AMOREPACIFIC Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015

AMOREPACIFIC Corporation and Subsidiaries
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December 31, 2016 and 2015

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 referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 Responsibilities

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 9, 2017

This report is effective as of March 9, 2017, 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, 2016 and 2015

(in thousands of Korean won)

	Notes		2016		2015
Assets					
Current assets					
Cash and cash equivalents	5,6	₩	623,703,584	₩	687,167,811
Financial deposits	5,32		300,340,000		183,130,528
Available-for-sale financial assets	5,9,32,36		164,708,559		62,209,928
Trade receivables	5,7,33		294,456,289		279,858,926
Other receivables	5,7,33		45,372,274		37,471,465
Current tax assets	24		1,258,373		1,565,617
Other current assets	5,15		75,486,429		56,681,068
Inventories	8		409,865,745		323,938,060
Non-current assets held-for-sale	14		201,155,041		201,155,041
			2,116,346,294		1,833,178,444
Non-current assets					
Financial deposits	5,32		14,129,405		10,694,871
Other receivables	5,7,33		173,659,700		166,223,764
Available-for-sale financial assets	5,9,36		9,393,751		5,099,146
Property, plant and equipment	4,11,33		2,358,638,953		1,870,575,969
Investment properties	13,36		234,570,502		316,164,766
Intangible assets	4,12		228,094,002		211,646,123
Investments in associates	10		2,655,785		2,374,790
Deferred tax assets	24		43,900,217		26,241,224
Other non-current assets	15		188,520		902,334
			3,065,230,835		2,609,922,987
Total assets		₩	5,181,577,129	₩	4,443,101,431
Liabilities					
Current liabilities					
Trade payables	5,33,35	₩	165,888,249	₩	158,352,567
Borrowings	5,16,35		144,685,200		100,225,160
Other payables	5,33,35		315,343,173		224,340,015
Current tax liabilities	24		140,460,621		129,916,438
Deferred revenue			56,652,870		53,833,501
Provisions	17		19,720,492		7,459,168
Other current liabilities	5,18,35		328,468,404		197,773,902
			1,171,219,009		871,900,751
Non-current liabilities					
Borrowings	5,16,35		-		46,876,914
Net defined benefit liabilities	19		3,309,757		29,869,199
Deferred tax liabilities	24		93,379,828		104,917,089
Provisions	17		4,286,975		2,536,000
Other non-current liabilities	5,11,18,35		12,749,490		14,670,717
			113,726,050		198,869,919
Total liabilities			1,284,945,059		1,070,770,670
Equity					
Share capital	1		34,508,160		34,508,160
Share premium			712,701,764		712,701,764
Capital surplus			7,770,057		7,768,771
Other components of equity	20		(17,624,267)		(18,374,353)
Accumulated other comprehensive income	21		(17,195,099)		(14,088,653)
Retained earnings	22		3,158,666,867		2,623,071,728
Equity attributable to owners of the Parent Company			3,878,827,482		3,345,587,417
Non-controlling interest	34		17,804,588		26,743,344
Total equity			3,896,632,070		3,372,330,761
Total liabilities and equity		₩	5,181,577,129	₩	4,443,101,431

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

(in thousands of Korean won, except per share amounts)

	Notes		2016		2015
Revenue	4,25,33	₩	5,645,440,161	₩	4,766,627,213
Cost of sales	8,26,33		1,424,760,833		1,169,406,019
Gross profit			4,220,679,328		3,597,221,194
Selling and administrative expenses	26,27		3,372,575,874		2,824,311,249
Operating profit	4		848,103,454		772,909,945
Finance income	5,28		17,642,300		25,538,571
Finance costs	5,28		5,933,942		3,067,385
Other non-operating gains(losses), net	5,29		(3,333,972)		(17,124,779)
Share of net profit of associates	10		80,378		44,769
			8,454,764		5,391,176
Profit before income tax			856,558,218		778,301,121
Income tax expense	24		210,829,558		193,505,066
Profit for the period		₩	645,728,660	₩	584,796,055
Profit is attributable to:					
Owners of the Parent Company		₩	639,254,634	₩	577,523,478
Non-controlling interests		₩	6,474,026	₩	7,272,577
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurements of net defined benefit liabilities	19,24		(10,487,692)		(28,704,191)
Items that may be subsequently reclassified to profit or loss:					
Changes in the fair value of available-for-sale financial assets	5,9,21,24		2,411,706		(322,128)
Share of other comprehensive income of associates	10,21,24		128,057		52,727
Exchange differences on transaction of foreign operations	21,24		(5,352,709)		(124,041)
Other comprehensive income for the period, net of tax			(13,300,638)		(29,097,633)
Total comprehensive income for the period		₩	632,428,022	₩	555,698,422
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company			625,660,496		547,877,631
Non-controlling interests			6,767,526		7,820,791
		₩	632,428,022	₩	555,698,422
Earnings per share attributable to owners of the Parent Company	30				
Basic earnings per ordinary share		₩	9,267	₩	8,372
Basic earnings per preferred share		₩	9,272	₩	8,377

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015

(in thousands of Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Share premium	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2015	₩ 34,508,160	₩ 712,701,764	₩ 7,769,673	₩ (19,496,242)	₩ (13,146,997)	₩ 2,136,384,662	₩ 2,858,721,020	₩ 19,601,257	₩ 2,878,322,277
Comprehensive income									
Profit for the period	-	-	-	-	-	577,523,478	577,523,478	7,272,577	584,796,055
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(28,704,191)	(28,704,191)	-	(28,704,191)
Changes in the value of available-for-sale financial assets	-	-	-	-	(322,128)	-	(322,128)	-	(322,128)
Share of other comprehensive income of associates	-	-	-	-	47,454	-	47,454	5,273	52,727
Exchange differences on transaction of foreign operations	-	-	-	-	(666,982)	-	(666,982)	542,941	(124,041)
Total comprehensive income for the period	-	-	-	-	(941,656)	548,819,287	547,877,631	7,820,791	555,698,422
Transactions with owners									
Dividends paid	-	-	-	-	-	(62,132,221)	(62,132,221)	(555,848)	(62,688,069)
Other	-	-	(902)	1,121,889	-	-	1,120,987	(122,856)	998,131
Total transactions with owners	-	-	(902)	1,121,889	-	(62,132,221)	(61,011,234)	(678,704)	(61,689,938)
Balance at December 31, 2015	₩ 34,508,160	₩ 712,701,764	₩ 7,768,771	₩ (18,374,353)	₩ (14,088,653)	₩ 2,623,071,728	₩ 3,345,587,417	₩ 26,743,344	₩ 3,372,330,761
Balance at January 1, 2016	₩ 34,508,160	₩ 712,701,764	₩ 7,768,771	₩ (18,374,353)	₩ (14,088,653)	₩ 2,623,071,728	₩ 3,345,587,417	₩ 26,743,344	₩ 3,372,330,761
Comprehensive income									
Profit for the period	-	-	-	-	-	639,254,634	639,254,634	6,474,026	645,728,660
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(10,487,692)	(10,487,692)	-	(10,487,692)
Changes in the value of available-for-sale financial assets	-	-	-	-	2,411,706	-	2,411,706	-	2,411,706
Share of other comprehensive income of associates	-	-	-	-	115,252	-	115,252	12,805	128,057
Exchange differences on transaction of foreign operations	-	-	-	-	(5,633,404)	-	(5,633,404)	280,695	(5,352,709)
Total comprehensive income for the period	-	-	-	-	(3,106,446)	628,766,942	625,660,496	6,767,526	632,428,022
Transactions with owners									
Dividends paid	-	-	-	-	-	(93,171,803)	(93,171,803)	(1,419,013)	(94,590,816)
Changes in non-controlling interest due to capital increase	-	-	(292)	(2,906)	-	-	(3,198)	1,932,156	1,928,958
Changes in non-controlling interest due to acquistion	-	-	1,578	752,992	-	-	754,570	(16,219,425)	(15,464,855)
Total transactions with owners	-	-	1,286	750,086	-	(93,171,803)	(92,420,431)	(15,706,282)	(108,126,713)
Balance at December 31, 2016	₩ 34,508,160	₩ 712,701,764	₩ 7,770,057	₩ (17,624,267)	₩ (17,195,099)	₩ 3,158,666,867	₩ 3,878,827,482	₩ 17,804,588	₩ 3,896,632,070

