non-operating gains(losses) in the income statements (Note 32).

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, 2015 and 2014, are as follows:

		2015			2014		
	Percentage of Ownership	Acquisition cost	Book value	Net asset value	Acquisition cost	Book value	Net asset value
Taiwan AMORE Co.,Ltd.	50.0	₩ 131	₩ 2,375	₩ 2,334	₩ 131	₩ 2,134	₩ 2,237
		₩ 131	₩ 2,375	₩ 2,334	₩ 131	₩ 2,134	₩ 2,237

Changes in investments in associates for the years ended December 31, 2015 and 2014, are as follows:

	2015		
	Taiwan AMORE Co.,Ltd.		
Beginning	₩	2,134	
Acquisition		-	
Share of profit		45	
Changes in other comprehensive income		53	
Losses reclassified from equity		-	
Exchange differences		143	
Ending	₩	2,375	

  

	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 reclassified from equity <sup>1</sup>	-	(459)	(459)
Exchange differences	80	-	80
Ending	₩ 2,134	₩ -	₩ 2,134

<sup>1</sup> 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.

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Summary of financial information of associates as of and for the years ended December 31, 2015 and 2014, is as follows:

(in millions of Korean won)

	2015					Comprehensive Income
	Total Assets	Total Liabilities	Revenue	Net Income		
Taiwan AMORE Co.,Ltd.	₩ 5,384	₩ 715	₩ 5,075	₩ 90	₩	195

(in millions of Korean won)

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

**13. Property, Plant and Equipment**

Property, plant and equipment as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015			2014		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 717,260	₩ -	₩ 717,260	₩ 668,505	₩ -	₩ 668,505
Buildings	703,423	(121,650)	581,773	640,896	(104,697)	536,199
Structures	47,821	(15,203)	32,618	48,928	(16,644)	32,284
Machinery	318,683	(143,287)	175,396	315,737	(141,998)	173,739
Vehicles	1,831	(1,124)	707	3,032	(2,172)	860
Tools	135,736	(114,579)	21,157	148,536	(131,026)	17,510
Fixtures and furniture	481,902	(285,581)	196,321	637,981	(462,083)	175,898
Other	5,628	(3,316)	2,312	3,916	(1,842)	2,074
Construction in progress	143,032	-	143,032	136,521	-	136,521
	₩ 2,555,316	₩ (684,740)	₩ 1,870,576	₩ 2,604,052	₩ (860,462)	₩ 1,743,590

Changes in property, plant and equipment for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015						
	Opening net book value	Acquisition	Reclassification <sup>1</sup>	Disposal	Depreciation	Currency translation differences	Closing net book value
Land	₩ 668,505	₩ -	₩ 48,824	₩ -	₩ -	₩ (69)	₩ 717,260
Buildings	536,199	799	66,622	(4,634)	(17,597)	384	581,773
Structures	32,284	1,676	1,522	(573)	(2,323)	32	32,618
Machinery	173,739	9,119	15,212	(1,708)	(20,987)	21	175,396
Vehicles	860	95	99	(87)	(220)	(40)	707
Tools	17,510	14,987	405	(2)	(11,746)	3	21,157
Fixtures and furniture	175,898	86,569	13,367	(2,035)	(77,389)	(89)	196,321
Other	2,074	1,937	(653)	-	(1,191)	145	2,312
Construction in progress	136,521	133,328	(126,665)	-	-	(152)	143,032
	₩ 1,743,590	₩ 248,510	₩ 18,733	₩ (9,039)	₩ (131,453)	₩ 235	₩ 1,870,576

<sup>1</sup> 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 (Note 15).



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	2014							
	Opening net book value	Acquisition	Reclassification <sup>1</sup>	Disposal <sup>2</sup>	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

<sup>1</sup> 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 (Note 15). 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).

<sup>2</sup> 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.

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

(in millions of Korean won)

	2015	2014
Selling and administrative expenses <sup>1</sup>	₩ 78,749	₩ 69,548
Cost of sales	52,704	52,385
	₩ 131,453	₩ 121,933

<sup>1</sup> Depreciation expense is included as part of development expense.