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	Notes		2016		2015
			(in thousands of Korean won)		
Cash flows from operating activities					
Cash generated from operations	31	₩	891,031,530	₩	788,051,928
Interest received			16,402,028		13,667,306
Interest paid			(3,885,760)		(3,047,531)
Income tax paid			(226,596,036)		(171,168,252)
Net cash inflow from operating activities			676,951,762		627,503,451
Cash flows from investing activities					
Net decrease in current available-for-sale financial assets			-		65,296,263
Decrease in other receivables			19,679,604		13,091,304
Proceeds from disposal of non-current available-for-sale financial assets			6,922,995		3,165,330
Proceeds from disposal of property, plant and equipment			1,232,914		1,746,784
Proceeds from disposal of intangible assets			156,507		-
Proceeds from disposal of non-current assets held for sale	14		145,067,000		40,000,000
Net increase in current financial deposits			(115,287,910)		(16,577,606)
Net increase in current available-for-sale financial securities			(102,332,512)		-
Increase in other receivables			(25,256,992)		(46,071,221)
Increase in non-current financial deposits			(3,504,076)		(1,500,003)
Payments for non-current available-for-sale financial assets			(1,235,095)		(52,790)
Payments for property, plant and equipment			(494,810,173)		(215,342,168)
Payments for intangible assets			(40,257,738)		(60,704,691)
Net cash outflow from investing activities			(609,625,476)		(216,948,798)
Cash flows from financing activities					
Proceeds from short-term borrowings			32,906,430		1,044,785
Capital increase by non-controlling shareholders			1,932,156		-
Repayments of short-term borrowings			(37,438,461)		(7,798,157)
Dividends paid			(94,557,491)		(62,666,170)
Payments for acquisition of non-controlling interests	34		(35,818,440)		-
Net cash outflow from financing activities			(132,975,806)		(69,419,542)
Effects of exchange rate changes on cash and cash equivalents			2,185,293		3,473,624
Net increase (decrease) in cash and cash equivalents			(63,464,227)		344,608,735
Cash and cash equivalents at the beginning of the year			687,167,811		342,559,076
Cash and cash equivalents at the end of the year		₩	623,703,584	₩	687,167,811

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

1. General Information

General information of AMOREPACIFIC Corporation which is the Parent Company in accordance with Korean IFRS 1110 *Consolidated Financial Statements* (referred to as "the Company") and its 21 subsidiaries (collectively referred to as "the Group") is as follows.

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 at December 31, 2016, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, twenty overseas local subsidiaries including AMOREPACIFIC Global Operations Limited. located in Hongkong, and one domestic subsidiary.

As at December 31, 2016, the Company's share capital is ₩34,508 million, including ₩5,279 million of capital from preferred share. The Company is authorized to issue 275,000,000 shares of stock.

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 ordinary shareholders. This preferred dividend rate is not applicable to share dividend. Accordingly, in calculating earnings per share for preferred shares, a different dividend rate is used.

The Parent Company's ordinary shareholders as at December 31, 2016, are as follows:

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

[1] Including 33,041 treasury shares

The Company's consolidated subsidiaries as at December 31, 2016, are as follows:

Shareholder	Subsidiaries	Primary business		Share capital *(in millions of Korean won)*	Percentage of ownership(%)	Year end	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	₩	188,923	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 Global Operations Limited.	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics		41,690	99.99 0.01	Dec.31	Malaysia
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		406	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 Hong Kong Co.,Limited	Marketing of cosmetics		12	100.00	Dec.31	Hong Kong
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 Co Ltd.	Marketing of cosmetics		25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Marketing of cosmetics		6,090	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics		11,891	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation AMOREPACIFIC Global Operations Limited.	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics		6,885	3.10 96.90	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Marketing of cosmetics		3,417	100.00	Dec.31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Marketing of cosmetics		33,105	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Marketing of cosmetics		45,888	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Marketing of cosmetics		1,615	100.00	Dec.31	Canada
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 ME FZ-LLC	Marketing of cosmetics		1,031	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited. AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	AMOREPACIFIC Vietnam LTD.	Marketing of cosmetics		5,479	30.00 70.00	Dec.31	Vietnam

Summarized financial information for consolidated subsidiaries as at and for the periods ended December 31, 2016 and 2015, is as follows:

2016 *(in millions of Korean won)*	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.[1]	₩ 242,569	₩ 96,127	₩ 81,349	₩ 5,474	₩ 10,689
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]	4,986	-	-	(7)	32
AMORE Cosmetics (Shanghai) Co.,Ltd.	237,868	102,123	162,509	31,997	28,516
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	43,245	2,823	-	-	(1,268)
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	3,842	712	5,989	1,175	1,108
We-Dream Co., Ltd.	980	487	488	88	88
AMOREPACIFIC Trading Co., Ltd.	438,660	309,214	1,092,107	21,644	17,966
AMOREPACIFIC Hong Kong Co.,Limited	94,553	35,638	165,683	12,338	14,066
AMOREPACIFIC Taiwan Co.,Ltd.	22,496	12,765	38,094	1,843	2,312
AMOREPACIFIC SINGAPORE PTE Co Ltd.	36,063	15,539	62,900	4,439	4,584
AMOREPACIFIC MALAYSIA SDN. BHD.	18,229	10,340	28,552	1,177	879
AMOREPACIFIC (Thailand) LIMITED	26,185	17,923	28,309	565	697
PT. LANEIGE INDONESIA PACIFIC	6,215	2,792	8,053	147	933
Innisfree Cosmetics India Private Limited	2,202	718	1,004	(1,045)	(996)
AMOREPACIFIC Japan Co.,Ltd.	13,038	11,214	59,931	1,444	1,422
AMOREPACIFIC US, INC.	33,943	26,393	49,833	(1,258)	(1,031)
AMOREPACIFIC CANADA INC.	5,120	3,392	3,454	150	113
AMOREPACIFIC EUROPE S.A.S	43,194	31,791	53,321	1,530	1,137
Annick Goutal S.A.S	11,388	12,939	14,732	(3,566)	(3,480)
AMOREPACIFIC ME FZ-LLC	1,149	290	-	(170)	(172)
AMOREPACIFIC Vietnam LTD.	5,688	7,002	5,336	(733)	(751)

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

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

The amounts presented above are before the elimination of intercompany transactions. Also, the amounts presented above reflect accounting adjustments which were different from the Parent Company.

Changes in Scope for consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2016, are as follows:

Subsidiary	Reason
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Newly established by the Company and AMOREPACIFIC Global Operation Limited., a subsidiary, with the contribution of 99.99% and 0.01%, respectively.
AMOREPACIFIC CANADA INC. AMOREPACIFIC ME FZ-LLC	Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%.

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 periods 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 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 critical accounting estimates. Management also needs to exercise judgement in 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 Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

- *Disclosure Initiative* – Amendments to Korean IFRS 1001 *Presentation of Financial Statements*

- Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1038 *Intangible assets*

- *Investment entities: Applying the Consolidation Exception* – Amendments to Korean IFRS 1110 *Consolidated Financial Statements,* Korean IFRS 1112 *Disclosures of Interests in Other Entities, and* Korean IFRS 1028 *Investments in Associates and Joint Ventures*

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

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

Certain new accounting standards and interpretations that have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. This amendments will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. This amendments will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018 and the Group is analyzing the financial effects of applying the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.* The Group must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

· Identify contracts with customers

· Identify the separate performance obligation

· Determine the transaction price of the contract

· Allocate the transaction price to each of the separate performance obligations, and

· Recognize the revenue as each performance obligation is satisfied.

As at December 31, 2016, the Group is analyzing the financial effects of applying the standard in relation to implementation of Korean IFRS 1115. The Group plans to complete the analysis of the financial effects of applying the standard and disclose the result of the analysis in the notes on the consolidated financial statements as at December 31, 2017.

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 over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. 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 measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recoded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A changed in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interest in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changed in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. 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 objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(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 statement of profit or loss 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 statement of profit or loss 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 way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(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, and that 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 Group considers that there is objective evidence of impairment if significant financial difficulties of the debtor, delinquency in interest or principal payments for more than 3 months, or the disappearance of an active market for that financial asset because of financial difficulties is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security below its cost by more than 30%, or prolonged decline for more than 6 months is considered an objective evidence of impairment.

(c) Derecognition

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability 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 at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

2.7 Inventories

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

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

Non-current assets (or disposal group) are classified as assets held for sale when their carrying amount is to be principally through a sale transaction rather than through continuing use 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 historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

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

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in 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 profit or loss for the period in which the related expenses for the purpose of the government grants are incurred.

2.12 Intangible Assets

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

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

Software development costs that are directly attributable to internally generated by the Group are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life
Industrial property	5 - 20 years
Software	5 - 10 years
Others	3 - 45 years

2.13 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment property, except for land, using the straight-line method over their useful lives which are the same as those of property, plant and equipment.

2.14 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.15 Financial Liabilities

(a) Classification and measurement

The Group’s financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

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

Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the statement of profit or loss as ‘finance costs’, together with interest expenses recognized from 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 or 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 management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.17 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, 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 measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises 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 if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, 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, The Group recognizes a deferred tax asset for all 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 and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.18 Employee Benefits

(a) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee’s age, periods of service or salary levels. 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 that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

(b) Other long-term employee benefits

Certain entities with the Group 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 business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts and after elimination of inter-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group 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 are recognized when control of the products has transferred, being when the products are delivered to the wholesaler.

(b) Rendering of services

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

(c) Royalty income

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

(d) Interest income

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

(e) Dividend income

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

(f) Rental income

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

(g) Customer loyalty program

A customer loyalty program is operated by the Group to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Group grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards such as free or discounted goods or services. The award credits are recognized as a separately identifiable component of the initial sale transaction. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The fair value of the award credits is measured by taking into account the proportion of the award credits that are not expected to be redeemed by customers. Revenue from the award credits is recognized when the points are redeemed and the award credits expire 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 in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

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

2.21 Segment Reporting

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

2.22 Approval of Issuance of the Financial Statements

The consolidated financial statements 2016 were approved for issue by the Board of Directors on February 2, 2017 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 discussed below.

(a) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 13).

(b) Income taxes

The Group's taxable income generated from these operations are 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 25).

If certain portion of the taxable income is not used for investments or 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 18, 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 at 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 20).

4. 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 periods ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	2016			2015		
	Revenue	Operating profit	Depreciation and amortization	Revenue	Operating profit	Depreciation and amortization
Cosmetics	₩ 5,149,392	₩ 842,660	₩ 166,889	₩ 4,265,823	₩ 728,549	₩ 131,966
MC & Sulloc	496,048	5,443	14,072	500,804	44,361	14,657
	₩ 5,645,440	₩ 848,103	₩ 180,961	₩ 4,766,627	₩ 772,910	₩ 146,623

Adjustments from total segment revenue to the Group's revenue for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Total segment revenue	₩	5,645,440	₩	4,766,627
Eliminating intersegment revenue		-		-
Group revenue	₩	5,645,440	₩	4,766,627

Adjustments from total segment operating profit to the Group's operating profit for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Total segment operating profit	₩	848,103	₩	772,910
Eliminating intersegment revenue		-		-
Group operating profit	₩	848,103	₩	772,910

The segment information for assets and liabilities as at December 31, 2016 and 2015, are as follows:

	2016				2015			
(in millions of Korean won)		Assets		Liabilities		Assets		Liabilities
Cosmetics	₩	4,376,740	₩	1,143,189	₩	3,750,481	₩	955,379
MC & Sulloc		804,837		141,756		692,620		115,392
Group assets and liabilities	₩	5,181,577	₩	1,284,945	₩	4,443,101	₩	1,070,771

Non-current asset held for sale amounting to ₩201,155 million (2015: ₩201,155 million) and investments in associates amounting to ₩2,656 million (2015: ₩2,375 million) were all included in cosmetics business division.

Acquisition of non-current assets for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Cosmetics	₩	558,707	₩	279,001
MC & Sulloc		56,441		34,196
	₩	615,148	₩	313,197

Financial instruments and investments in associates are excluded from acquisition of non-current assets.

External revenues and non-current assets by geographic areas for the periods ended and as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	Revenues		Non-current assets[1]	
	2016	2015	2016	2015
Korea	₩ 3,997,301	₩ 3,546,483	₩ 2,271,013	₩ 1,821,796
North America	51,176	48,488	2,765	3,212
Europe	53,891	50,517	29,537	32,102
China	1,090,905	765,786	199,563	181,387
Others	452,167	355,353	83,855	43,725
	₩ 5,645,440	₩ 4,766,627	₩ 2,586,733	₩ 2,082,222

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

There is no external customer attributing to more than 10% of total revenues for the periods ended December 31, 2016 and 2015.

5. Financial Instruments by Category

Categorizations of financial assets as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016	2015
Loans and receivables	Cash and cash equivalents	₩ 623,704	₩ 687,168
	Current financial deposits	300,340	183,131
	Non-current financial deposits	14,129	10,695
	Trade receivables	294,456	279,859
	Current other receivables	45,372	37,471
	Non-current other receivables	173,660	166,224
	Other current assets[1]	15,789	14,573
Available-for-sale financial assets	Non-marketable securities	5,160	2,100
	Current debt securities	164,709	62,210
	Non-current debt securities	4,234	2,999
Financial assets at fair value through profit or loss	Derivative instruments	-	802
		₩ 1,641,553	₩ 1,447,232

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

Categorizations of financial liabilities as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016	2015
Financial liabilities at amortized cost	Trade payables	165,888	158,353
	Short-term borrowings	144,685	100,225
	Long-term borrowings	-	46,877
	Other payables	315,343	224,340
	Other current liabilities[2]	83,558	72,146
	Other non-current liabilities[3]	12,433	13,870
		₩ 721,907	₩ 615,811

[2] Other current liabilities are comprised of dividend payables, accrued expenses and other financial liabilities (Note 19).

[3] Other non-current liabilities are comprised of deposits received, accrued expenses, finance lease liabilities (Note 19).

Net gains or losses on each category of financial instruments for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Available-for-sale financial assets		
Gain(loss) on valuation (Other comprehensive income)	₩ 2,412	₩ (322)
Gain on disposal (Profit or loss)	6,963	579
Loss on disposal (Profit or loss)	(162)	-
Interest income	1,779	3,356
Dividend income	45	-
Loans and receivables		
Interest income	15,244	12,255
Gain(loss) on foreign currency translation	5,374	(4,439)
Impairment loss	(768)	197
Financial assets at fair value through profit or loss		
Gain on valuation of derivative financial instruments	619	1,005
Financial liabilities at amortized cost		
Interest expense	(3,899)	(3,067)
Loss on foreign currency translation	(7,965)	(323)
Gain(loss) on valuation of financial liabilities	(2,035)	8,923

6. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		2015	
Cash on hand	₩	507	₩	92
Ordinary deposits		184,433		54,089
Checking accounts		85,214		109,443
Other accounts		353,550		523,544
	₩	623,704	₩	687,168

Cash and cash equivalents include bank deposits that have a maturity of three months or less from the date of acquisition.