Details of property, plant and equipment provided as collaterals as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015				
	Book value	Secured amount	Related line item	Related amount	Secured party
Land and Buildings	₩ 18,556	₩ 341	LeaseHold Deposits Received	₩ 262	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	20,824	74	LeaseHold Deposits Received	57	Samsung Life Service Claim Adjustment Co., Ltd.
Land and Buildings		151	LeaseHold Deposits Received	116	National Human Rights Commission of Korea
Buildings	18,374	3,423	LeaseHold Deposits Received	3,423	Korea Workers' Compensation & Welfare Service
Buildings	382	100	LeaseHold Deposits Received	100	Social welfare organization Cheonggwang

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		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	

Details of finance lease as of December 31, 2015 and 2014, 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, 2015 and 2014:

(in millions of Korean won)

	2015		2014	
	Land	Buildings	Land	Buildings
Cost- capitalized finance leases	₩ 1,562	₩ 16,584	₩ 1,631	₩ 17,309
Accumulated depreciation	-	(5,801)	-	(5,652)
Net book value	₩ 1,562	₩ 10,783	₩ 1,631	₩ 11,657

The total of future minimum lease payments as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015	2014
Total minimum lease payments		
Not later than 1 year	₩ 1,585	₩ 1,655
1 year to 5 years	3,171	4,965
Later than 5 years	-	-
	₩ 4,756	₩ 6,620
Unearned finance income	(241)	(453)
Net minimum lease payments		
Not later than 1 year	1,448	1,455
1 year to 5 years	3,067	4,712
Later than 5 years	-	-
	₩ 4,515	₩ 6,167

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, 2015 is ₩210,534 million (2014: ₩165,642 million).

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The total of future minimum lease payments under non-cancellable operating lease agreements as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
No later than 1 year	₩	117,150	₩	81,799
1 year to 5 years		140,491		64,674
	₩	<u>257,641</u>	₩	<u>146,473</u>

**14. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)	2015									
	Goodwill		Industrial property		Software		Other		Total	
Beginning balance	₩	31,443	₩	16,575	₩	31,246	₩	94,974	₩	174,238
Acquisition		-		329		6,075		58,283		64,687
Reclassification		-		841		71,213		(77,766)		(5,712)
Disposal		-		-		(22)		(642)		(664)
Amortization		-		(1,759)		(12,752)		(659)		(15,170)
Impairment		(4,889)		-		-		-		(4,889)
Currency translation differences		14		(100)		(304)		(454)		(844)
Ending balance	₩	26,568	₩	15,886	₩	95,456	₩	73,736	₩	211,646

(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	₩	31,443	₩	16,575	₩	31,246	₩	94,974	₩	174,238

Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Selling and administrative expenses <sup>1</sup>	₩	13,932	₩	10,540
Cost of sales		1,238		2,153
	₩	<u>15,170</u>	₩	<u>12,693</u>

<sup>1</sup> Amortization expense is included as part of development expense.

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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>	<b>2015</b>		<b>2014</b>	
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
	₩	<u>26,568</u>	₩	<u>31,443</u>

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:

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

<sup>1</sup> 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 Annick 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).

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**15. Investment Property**

Details of investment property as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>			<b>2014</b>		
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land	₩ 260,136	₩ -	₩ 260,136	₩ 282,141	₩ -	₩ 282,141
Buildings	9,628	(5,451)	4,177	9,628	(5,213)	4,415
Structures	115	(74)	41	115	(72)	43
Construction in progress	51,811	-	51,811	42,828	-	42,828
	<u>₩ 321,690</u>	<u>₩ (5,525)</u>	<u>₩ 316,165</u>	<u>₩ 334,712</u>	<u>₩ (5,285)</u>	<u>₩ 329,427</u>

Changes in investment property for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>				
	<b>Land</b>	<b>Building</b>	<b>Structures</b>	<b>Construction in process</b>	<b>Total</b>
Beginning balance	₩ 282,141	₩ 4,414	₩ 44	₩ 42,828	₩ 329,427
Acquisition	-	-	-	-	-
Reclassification (Increase) <sup>1</sup>	(22,005)	-	-	8,983	(13,022)
Depreciation	-	(237)	(3)	-	(240)
Disposal	-	-	-	-	-
Ending balance	<u>₩ 260,136</u>	<u>₩ 4,177</u>	<u>₩ 41</u>	<u>₩ 51,811</u>	<u>₩ 316,165</u>

<i>(in millions of Korean won)</i>	<b>2014</b>				
	<b>Land</b>	<b>Building</b>	<b>Structures</b>	<b>Construction in process</b>	<b>Total</b>
Beginning balance	₩ 185,551	₩ 14,716	₩ 1,365	₩ -	₩ 201,632
Acquisition	-	-	-	-	-
Reclassification (Increase) <sup>1</sup>	96,590	(9,013)	(1,181)	42,828	129,224
Depreciation	-	(1,289)	(140)	-	(1,429)
Disposal	-	-	-	-	-
Ending balance	<u>₩ 282,141</u>	<u>₩ 4,414</u>	<u>₩ 44</u>	<u>₩ 42,828</u>	<u>₩ 329,427</u>

<sup>1</sup> 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. 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, 2015, is ₩359,958 million (2014: ₩376,489 million).