7. Trade and Other Receivables

Trade and other receivables as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		2015	
Trade receivables	₩	297,884	₩	282,465
Less: provision for impairment of trade receivables		(3,428)		(2,606)
Trade receivables, net	₩	294,456	₩	279,859
Current other receivables	₩	45,849	₩	37,754
Less: provision for impairment of current other receivables		(477)		(283)
Current other receivables, net	₩	45,372	₩	37,471
Non-current other receivables	₩	173,660	₩	166,224
Less: provision for impairment of non-current other receivables		-		-
Non-current other receivables, net	₩	173,660	₩	166,224

Details of other receivables are as follows:

	2016				2015			
(in millions of Korean won)	Current		Non-current		Current		Non-current	
Non-trade receivables	₩	45,372	₩	-	₩	37,471	₩	-
Loans		-		30,204		-		32,688
Deposits provided		-		143,456		-		133,536
	₩	45,372	₩	173,660	₩	37,471	₩	166,224

The aging analysis of trade and other receivables as at December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	2016 Trade receivables	2016 Other receivables	2015 Trade receivables	2015 Other receivables
Receivables not past due	₩ 257,828	₩ 216,413	₩ 264,781	₩ 203,702
Past due but not impaired [1]				
Up to 3 months	26,986	510	10,961	-
4 to 6 months	5,233	632	587	-
7 to 12 months	2,865	797	788	-
Over 12 months	584	956	1,967	-
Impaired				
Over 3 months	4,388	201	3,381	276
	₩ 297,884	₩ 219,509	₩ 282,465	₩ 203,978

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

Movements on the provision for impairment of trade receivables for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Beginning balance	₩ 2,606	₩ 2,863
Impairment loss (Reversal)	788	(197)
Exchange differences	34	(60)
Ending balance	₩ 3,428	₩ 2,606

Provision for impaired receivables and unused amounts reversed have been included in the statement of profit or loss within ‘selling and administrative expenses’ in (Note 28). Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

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 end of reporting period is the carrying amount of each class of receivables mentioned above.

8. Inventories

Inventories as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Merchandise	₩	150,896	₩	108,436
Finished goods		154,905		123,929
Raw materials		23,982		24,619
Subsidiary materials		18,870		19,191
Others		61,213		47,763
	₩	409,866	₩	323,938

Inventories recognized as an expense during the year ended December 31, 2016 amounted to ₩1,395,200 million (2015: ₩1,197,399 million). They were included in 'cost of sales'.

Loss on valuation of inventories and loss on disposal of inventories for the periods ended December 31, 2016 and 2015 are as follows:

(in millions of Korean won)		2016		2015
Loss on valuation of inventories	₩	2,285	₩	1,437
Loss on disposal of inventories		37,069		25,709
	₩	39,354	₩	27,146

9. Available-for-sale Financial Assets

Available-for-sale financial assets include the following classes of financial assets:

(in millions of Korean won)		2016		2015
Debt securities				
Asset backed securities	₩	160,000	₩	60,000
Government-issued securities		4,234		2,999
Investment securities		4,708		2,210
Equity securities				
Marketable equities				
Meritz Securities Co., Ltd.		673		777
GL Pharm Tech Co., Ltd.[1]		3,355		-
Non-marketable equities				
GL Pharm Tech Co., Ltd.[1]		-		191
Welskin Co., Ltd.		48		48
The Korea Economic Daily		81		81
ELANDRETAIL Ltd.		3		3
Biogenics Co., Ltd.		1,000		1,000
	₩	174,102	₩	67,309

[1] The Group`s equity securities of GL Pharm Tech Co., Ltd are measured at fair value based on the quoted price in an active market as GL Pharm Tech Co., Ltd became a public corporation through merger with special purpose acquisition company for the period ended December 31, 2016.

Changes in available-for-sale financial assets for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Beginning balance	₩	67,309	₩	135,530
Acquisitions		363,639		236,318
Disposals		(260,175)		(303,965)
Gains on valuation		9,590		40
Exchange differences		147		(149)
Loss reclassified from equity [1]		(6,408)		(465)
Ending balance	₩	174,102	₩	67,309

[1] Other comprehensive income on valuation amounting to ₩6,408 million (tax effect: ₩1,551 million)(2015: ₩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 statements of profit or loss (Note 30).

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

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

10. Associates

Associate as at December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	Percentage of ownership (%)	2016 Acquisition cost	2016 Book amount	2016 Net asset amount	2015 Acquisition cost	2015 Book amount	2015 Net asset amount
Taiwan AMORE Co.,Ltd.	50.0	₩ 131	₩ 2,656	₩ 2,499	₩ 131	₩ 2,375	₩ 2,334
		₩ 131	₩ 2,656	₩ 2,499	₩ 131	₩ 2,375	₩ 2,334

Changes in investments in associates for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	Taiwan AMORE Co.,Ltd. 2016	Taiwan AMORE Co.,Ltd. 2015
Beginning balance	₩ 2,375	₩ 2,134
Share of profit or loss of associates	80	45
Share of other comprehensive income of associates	128	53
Exchange differences	73	143
Ending balance	₩ 2,656	₩ 2,375

Summarized financial information of associates as at and for the periods ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	2016 Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 5,645	₩ 647	₩ 5,636	₩ 122	₩ 375

(in millions of Korean won)	2015 Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 5,384	₩ 715	₩ 5,075	₩ 90	₩ 195

11. Property, Plant and Equipment

Property, plant and equipment as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016 Cost	2016 Accumulated depreciation	2016 Book amount	2015 Cost	2015 Accumulated depreciation	2015 Book amount
Land	₩ 819,587	₩ -	₩ 819,587	₩ 717,260	₩ -	₩ 717,260
Buildings	699,430	(139,659)	559,771	703,423	(121,650)	581,773
Structures	48,757	(17,453)	31,304	47,821	(15,203)	32,618
Machinery	354,493	(159,440)	195,053	318,683	(143,287)	175,396
Vehicles	2,003	(1,264)	739	1,831	(1,124)	707
Tools	138,568	(112,741)	25,827	135,736	(114,579)	21,157
Fixtures and furniture	604,810	(346,673)	258,137	481,902	(285,581)	196,321
Others	599	(430)	169	5,628	(3,316)	2,312
Construction in progress	468,052	-	468,052	143,032	-	143,032
	₩ 3,136,299	₩ (777,660)	₩ 2,358,639	₩ 2,555,316	₩ (684,740)	₩ 1,870,576

Changes in property, plant and equipment for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016							
	Opening net book amount	Acquisition	Reclassification[1]	Disposal	Depreciation	Impairment loss	Exchange differences	Closing net book amount
Land	₩ 717,260	₩ -	₩ 102,370	₩ (28)	₩ -	₩ -	₩ (15)	₩ 819,587
Buildings	581,773	112	73	(232)	(18,809)	-	(3,146)	559,771
Structures	32,618	322	1,260	(300)	(2,614)	-	18	31,304
Machinery	175,396	28,596	16,728	(138)	(24,151)	(882)	(496)	195,053
Vehicles	707	216	159	(103)	(239)	-	(1)	739
Tools	21,157	17,328	249	-	(12,762)	(58)	(87)	25,827
Fixtures and furniture	196,321	135,649	28,644	(2,547)	(99,650)	-	(280)	258,137
Other	2,312	968	(2,798)	(298)	(23)	-	8	169
Construction in progress	143,032	391,700	(65,627)	-	-	-	(1,053)	468,052
	₩ 1,870,576	₩ 574,891	₩ 81,058	₩ (3,646)	₩ (158,248)	₩ (940)	₩ (5,052)	₩ 2,358,639

[1] The portion of construction in progress amounting to ₩38,686 million, which were related to the construction of new building in Yongsan-gu, Seoul were reclassified into investment property by applying planned future rent ratio. As the rent ratio changed, ₩120,040 million of asset classified as investment property was reclassified into property, plant and equipment (Note 14).

(in millions of Korean won)	2015						
	Opening net book amount	Acquisition	Reclassification[1]	Disposal	Depreciation	Exchange differences	Closing net book amount
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

[1] The portion of land and construction in progress, which were related to the construction of new building in Yongsan were reclassified into investment property by applying planned future rent ratio (Note 14).

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

(in millions of Korean won)	2016		2015	
Selling and administrative expenses[1]	₩	99,952	₩	78,749
Cost of sales		58,296		52,704
	₩	158,248	₩	131,453

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

Details of property, plant and equipment provided as collaterals as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016				
	Book amount	Secured amount	Related line item	Related amount	Secured party
Land and Buildings	₩ 18,282	₩ 341	LeaseHold Deposits Received	₩ 262	Samsung Life Insurance Co., Ltd.
Land and Buildings	21,028	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		74	LeaseHold Deposits Received	57	Samsung Life Insurance Co., Ltd.
Land and Buildings		151	LeaseHold Deposits Received	116	National Human Rights Commission of Korea
Buildings	17,824	3,594	LeaseHold Deposits Received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	370	100	LeaseHold Deposits Received	100	Social welfare organization Cheonggwang

(in millions of Korean won)	2015				
	Book amount	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	20,824	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		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

Details of finance lease as at December 31, 2016 and 2015, 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.

Details of property, plant and equipment classified as a finance lease as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016				2015			
	Land		Buildings		Land		Buildings	
Cost- capitalized finance leases	₩	1,546	₩	16,417	₩	1,562	₩	16,584
Accumulated depreciation		-		(6,124)		-		(5,801)
Net book amount	₩	1,546	₩	10,293	₩	1,562	₩	10,783

The total of future minimum lease payments to the lessor as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		2015	
Total minimum lease payments				
Within one year	₩	1,569	₩	1,585
Later than one year but not later than five years		1,570		3,171
		3,139		4,756
Unearned finance income		(103)		(241)
Net minimum lease payments				
Within one year		1,489		1,448
Later than one year but not later than five years		1,547		3,067
Total of finance lease liabilities (Note19)	₩	3,036	₩	4,515

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 periods ended December 31, 2016, is ₩291,463 million (2015: ₩210,534 million).

Total minimum lease payments in relation to non-cancellable operating leases that are payable at the end of the reporting period are as follows:

(in millions of Korean won)	2016		2015	
Within one year	₩	139,964	₩	117,150
Later than one year but not later than five years		143,527		140,491
Later than five years		3,011		-
	₩	286,502	₩	257,641

12. Intangible Assets

Changes in intangible assets for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016				
	Goodwill	**Industrial property**	**Software**	**Others**	**Total**
Beginning balance	₩ 26,568	₩ 15,886	₩ 95,456	₩ 73,736	₩ 211,646
Acquisition	-	60	8,128	32,069	40,257
Reclassification	-	730	33,547	(33,981)	296
Disposal	-	-	(145)	(291)	(436)
Amortization	-	(1,847)	(20,385)	(481)	(22,713)
Impairment loss	-	-	-	(552)	(552)
Exchange differences	200	(23)	(79)	(502)	(404)
Ending balance	₩ 26,768	₩ 14,806	₩ 116,522	₩ 69,998	₩ 228,094

(in millions of Korean won)	2015				
	Goodwill	**Industrial property**	**Software**	**Others**	**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 loss	(4,889)	-	-	-	(4,889)
Exchange differences	14	(100)	(304)	(454)	(844)
Ending balance	₩ 26,568	₩ 15,886	₩ 95,456	₩ 73,736	₩ 211,646

Amortization of intangible assets is charged to the following accounts:

(in millions of Korean won)	**2016**	**2015**
Selling and administrative expenses[1]	₩ 21,306	₩ 13,932
Cost of sales	1,407	1,238
	₩ 22,713	₩ 15,170

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

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

(in millions of Korean won)		2016		2015
Annick Goutal CGU	₩	5,737	₩	5,796
AMOREPACIFIC Hong Kong CGU		8,662		8,405
China CGU		4,213		4,340
Vietnam CGU		3,858		3,792
Singapore Etude House CGU		3,413		3,387
Thailand CGU		537		519
Indonesia CGU		348		329
	₩	26,768	₩	26,568

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 2016 are as follows:

	Annick Goutal CGU	AMOREPACIFIC Hong Kong CGU	China CGU	Vietnam CGU	Singapore Etude House CGU
Gross margin rate	71.01 %	74.82 %	61.01 %	63.77 %	71.94 %
Growth rate[1]	9.41 %	8.00 %	30.10 %	18.27 %	13.14 %
Pre-tax discount rate	5.69 %	7.25 %	14.35 %	11.06 %	6.07 %

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

The impairment test suggests that the carrying amount of all cash generating units does not exceed the recoverable amount as at December 31, 2016.

13. Investment Property

Details of investment property as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016			2015		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 157,850	₩ -	₩ 157,850	₩ 260,136	₩ -	₩ 260,136
Buildings	9,628	(5,688)	3,940	9,628	(5,451)	4,177
Structures	115	(77)	38	115	(74)	41
Construction in progress	72,743	-	72,743	51,811	-	51,811
	₩ 240,336	₩ (5,765)	₩ 234,571	₩ 321,690	₩ (5,525)	₩ 316,165

Changes in investment property for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016									
	Land		**Building**		**Structures**		**Construction in process**		**Total**	
Beginning balance	₩	260,136	₩	4,177	₩	41	₩	51,811	₩	316,165
Acquisition		-		-		-		-		-
Reclassification[1]		(102,286)		-		-		20,932		(81,354)
Depreciation		-		(237)		(3)		-		(240)
Disposal		-		-		-		-		-
Ending balance	₩	157,850	₩	3,940	₩	38	₩	72,743	₩	234,571

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

[1] Land located in Yongsan and construction in progress with respect to the construction of a new building, which will be leased in the future, were reclassified to property, plant and equipment, as the planned future rent ratio changed.

Fair value of investment property as at December 31, 2016, is ₩260,877 million (2015: ₩359,958 million).

There was no gain related to investment property for the periods ended December 31, 2016 and 2015.

14. Non-current Assets Held-for-sale

Details of non-current assets held-for-sale as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016			2015		
	Cost	**Accumulated depreciation**	**Book amount**	**Cost**	**Accumulated depreciation**	**Book amount**
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
	₩ 226,835	₩ (25,680)	₩ 201,155	₩ 226,835	₩ (25,680)	₩ 201,155

The Group has changed the due date of disposal to September 2017 due to the government approval process for changing the purpose of use of prospective buyer has not been completed regarding the sales of the land and buildings of the plant located in Yongin-si, Gyeonggi Province. The Group received ₩145,067 million (2015: ₩40,000 million) from the prospective buyer for the sales of the above assets.

Changes in non-current assets held-for-sale for the periods ended December 31, 2016 and 2015, are as follows:

	2016			
(in millions of Korean won)	**Land**	**Buildings**	**Structures**	**Total**
Beginning balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155
Disposal	-	-	-	-
Ending balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155

	2015			
(in millions of Korean won)	**Land**	**Buildings**	**Structures**	**Total**
Beginning balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155
Disposal	-	-	-	-
Ending balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155

There is no cumulative profit or loss directly recognized in other comprehensive income in relation to the above non-current assets held-for-sale for the periods ended December 31, 2016 and 2015.

15. Other Assets

Other assets as at December 31, 2016 and 2015, are as follows:

	2016		2015	
(in millions of Korean won)	**Current**	**Non-current**	**Current**	**Non-current**
Accrued revenues	₩ 15,789	₩ -	₩ 14,573	₩ -
Advance payments	27,908	-	19,467	-
Prepaid expenses	25,459	178	21,851	79
Derivative financial instruments	-	-	-	802
Prepaid value added tax	5,673	-	450	-
Others	657	11	340	21
	₩ 75,486	₩ 189	₩ 56,681	₩ 902

16. Borrowings

Details of carrying amount of borrowings as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	Creditor	Interest rate (%) December 31, 2016	2016	2015
Short-term borrowings				
Bank overdrafts of EUR 5,141,885 (2015: EUR 6,934,346)	KEB Hana Bank Paris Branch	1.50	₩ 6,518	₩ 8,880
Bank overdrafts of EUR 792,420 (2015: EUR 781,332)	KEB Hana Bank Paris Branch	1.80	1,004	1,000
Loans for working capital of EUR 7,000,000 (2015: EUR 7,000,000)	Citibank N.A France	1.20	8,873	8,964
Loans for working capital of JPY 400,000,000 (2015: JPY 600,000,000)	SBJ BANK Yokohama Branch	0.95	4,147	5,832
Loans for working capital of HKD 220,000,000	CITI N.A HONG KONG	1.00	34,283	-
			54,825	24,676
Current portion of long-term borrowings				
Loans for working capital of USD 35,000,000 (2015: USD 65,000,000)	Citibank (China) Co. Ltd.	0.91	41,551	75,549
Loans for working capital of USD 40,000,000	CITI N.A HONG KONG and others	1.01	48,309	-
			89,860	75,549
Long-term borrowings				
Loans for working capital (2015: USD 40,000,000)	CITI N.A HONG KONG and others	-	-	46,877
			-	46,877
			₩ 144,685	₩ 147,102