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There was no gain related to investment property for the years ended December 31, 2015 and 2014.

**16. Non-current Assets Held-for-sale**

Details of non-current assets held-for-sale as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>			<b>2014</b>		
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Land	₩ 190,286	₩ -	₩ 190,286	₩ 190,286	₩ -	₩ 190,286
Buildings	31,294	(21,728)	9,566	31,294	(21,728)	9,566
Structures	5,255	(3,952)	1,303	5,255	(3,952)	1,303
	<u>₩ 226,835</u>	<u>₩ (25,680)</u>	<u>₩ 201,155</u>	<u>₩ 226,835</u>	<u>₩ (25,680)</u>	<u>₩ 201,155</u>

Changes in non-current assets held-for-sale for the year ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>			
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Total</b>
Beginning balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155
Disposal <sup>1</sup>	-	-	-	-
Ending balance	<u>₩ 190,286</u>	<u>₩ 9,566</u>	<u>₩ 1,303</u>	<u>₩ 201,155</u>

<sup>1</sup> Title transfer, which was scheduled on September 2015, has been delayed due to approval of government for changing buyer's purpose of use.

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

<sup>1</sup> 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.

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, 2015 and 2014.

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**17. Other Assets**

Other assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Accrued revenues	₩ 14,573	₩ -	₩ 24,981	₩ -
Advance payments	19,467	-	10,998	-
Prepaid expenses	21,851	79	18,826	15
Derivative financial instruments	-	802	-	-
Others	790	21	842	12
	<u>₩ 56,681</u>	<u>₩ 902</u>	<u>₩ 55,647</u>	<u>₩ 27</u>

**18. Derivative Financial Instruments**

Details of derivative financial instruments as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Non-current derivative financial instruments				
Currency forward exchange contracts	₩ 802	₩ -	₩ -	₩ 196

The maximum exposure to credit risk as of the reporting date is the fair value of derivatives as of December 31, 2015. 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, 2015 are as follows:

<i>(in millions of Korean won, CNY and USD)</i>	<b>Type</b>	<b>Counter party</b>	<b>Contract period</b>	<b>Contract amount</b>		<b>Statement of Income</b>	
				<b>Sales</b>	<b>Purchase</b>	<b>Gain on valuation</b>	<b>Loss on valuation</b>
	Currency Forward	Citibank	Sep 9, 2013~July 8, 2016	CNY 192,264,000	USD 30,000,000	1,005	-

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**19. Borrowings**

Details of carrying amount of borrowings as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>Bank</b>	<b>Interest rate at December 31, 2015</b>	<b>2015</b>	<b>2014</b>
<b>Short-term borrowings</b>				
Bank overdrafts of EUR 6,934,346 (2014: EUR 10,586,527)	Societe Generale Bank and others	1.20	₩ 8,880	₩ 14,149
Loans for working capital of EUR 7,000,000 (2014: EUR 7,000,000)	Citibank	1.20	8,964	9,356
Loans for working capital of JPY 600,000,000 (2014: JPY 700,000,000)	Shinhan Bank Japan	1.00	5,832	6,441
Borrowings from an associate of JPY - (2014: JPY 234,000,000)	Etude Co., Ltd.	3.40	-	2,153
Bank overdrafts of EUR 781,332 (2014: EUR 1,265,147)	KEB	1.50	1,000	1,691
			<u>24,676</u>	<u>33,790</u>
<b>Current portion of long-term borrowings</b>				
Loans for working capital of USD 65,000,000 (2014: USD -)	Citibank and others	1.30	75,549	-
<b>Long-term borrowings</b>				
Loans for working capital of USD - (2014: USD 65,000,000)	Citibank and others	1.30	-	70,516
Loans for working capital of USD 40,000,000 (2014: USD 40,000,000)	Citibank and others	1.00	46,877	43,969
			<u>₩ 147,102</u>	<u>₩ 148,275</u>