17. Provisions

Details and changes of provisions for liabilities and charges for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016								
	Current						Non-current		
	Provision for sales return	Compensation for sale[1]	Profit-sharing and bonuses	Accrual for accumulated paid leave	Others	Total	Long-term employee benefits	Provision for restoration	Total
Beginning	₩ 3,367	₩ -	₩ 1,158	₩ 2,934	₩ -	₩ 7,459	₩ 2,536	₩ -	₩ 2,536
Increase	949	38,312	86,518	2,338	1,569	129,686	1,013	744	1,757
Decrease	-	(34,312)	(82,949)	(150)	-	(117,411)	-	-	-
Exchange differences	53	-	(33)	(13)	(21)	(14)	-	(6)	(6)
Ending	₩ 4,369	₩ 4,000	₩ 4,694	₩ 5,109	₩ 1,548	₩ 19,720	₩ 3,549	₩ 738	₩ 4,287

[1] The Group decided to recall certain products that had been sold during 2016 and reimburse customers. In this regard, the Group recognized expected expenses as provisions.

(in millions of Korean won)	2015				
	Current				Non-current
	Provision for sales return	Profit-sharing and bonuses	Accrual for accumulated paid leave	Total	Long-term employee benefits
Beginning	₩ 3,554	₩ 1,770	₩ -	₩ 5,324	₩ -
Increase	511	126,254	2,934	129,699	2,536
Decrease	(722)	(126,940)	-	(127,662)	-
Exchange differences	24	74	-	98	-
Ending	₩ 3,367	₩ 1,158	₩ 2,934	₩ 7,459	₩ 2,536

18. Other Liabilities

Other liabilities as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016 Current	2016 Non-current	2015 Current	2015 Non-current
Withholdings	₩ 14,665	₩ -	₩ 20,803	₩ -
Value added tax withheld	34,577	-	46,018	-
Advances from customers	189,259	-	52,495	-
Deposits received	-	8,095	-	7,825
Accrued expenses	83,242	1,302	54,115	1,530
Finance lease liabilities	-	3,036	-	4,515
Dividends payable	316	-	283	-
Other financial liabilities	-	-	17,748	-
Others	6,409	316	6,312	801
	₩ 328,468	₩ 12,749	₩ 197,774	₩ 14,671

19. Post-employment Benefits

19.1 Defined Benefit Plan

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		**2016**		**2015**
Present value of funded defined benefit obligations	₩	272,878	₩	240,323
Present value of unfunded defined benefit obligations		2,886		2,185
		275,764		242,508
Fair value of plan assets[1]		(272,454)		(212,639)
Net defined benefit liabilities	₩	3,310	₩	29,869

[1] The contributions to the National Pension Fund of ₩153 million (2015: ₩221 million) are included in the fair value of plan assets as at December 31, 2016.

Movements in the defined benefit obligations for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		**2016**		**2015**
Beginning balance	₩	242,508	₩	191,303
Current service cost		32,883		25,670
Interest expense		8,216		6,932
Remeasurements:				
Actuarial loss from changes in demographic assumptions		-		4,363
Actuarial loss from changes in financial assumptions		711		13,394
Actuarial loss from experience adjustments		8,469		18,198
Exchange differences		(25)		(445)
Payments from plans:				
Benefit payments		(16,096)		(15,532)
Transfer to associates		(1,361)		(1,375)
Others		459		-
Ending balance	₩	275,764	₩	242,508

Movements in the fair value of plan assets for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		**2016**		**2015**
Beginning balance	₩	212,639	₩	155,005
Interest income		7,405		5,852
Remeasurements:				
Return on plan assets		(4,656)		(1,913)
Contributions:				
Employers		74,000		70,000
Payments from plans:				
Benefit payments		(16,054)		(15,084)
Transfer to associates		(1,226)		(1,221)
Others		346		-
Ending balance	₩	272,454	₩	212,639

The significant actuarial assumptions as at December 31, 2016 and 2015, are as follows:

	2016	**2015**
Discount rate	3.60%	3.50%
Salary growth rate	6.19%	6.06%

The sensitivity of the defined benefit obligations to changes in the principal assumptions is

	Impact on defined benefit obligation		
	Changes in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.00%	8.91% decrease	10.43% increase
Salary growth rate	1.00%	10.05% increase	8.78% 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 prior period.

Plan assets as at December 31, 2016 and 2015, consist of:

(in millions of Korean won)	2016		2015	
	Unquoted price	**Composition**	**Unquoted price**	**Composition**
Deposits	₩ 272,301	99.94 %	₩ 212,413	99.89 %
National Pension Fund	153	0.06	226	0.11
	₩ 272,454	100.00 %	₩ 212,639	100.00 %

The weighted average maturity of the defined benefit obligation is 9.77 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as at December 31, 2016, is as follows:

(in millions of Korean won)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 15,038	₩ 19,144	₩ 65,604	₩ 155,773	₩ 255,559

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2017, are ₩41,706 million.

19.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 348 million (2015: ₩ 157 million).

20. Other Components of Equity

Other components of equity as at December 31, 2016 and 2015, consist of:

(in millions of Korean won)	2016	2015
Treasury shares[1]	₩ (1,381)	₩ (1,381)
Other capital adjustments	(16,243)	(16,993)
	₩ (17,624)	₩ (18,374)

[1] Represents 33,041 ordinary shares and 6,211 preferred shares of treasury shares. The Group intends to dispose of the remaining treasury shares depending on the market conditions within the range of not incurring or minimizing loss on disposal of treasury shares as possible.

21. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as at December 31, 2016 and 2015, consists of the following:

(in millions of Korean won)		2016		2015
Changes in the value of available-for-sale financial assets	₩	2,002	₩	(410)
Exchange differences on transaction of foreign operations		(19,300)		(13,667)
Share of other comprehensive income of associates		103		(12)
	₩	(17,195)	₩	(14,089)

Changes in accumulated other comprehensive income for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016									
		Beginning balance		Increase (Decrease)		Reclassification to profit or loss		Reclassification to non-controlling interest		Ending Balance
Changes in the value of available-for-sale financial assets	₩	(410)	₩	7,268	₩	(4,856)	₩	-	₩	2,002
Exchange differences on transaction of foreign operations		(13,667)		(5,353)		-		(280)		(19,300)
Share of other comprehensive income of associates		(12)		128		-		(13)		103
	₩	(14,089)	₩	2,043	₩	(4,856)	₩	(293)	₩	(17,195)

(in millions of Korean won)	2015									
		Beginning balance		Increase (Decrease)		Reclassification to profit or loss		Reclassification to non-controlling interest		Ending Balance
Changes in the value of available-for-sale financial assets	₩	(88)	₩	30	₩	(352)	₩	-	₩	(410)
Exchange differences on transaction of foreign operations		(13,000)		(124)		-		(543)		(13,667)
Share of other comprehensive income of associates		(59)		52		-		(5)		(12)
	₩	(13,147)	₩	(42)	₩	(352)	₩	(548)	₩	(14,089)

22. Retained Earnings

Retained earnings as at December 31, 2016 and 2015, consist of:

(in millions of Korean won)		2016		2015
Legal reserves[1]	₩	18,306	₩	18,109
Discretionary reserves		1,829,234		1,699,000
Retained earnings before appropriation		1,311,127		905,963
	₩	3,158,667	₩	2,623,072

[1] The Commercial Code of the Republic of Korea requires the Parent 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 share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital 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).

23. Dividends

The dividends paid in 2016 and 2015 are as follows:

	2016		2015	
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares
Dividends paid	₩ 78,874 million	₩ 14,297 million	₩ 52,583 million	₩ 9,549 million
Dividends per share (in Korean won)	1,350	1,355	900	905

Dividends in respect of the year ended December 31, 2016, of ₩1,580 per ordinary share and ₩1,585 per preferred share, amounting to a total dividend of ₩92,312 million on ordinary shares and ₩16,724 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 17, 2017. These financial statements do not reflect these dividend payable.