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

*(in millions of Korean won)*

	<b>Amount</b>
July 21, 2017	₩ 46,877



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**20. Provisions for Liabilities and Charges**

Changes of provisions for liabilities and charges for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)	2015					2014				
	Provision for sales return	Profit-sharing and bonuses	Accrual for accumulated paid leave	Total	Long-term benefits	Provision for sales return	Profit-sharing and bonuses	Total		
Beginning	₩ 3,554	₩ 1,770	₩ -	₩ 5,324	₩ -	₩ 3,520	₩ 102	₩ 3,622		
Increase	511	126,254	2,934	129,699	2,536	1,453	109,229	110,682		
Decrease	(722)	(126,940)	-	(127,662)	-	(1,421)	(107,615)	(109,036)		
Currency translation differences	24	74	-	98	-	2	54	56		
Ending	₩ 3,367	₩ 1,158	₩ 2,934	₩ 7,459	₩ 2,536	₩ 3,554	₩ 1,770	₩ 5,324		

**21. Other Liabilities**

Other liabilities as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)	2015		2014	
	Current	Non-current	Current	Non-current
Withholdings	₩ 20,803	₩ -	₩ 20,764	₩ -
Value added tax withheld	46,018	-	23,268	-
Advances from customers	52,495	-	15,319	-
Deposits received	-	7,825	-	8,185
Accrued expenses	54,115	1,530	37,573	1,926
Financial liabilities	-	4,515	-	6,167
Dividends payable	283	-	261	-
Derivative financial instruments	-	-	-	196
Other financial liabilities	17,748	-	-	25,295
Others	6,312	801	4,787	774
	₩ 197,774	₩ 14,671	₩ 101,972	₩ 42,543

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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, 2015 and 2014, is as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Present value of funded defined benefit liability	₩	240,323	₩	189,073
Present value of unfunded defined benefit liability		2,185		2,230
		242,508		191,303
Fair value of plan assets <sup>1</sup>		(212,639)		(155,005)
Liability in the statement of financial position	₩	29,869	₩	36,298

<sup>1</sup> The contributions to the National Pension Fund of ₩ 221 million are included in the fair value of plan assets as of December 31, 2015 (2014: ₩ 226 million).

Changes in the defined benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Beginning balance	₩	191,303	₩	159,042
Current service cost		25,670		21,989
Interest expense		6,932		7,469
Remeasurements:				
Actuarial gains and losses arising from changes in demographic assumptions		4,363		-
Actuarial gains and losses arising from changes in financial assumptions		13,394		9,910
Actuarial gains and losses arising from experience adjustments		18,198		4,747
Exchange differences		(445)		(13)
Payments from plans:				
Benefit payments		(15,532)		(15,028)
Transfer to associates		(1,375)		3,187
Ending balance	₩	242,508	₩	191,303

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

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
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	₩	<u>212,639</u>	₩	<u>155,005</u>

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

	<b>2015</b>	<b>2014</b>
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:

<b>Effect on defined benefit obligation</b>			
	<b>Changes in principal assumption</b>	<b>Increase in principal assumption</b>	<b>Decrease in principal assumption</b>
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.

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Plan assets as of December 31, 2015 and 2014, consist of as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>			<b>2014</b>		
	<b>Unquoted price</b>	<b>Composition</b>		<b>Unquoted price</b>	<b>Composition</b>	
Deposits	₩ 212,413	99.89	%	₩ 154,779	99.85	%
Other	226	0.11		226	0.15	
	₩ 212,639	100.00	%	₩ 155,005	100.00	%

The weighted average maturity of the defined benefit obligations are 9.87 years and the maturity analysis of the undiscounted pension benefits as of December 31, 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Pension benefits	₩ 13,117	₩ 16,787	₩ 57,319	₩ 133,982	₩ 221,205

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, 2016 are ₩31,623 million.

## **22. 2 Defined Contribution Plan**

Recognized expense related to the defined contribution plan for the year ended December 31, 2015, is ₩157 million (2014: ₩342 million).

## **23. Other Components of Equity**

Other components of equity as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Treasury stock <sup>1</sup>	₩ (1,381)	₩ (1,381)
Other capital adjustments	(16,993)	(18,115)
	₩ (18,374)	₩ (19,496)

<sup>1</sup> Represents 33,040 common shares and 6,210 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, 2015 and 2014, consists of the following:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Change in value of available-for-sale financial assets	₩ (410)	₩ (88)
Currency translation differences	(13,667)	(13,000)
Share of other comprehensive income of associates	(12)	(59)
	₩ (14,089)	₩ (13,147)

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Changes in accumulated other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015				
	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	₩ (88)	₩ 30	₩ (352)	₩ -	₩ (410)
Currency translation differences	(13,000)	(124)	-	(543)	(13,667)
Share of other comprehensive income of associates	(59)	52	-	(5)	(12)
	<u>₩ (13,147)</u>	<u>₩ (42)</u>	<u>₩ (352)</u>	<u>₩ (548)</u>	<u>₩ (14,089)</u>

(in millions of Korean won)

	2014				
	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	₩ (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>

## 25. Retained Earnings

Retained earnings as of December 31, 2015 and 2014, consist of:

(in millions of Korean won)

	2015	2014
Legal reserves <sup>1</sup>	₩ 18,109	₩ 18,109
Discretionary reserves	1,699,000	1,419,000
Unappropriated retained earnings	905,963	699,276
	<u>₩ 2,623,072</u>	<u>₩ 2,136,385</u>

<sup>1</sup> 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 2015 and 2014, are as follows:

	2015		2014	
	Common stock	Preferred stock	Common stock	Preferred stock
Dividends paid	₩ 52,583 million	₩ 9,549 million	₩ 37,977 million	₩ 6,911 million
Dividends per share	900	905	650	655

Dividends in respect of the year ended December 31, 2015, of ₩1,350 per common share and ₩1,355 per preferred share, amounting to a total dividend of ₩78,874 million on common shares and ₩14,297 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 18, 2016. 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, 2015 and 2014, consists of:

<i>(in millions of Korean won)</i>	2015	2014
Current income tax	₩ 207,234	₩ 160,541
Deferred income tax	(13,729)	(15,449)
Income tax expense	₩ 193,505	₩ 145,092

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>	2015	2014
Profit before tax	₩ 778,301	₩ 530,226
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩ 186,272	₩ 124,876
Tax effects of:		
Income not subject to tax	(4,888)	(170)
Expenses not deductible for tax purposes	2,214	5,102
Tax losses for which no deferred income tax asset was recognized	10,986	17,974
Utilization of previously unrecognized tax losses	(1,147)	(3,219)
Tax credits	(3,276)	(2,058)
Adjustment in respect of prior years	176	1,679
Effects of the tax refund	3,500	-
Others	(332)	908
Income tax expense	₩ 193,505	₩ 145,092

The weighted average applicable tax rate of the Group is 24.86% (2014: 27.36%).

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Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>			<b>2014</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Gain (loss) on valuation of available-for-sale securities	₩ (425)	₩ 103	₩ (322)	₩ 359	₩ (93)	₩ 266
Remeasurements	(37,868)	9,164	(28,704)	(17,268)	4,179	(13,089)
Share of other comprehensive income of associates	(124)	-	(124)	421	-	421
Currency translation differences	53	-	53	613	-	613
	<u>₩ (38,364)</u>	<u>₩ 9,267</u>	<u>₩ (29,097)</u>	<u>₩ (15,875)</u>	<u>₩ 4,086</u>	<u>₩ (11,789)</u>

The analysis of deferred tax assets and liabilities as of December 31, 2015 and 2014, is as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	₩ 73,312	₩ 77,274
Deferred tax asset to be recovered within 12 months	41,235	16,250
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered after more than 12 months	(192,468)	(195,582)
Deferred tax liability to be recovered within 12 months	(755)	(593)
Deferred tax assets(liabilities), net	<u>₩ (78,676)</u>	<u>₩ (102,651)</u>

**AMOREPACIFIC Corporation and Subsidiaries**  
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Changes in deferred tax assets and liabilities for the years ended December 31, 2015 and 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(in millions of Korean won)