24. Tax Expense and Deferred Tax

Income tax expense for the periods ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)	2016	2015
Current tax	₩ 238,319	₩ 207,234
Deferred tax	(27,489)	(13,729)
Income tax expense	₩ 210,830	₩ 193,505

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

(in millions of Korean won)		**2016**		**2015**
Profit before income tax expense	₩	856,558	₩	778,301
Tax at domestic tax rates applicable to profits in the respective countries		207,480		186,272
Tax effects of:				
Income not subject to tax		(2,059)		(4,888)
Expenses not deductible for tax purposes		2,480		2,214
Tax losses for which no deferred income tax asset was recognized		2,306		10,986
Utilization of previously unrecognized tax losses		(3,148)		(1,147)
Tax credits		(2,495)		(3,276)
Adjustment in respect of prior years		103		176
Effects of the tax refund		3,900		3,500
Others		2,263		(332)
Income tax expense	₩	210,830	₩	193,505

The weighted average applicable tax rate of the Group was 24.61% (2015: 24.86%).

The tax effect relating to components of other comprehensive income(expenses) for the periods ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain(loss) on valuation of available-for-sale financial assets	₩ 3,169	₩ (757)	₩ 2,412	₩ (425)	₩ 103	₩ (322)
Remeasurements	(13,836)	3,348	(10,488)	(37,868)	9,164	(28,704)
Share of other comprehensive income of associates	128	-	128	53	-	53
Exchange differences on transaction of foreign operations	(5,353)	-	(5,353)	(124)	-	(124)
	₩ (15,892)	₩ 2,591	₩ (13,301)	₩ (38,364)	₩ 9,267	₩ (29,097)

The analysis of deferred tax assets and liabilities as at December 31, 2016 and 2015, is as follows:

(in millions of Korean won)		**2016**		**2015**
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	82,005	₩	73,312
Deferred tax asset to be recovered within 12 months		62,302		43,174
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months		(187,774)		(192,468)
Deferred tax liability to be recovered within 12 months		(6,012)		(2,694)
Deferred tax liabilities, net	₩	(49,479)	₩	(78,676)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Korean won)	2016				
	Beginning balance	**Statement of profit or loss**	**Other comprehensive income**	**Exchange differences**	**Ending balance**
Deferred tax assets					
Provision for impairment	₩ 179	₩ 529	₩ -	₩ 3	₩ 711
Trade receivables	11,383	3,258	-	-	14,641
Other receivables	2,678	6	-	-	2,684
Inventories	1,044	(447)	-	(17)	580
Property, plant and equipment	7,491	3,266	-	(89)	10,668
Intangible assets	5	-	-	-	5
Government grants	382	50	-	-	432
Available-for-sale financial assets	685	-	(685)	-	-
Investments in subsidiaries	7,981	3,325	-	-	11,306
Deferred revenue	12,784	865	-	(60)	13,589
Accrued expenses	13,003	13,483	-	(467)	26,019
Provision for sales return	643	1,050	-	-	1,693
Accrual for accumulated paid leave	710	270	-	-	980
Post-employment benefit obligations	53,094	(373)	3,348	(6)	56,063
Long-term employee benefits	614	245	-	-	859
Other current liabilities	2,467	411	-	-	2,878
Tax loss carryforwards	688	-	-	21	709
Others	656	198	-	(364)	490
	116,487	26,136	2,663	(979)	144,307
Deferred tax liabilities					
Accrued revenue	(353)	(399)	-	-	(752)
Other receivables	(75)	(7)	-	-	(82)
Inventories	(1,940)	(676)	-	-	(2,616)
Property, plant and equipment	(103,577)	-	-	-	(103,577)
Intangible assests	(4,880)	(62)	-	96	(4,846)
Available-for-sale financial assets	-	-	(72)	-	(72)
Investments in subsidiaries	(931)	-	-	-	(931)
Plan assets	(53,741)	(12,145)	-	-	(65,886)
Reserve for technology development	(27,266)	14,762	-	-	(12,504)
Advanced depreciation provision	(2,062)	2,062	-	-	-
Other current liabilities	(338)	(2,182)	-	-	(2,520)
	(195,163)	1,353	(72)	96	(193,786)
	₩ (78,676)	₩ 27,489	₩ 2,591	₩ (883)	₩ (49,479)

(in millions of Korean won)	2015				
	Beginning balance	**Statement of profit or loss**	**Other comprehensive income**	**Exchange differences**	**Ending balance**
Deferred tax assets					
Provision for impairment	₩ 4	₩ 31	₩ -	₩ 144	₩ 179
Trade receivables	7,777	3,606	-	-	11,383
Other receivables	1,279	1,399	-	-	2,678
Inventories	887	139	-	18	1,044
Property, plant and equipment	9,385	1,830	-	(3,724)	7,491
Intangible assets	5	-	-	-	5
Government grants	612	(230)	-	-	382
Available-for-sale financial assets	582	s	103	-	685
Investments in subsidiaries	4,632	3,349	-	-	7,981
Deferred revenue	11,362	992	-	430	12,784
Accrued expenses	4,149	4,165	-	4,689	13,003
Provision for sales return	679	(36)	-	-	643
Accrual for accumulated paid leave	-	710	-	-	710
Post-employment benefit obligations	39,047	4,907	9,164	(24)	53,094
Long-term employee benefits	-	614	-	-	614
Other current liabilities	2,361	106	-	-	2,467
Tax loss carryforwards	11,313	(10,010)	-	(615)	688
Others	851	(222)	-	27	656
	94,925	11,350	9,267	945	116,487
Deferred tax liabilities					
Accrued revenue	(452)	99	-	-	(353)
Other receivables	(71)	(4)	-	-	(75)
Inventories	(1,401)	(539)	-	-	(1,940)
Property, plant and equipment	(103,577)	-	-	-	(103,577)
Intangible assessts	(4,850)	(64)	-	34	(4,880)
Investments in 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)
Other current liabilities	(141)	(197)	-	-	(338)
Others	(81)	81	-	-	-
	(197,576)	2,379	-	34	(195,163)
	₩ (102,651)	₩ 13,729	₩ 9,267	₩ 979	₩ (78,676)

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 ₩69,263 million in respect of losses amounting to ₩196,806 million that can be carried forward against future taxable income.

The maturity of unused tax losses is as follows:

(in millions of Korean won)	**2016**
2017 ~ 2020	₩ 20,736
2021 ~ 2036	75,868
No limit	100,202
	₩ 196,806

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 (liabilities), and the amount as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Taxable temporary differences	₩ (121,598)	₩ (112,715)
Deductible temporary differences	66,108	73,662
	₩ (55,490)	₩ (39,053)

25. Revenue

Revenue for the periods ended December 31, 2016 and 2015, consists of the following:

(in millions of Korean won)	2016	2015
Sales of goods	₩ 5,625,263	₩ 4,746,165
Rendering of services	14,507	15,677
Others		
Rental income	3,336	2,875
Royalty income	271	55
Others	2,063	1,855
	5,670	4,785
	₩ 5,645,440	₩ 4,766,627

26. Breakdown of Expenses by Nature

Breakdown of expenses by nature for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Changes in inventories	₩ (85,928)	₩ (19,158)
Purchase of raw materials and merchandise	1,481,128	1,216,557
Employee benefits expenses	734,301	654,934
Depreciation and amortization	180,961	146,623
Advertising expense and promotional expense	557,776	538,846
Commission expense	383,813	315,167
Distribution commission	1,030,917	830,923
Other expenses	514,369	229,874
Total[1]	₩ 4,797,337	₩ 3,993,717

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

27. Selling and Administrative Expenses

Selling and administrative expenses for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Salaries and post-employment benefits	₩	539,949	₩	478,158
Employee benefits		82,258		71,094
Advertising expense and promotional expense		557,776		538,846
Depreciation and amortization		121,258		92,682
Commission expense		334,073		275,140
Distribution commission		1,030,917		830,923
Freight expense		100,386		92,812
Taxes and dues		42,915		35,916
Research and development		98,792		79,951
Other		464,252		328,789
	₩	3,372,576	₩	2,824,311