	2015				
	Beginning balance	Statement of income	Other comprehensive income	Currency translation differences	Ending balance
Deferred tax assets					
Allowance for doubtful accounts	₩ 4	₩ 31	₩ -	₩ 144	₩ 179
Inventory	1	-	-	-	1
Property, plant and equipment	9,404	1,811	-	(3,724)	7,491
Intangible assets	5	-	-	-	5
Government grants	612	(230)	-	-	382
Available-for-sale financial assets	582	-	103	-	685
Subsidiaries	5,498	3,508	-	18	9,024
Deferred revenue	17,738	4,060	-	430	22,228
Accrued expenses	4,149	4,165	-	4,689	13,003
Provision for sales return	679	(36)	-	-	643
Accrual for accumulated paid leave	-	710	-	-	710
Retirement benefit obligation	39,047	4,907	9,164	(24)	53,094
Long-term employee benefits	-	614	-	-	614
Selling and administrative expenses	2,267	128	-	-	2,395
Tax loss carryforwards	11,313	(10,010)	-	(615)	688
Others	2,225	1,153	-	27	3,405
	<u>93,524</u>	<u>10,811</u>	<u>9,267</u>	<u>945</u>	<u>114,547</u>
Deferred tax liabilities					
Accrued revenue	(452)	99	-	-	(353)
Other receivables	(71)	(4)	-	-	(75)
Property, plant and equipment	(103,577)	-	-	-	(103,577)
Intangible assets	(4,850)	(64)	-	34	(4,880)
Subsidiaries	(931)	-	-	-	(931)
Plan assets	(38,308)	(15,433)	-	-	(53,741)
Reserve for technology development	(43,641)	16,375	-	-	(27,266)
Advanced depreciation provision	(4,123)	2,061	-	-	(2,062)
Selling and administrative expenses	(141)	(197)	-	-	(338)
Others	(81)	81	-	-	-
	<u>(196,175)</u>	<u>2,918</u>	<u>-</u>	<u>34</u>	<u>(193,223)</u>
	<u>₩ (102,651)</u>	<u>₩ 13,729</u>	<u>₩ 9,267</u>	<u>₩ 979</u>	<u>₩ (78,676)</u>



**AMOREPACIFIC Corporation and Subsidiaries**  
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(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	₩ -	₩ (1)	₩ -	₩ -	₩ 4
Inventory	884	-	(883)	-	-	1
Property, plant and equipment	3,588	-	5,784	-	32	9,404
Intangible assets	5	-	-	-	-	5
Government grants	864	-	(252)	-	-	612
Available-for-sale financial assets	675	-	-	(93)	-	582
Subsidiaries	3,399	528	1,571	-	-	5,498
Deferred revenue	12,512	-	5,197	-	29	17,738
Accrued expenses	4,598	-	(565)	-	116	4,149
Provision liability	659	-	20	-	-	679
Retirement benefit obligation	31,178	-	3,738	4,179	(48)	39,047
Selling and administrative expenses	1,476	-	791	-	-	2,267
Tax loss carryforwards	23,461	-	(10,717)	-	(1,431)	11,313
Others	256	-	1,969	-	-	2,225
	<u>83,560</u>	<u>528</u>	<u>6,652</u>	<u>4,086</u>	<u>(1,302)</u>	<u>93,524</u>
Deferred tax liabilities						
Accrued revenue	(240)	-	(212)	-	-	(452)
Other receivables	(61)	-	(10)	-	-	(71)
Property, plant and equipment	(103,543)	-	(34)	-	-	(103,577)
Intangible assets	(4,401)	-	(529)	-	80	(4,850)
Subsidiaries	-	-	(931)	-	-	(931)
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)	-	2,116	-	-	(141)
Others	-	-	(81)	-	-	(81)
	<u>(205,052)</u>	<u>-</u>	<u>8,797</u>	<u>-</u>	<u>80</u>	<u>(196,175)</u>
	<u>₩ (121,492)</u>	<u>528</u>	<u>₩ 15,449</u>	<u>₩ 4,086</u>	<u>₩ (1,222)</u>	<u>₩ (102,651)</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 ₩61,126 million in respect of losses amounting to ₩174,755 million that can be carried forward against future taxable income. The maturity of tax losses is as follows:

(in millions of Korean won)

**2015**

2016	₩ 1,275
2017 ~ 2020	18,550
2020 ~ 2035	52,179
No limit	102,751
	<u>₩ 174,755</u>

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, 2015 and 2014, are as follows:

(in millions of Korean won)

**2015**

**2014**

Taxable temporary differences	₩ (112,715)	₩ (72,712)
Deductible temporary differences	73,662	94,323
	<u>₩ (39,053)</u>	<u>₩ 21,611</u>

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**28. Revenues**

Revenues for the years ended December 31, 2015 and 2014, consist of the following:

<i>(in millions of Korean won)</i>		<b>2015</b>		<b>2014</b>	
Sale of goods	Sales of finished goods	₩	4,191,130	₩	3,488,378
	Sales of merchandise		555,035		372,867
			<u>4,746,165</u>		<u>3,861,245</u>
Rendering of services			<u>15,677</u>		<u>5,849</u>
	Rental income		2,875		3,071
	Royalty income		55		1,750
Others	Others		<u>1,855</u>		<u>2,093</u>
			<u>4,785</u>		<u>6,914</u>
		₩	<u>4,766,627</u>	₩	<u>3,874,008</u>

**29. Expenses by Nature**

Expenses by nature for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Changes in inventories	₩	(19,158)	₩	(15,239)
Purchase of raw materials and merchandise		1,216,557		1,035,894
Employee benefit expense		654,934		560,818
Depreciation and amortization		146,623		134,626
Advertising expense		538,846		424,813
Research and development		79,951		71,097
Commission expense		315,167		273,562
Distribution commission		830,923		657,743
Other expenses		<u>229,874</u>		<u>166,943</u>
Total <sup>1</sup>	₩	<u>3,993,717</u>	₩	<u>3,310,257</u>

<sup>1</sup> 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, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
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
	<u>₩ 2,824,311</u>	<u>₩ 2,282,066</u>

**31. Finance Income and Costs**

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

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
<b>Finance income</b>		
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	-
	<u>₩ 25,539</u>	<u>₩ 13,725</u>
<b>Finance costs</b>		
Interest expense on financial liabilities carried at amortized cost	₩ (3,067)	₩ (2,592)
Loss on valuation of derivative instruments	-	(12)
	<u>₩ (3,067)</u>	<u>₩ (2,604)</u>

**AMOREPACIFIC Corporation and Subsidiaries**  
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**32. Other Non-operating Gains/(Losses)**

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

<i>(in millions of Korean won)</i>	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
	<u>43,518</u>	<u>54,014</u>
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)
	<u>(60,643)</u>	<u>(98,818)</u>
	<u>₩ (17,125)</u>	<u>₩ (44,804)</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, 2015 and 2014, is as follows:

<i>(in millions of Korean won)</i>	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)	<u>58,425,461</u>	<u>58,425,511</u>
Basic earnings per ordinary share	<u>₩ 8,372</u>	<u>₩ 5,495</u>

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Basic earnings per preferred share<sup>1</sup> for the years ended December 31, 2015 and 2014, is as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
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

<sup>1</sup>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:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
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

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

<i>(in millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
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).

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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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 (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). 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).
AMOREPACIFIC EUROPE S.A.S	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.

# AMOREPACIFIC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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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 We-Dream Co., Ltd
Associates	Taiwan AMORE Co.,Ltd.
A subsidiary of the Controlling Company	Etude Corporation Espoir Corporation <sup>1</sup> 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

<sup>1</sup> Incorporated by spin-off from Etude Corporation during 2015.



# AMOREPACIFIC Corporation and Subsidiaries

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Significant transactions with related parties for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015					
	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.	₩ 1,824	₩ 19,459	₩ -	₩ -	₩ 14	₩ -
Associates						
Taiwan AMORE Co., Ltd. and others	159	-	-	-	-	-
Subsidiaries of the Controlling Company						
Etude Corporation	4,454	20,097	-	-	62	-
Espoir Corporation	1,707	69	-	-	8	-
Innisfree Corporation	4,839	72,275	-	-	74	-
AMOS Professional Corporation	19,872	130	-	-	62	-
AESTURA Corporation (formerly, PACIFICPHARMA Corporation)	1,553	51,920	-	1	99	-
PACIFICGLAS, Inc.	266	38,183	-	-	12	-
PACIFICPACKAGE Corporation	312	51,904	-	-	4	-
Jangwon Co., Ltd.	107	1,603	-	-	5	27
COSVISION CO., LTD.	1,159	26,961	-	-	26	-
An associate of the Controlling Company						
BBDO Korea Inc.	-	-	-	-	-	19,803
Other related parties						
Taeshin Inpack Corporation	-	21,285	-	-	-	-
	₩ 36,252	₩ 303,886	₩ -	₩ 1	₩ 366	₩ 19,830

(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	-
AESTURA Corporation (formerly, 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	₩ 217,548	₩ -	₩ 1,436	₩ 580	₩ 20,369

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Year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Immediate parent					
AMOREPACIFIC Group, Inc.	₩ 130	₩ 208	₩ 4,405	₩ -	₩ 625
Associates					
Taiwan AMORE Co., Ltd. and others	49	-	-	-	-
Subsidiaries of the Controlling Company					
Etude Corporation	439	1,286	8,779	-	176
Espoir Corporation	61	29	31,817	-	12
Innisfree Corporation	867	530	8	-	812
AMOS Professional Corporation	2,210	92	5	-	113
AESTURA Corporation (formerly, PACIFICPHARMA Corporation)	-	962	113	-	355
PACIFICGLAS, Inc.	-	25	3,986	-	467
PACIFICPACKAGE Corporation	47	4	5,309	-	-
Jangwon Co., Ltd.	9	20	16	-	-
COSVISION CO., LTD.	4,479	27,386	1,907	-	54
An associate of the Controlling Company					
BBDO Korea Inc.	-	-	-	-	4,724
Other related parties					
Taeshin Inpack Corporation	-	-	2,111	-	-
	₩ 8,291	₩ 30,542	₩ 58,456	₩ -	₩ 7,338

(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
AESTURA Corporation (formerly, 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.	-	-	-	-	16,113
Other related parties					
Taeshin Inpack Corporation	-	-	2,035	-	-
	₩ 2,167	₩ 26,778	₩ 34,722	₩ 2,153	₩ 20,537

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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 year ended December 31, 2014, is 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

There is no fund transactions with related parties for the year ended December 31, 2015.

As of December 31, 2015, 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, 2015 and 2014, consists of:

*(In millions of Korean won)*

	2015	2014
Short-term employee benefits	₩ 10,037	₩ 11,062
Post-employment benefits	2,550	1,045
	₩ 12,587	₩ 12,107

### 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>	<b>Amount</b>	
Cash and cash equivalents	₩	18,212
Trade and other receivables <sup>1</sup>		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	₩	24,538

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

<sup>1</sup> 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.

<sup>2</sup> 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>	<b>Amount</b>	
Gross consideration transferred	₩	16,163
Deducted: cash and cash equivalents of acquiree		(18,212)
Net cash inflow from acquisition of subsidiaries	₩	2,049

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 consolidated statements of comprehensive income for the year ended December 31, 2013 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 ₩17,748 million (2014: ₩25,295 million) as financial liabilities (Note 21).

### 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, 2015 and 2014, are as follows:

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 101,250	₩ 205,391	₩ 67,703	₩ 162,239
EUR	556	1,493	11,425	24,970
JPY	-	816	-	4,095
	₩ 101,806	₩ 207,700	₩ 79,128	₩ 191,304

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As of December 31, 2015 and 2014, 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:

	2015		2014	
	Increase 10%	Decrease 10%	Increase 10%	Decrease 10%
USD	₩ (10,414)	₩ 10,414	₩ (9,454)	₩ 9,454
EUR	(94)	94	(1,355)	1,355
JPY	(82)	82	(409)	409

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, 2015, 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 ₩1,188 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.

	2015						Book value
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total		
Trade payables	₩ 158,353	₩ -	₩ -	₩ -	₩ 158,353	₩ 158,353	
Borrowings	101,351	47,212	-	-	148,563	147,102	
Other payables	224,340	-	-	-	224,340	224,340	
Other liabilities	75,791	12,535	-	-	88,326	86,016	

  

	2014						Book value
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total		
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	41,271	3,309	-	84,069	79,407	

The Group's derivative financial instruments have been included 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>		2015		2014
Liabilities (A)	₩	1,070,771	₩	976,255
Equity (B)		3,372,331		2,878,322
Cash and cash equivalents and current financial deposits (C)		880,993		517,645
Borrowings (D)		147,102		148,275
Debt-to-equity ratio (A/B)		31.75%		33.92%
Net Borrowings ratio (D-C)/B		(-)21.76%		(-)12.83%

**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).

<i>(in millions of Korean won)</i>		2015			
		Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
Available-for-sale financial assets	₩	2,987	₩ -	₩ -	₩ 2,987
Derivative financial assets		-	802	-	802
Disclosed fair value					
Investment property	₩	-	₩ -	₩ 359,958	₩ 359,958

<i>(in millions of Korean won)</i>		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	₩	-	₩ -	₩ 376,489	₩ 376,489



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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, 2015, 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, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Debt securities				
Asset backed securities	₩	60,000	₩	125,000
Government-issued securities		2,999		6,111
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
	₩	64,322	₩	132,434

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.