28. Finance Income and Costs

Financial income and costs for the periods ended December 31, 2016 and 2015, are as follows:

(*in millions of Korean won*)		2016		2015
Finance income				
Interest income on loans and receivables	₩	15,244	₩	12,255
Interest income on available-for-sale financial assets		1,779		3,356
Gain on valuation of derivative instruments		619		1,005
Gain on valuation of financial liabilities carried at amortized cost		-		8,923
	₩	17,642	₩	25,539
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(3,899)	₩	(3,067)
Loss on valuation of financial liabilities carried at amortized cost		(2,035)		-
	₩	(5,934)	₩	(3,067)

29. Other Non-operating Gains/ (Losses)

Other non-operating gains/ (losses) for the periods ended December 31, 2016 and 2015, consist of:

(in millions of Korean won)		2016		2015
Other non-operating income				
Gain on foreign currency transactions	₩	16,479	₩	8,307
Gain on foreign currency translation		15,766		4,147
Gain on disposal of property, plant and equipment		275		424
Gain on disposal of available-for-sale financial assets		6,963		579
Dividend income		45		-
Others		20,309		30,061
		59,837		43,518
Other non-operating expenses				
Loss on foreign currency transactions		(23,387)		(7,217)
Loss on foreign currency translation		(11,449)		(9,998)
Loss on disposal of property, plant and equipment		(2,689)		(7,526)
Loss on disposal of intangible assets		(279)		(70)
Impairment losses of property, plant and equipment		(940)		-
Impairment losses of intangible assets		(552)		(4,889)
Loss on disposal of available-for-sale financial assets		(162)		-
Donations		(12,656)		(11,170)
Others		(11,057)		(19,773)
		(63,171)		(60,643)
	₩	(3,334)	₩	(17,125)

30. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares (Note 21).

Basic earnings per ordinary share for the periods ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)		2016		2015
Profit attributable to owners of the Parent Company	₩	639,255	₩	577,523
Profit attributable to ordinary shares		541,420		489,131
Weighted average number of ordinary shares outstanding (unit: shares)		58,425,449		58,425,461
Basic earnings per ordinary share (in Korean won)	₩	9,267	₩	8,372

Basic earnings per preferred share[1] for the periods ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)		**2016**		**2015**
Profit attributable to owners of the Parent Company	₩	639,255	₩	577,523
Profit attributable to preferred shares		97,835		88,392
Weighted average number of preferred shares outstanding (unit: shares)		10,551,619		10,551,629
Basic earnings per preferred share (in Korean won)	₩	9,272	₩	8,377

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

The Group did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

31. Cash Generated from Operations

Cash generated from operations for the periods ended December 31, 2016 and 2015, are as follows:

(*in millions of Korean won*)		**2016**		**2015**
Profit for the period	₩	645,729	₩	584,796
Adjustments for:				
Finance income, net		(11,708)		(22,472)
Loss(gain) on foreign currency translation, net		(4,317)		8,550
Depreciation and amortization		181,201		146,864
Loss on disposal of property, plant and equipment and intangible assets		2,693		12,060
Impairment loss of property, plant and equipment and intangible assets		1,492		4,889
Gain on disposal of available-for-sale financial assets		(6,801)		(465)
Income tax expense		210,830		193,505
Share of profit of associates		(80)		(45)
Post-employment benefits		33,694		26,750
Others		1,633		937
Changes in assets and liabilities from operating activities				
Increase in trade receivables		(10,786)		(92,366)
Increase in other receivables		(8,049)		(9,934)
Increase in inventories		(85,928)		(19,065)
Increase in other assets		(18,837)		(19,046)
Increase in trade payables		6,064		1,787
Increase(decrease) in other payables		10,583		(23,679)
Increase in provisions		12,437		2,135
Increase in other liabilities		5,359		63,717
Benefits payment		(16,096)		(15,532)
Net transfer-out of post-employment benefits of associates		(1,361)		(1,375)
Increase in plan assets, net		(56,720)		(53,959)
Cash generated from operations	₩	891,032	₩	788,052

Significant transactions not affecting cash flows for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016	2015
Reclassification of construction in-progress to property, plant and equipment	₩ 44,694	₩ 117,702
Reclassification of property, plant and equipment to investment property	(81,354)	(13,022)
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets	107,323	27,243
Reclassification of current portion of long-term borrowings	46,877	74,928

32. Commitments and Contingencies

Details of financial commitment with financial institution as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won and thousand of U.S. dollars)

Financial institution	Commitment	2016		2015	
		Limit	Outstanding balance	Limit	Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 35,000	₩ 2,318	₩ 40,000	₩ 4,958
	Overdraft	-	-	8,000	-
	Letter of credit	USD 4,000	USD 160	USD 4,000	USD 180

At the end of reporting period, Seoul Guarantee Insurance has provided the Company with payment guarantees such as performance guarantees and others amounting to ₩9,840 million (2015: ₩4,322 million).

Important contracts subsidiaries entered into with financial institutions at the end of reporting period are as follows:

(in millions of Korean won and thousands of USD, EUR, HKD and JPY)	**Financial institution**	**Commitment**	**2016**		**2015**	
			Limit	**Outstanding balance**	**Limit**	**Outstanding balance**
Amorepacific Global Operations Limited.	CITY N.A HONG KONG and two others	Syndicated loan	USD 40,000	USD 40,000	USD 40,000	USD 40,000
	CITI N.A HONG KONG	Short-term borrowings	HKD 220,000	HKD 220,000	-	-
	CITY N.A HONG KONG	Overdraft	USD 10,000	HKD 1,829	USD 10,000	-
AMORE Cosmetics (shanghai) Co., Ltd.	Citibank (China) Co., Ltd	Short-term borrowing	USD 35,000	USD 35,000	USD 65,000	USD 65,000
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 15,000	-	HKD 15,000	-
AMOREPACIFIC Japan CO., LTD	SBJ BANK Yokohama Branch	Short-term borrowings	JPY 1,000,000	JPY 400,000	JPY 1,000,000	JPY 600,000
AMOREPACIFIC EUROPE S.A.S	Sogebali S.A.	Lease finance	EUR 4,184	EUR 2,476	EUR 4,184	EUR 3,714
	Citibank N.A France	Short-term borrowings	EUR 7,000	EUR 7,000	EUR 7,000	EUR 7,000
	KEB Hana Bank Paris Branch	Overdraft	EUR 500	EUR 473	EUR 500	EUR 467
PACIFIC CREATION S.A.S[1]	KEB Hana Bank Paris Branch	Overdraft	EUR 12,500	EUR 4,669	EUR 12,500	EUR 6,466
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Overdraft	EUR 3,000	EUR 792	EUR 3,000	EUR 781

[1] A subsidiary of AMOREPACIFIC EUROPE S.A.S.

Restricted financial instruments in use at the end of the reporting period are as follows:

(in millions of Korean won, thousands of RMB and HKD)	**Remark**		**2016**		**2015**
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩	15,000	₩	15,000
Current financial deposits	Agreement of shared growth and cooperation		14,000		4,000
Non-current financial deposits	Deposit for checking account		6		6
Non-current financial deposits	Permission of door-to-door sales in China		RMB 20,000		RMB 20,000
Available-for-sale financial assets	Overdraft agreement and bank payment guarantee of leased stores		HKD 14,615		HKD 14,615

As at December 31, 2016, the Group is a defendant in 10 cases aggregating ₩4,058 million for compensation for damages, injunction against patent infringement and others, and the Group is a plaintiff in 8 cases aggregating ₩2,011 million for annulment of assessment, injunction against patent infringement and others.

The outcome of the above cases cannot be reasonably estimated, and any outflows of resources and the timing are also uncertain. Therefore, the Group does not include the potential effects for the outcome of the cases in the consolidated financial statements as at December 31, 2016. The Group expects that these cases would not have any material impact on its financial statements.

At the end of reporting period, the amount of contract for the construction of a new building located in Yongsan is ₩599,972 million.

33. Related Party Transactions

Details of the parents and subsidiaries as at December 31, 2016, are as follows:

Classfication	Name
Ultimate parent	Kyung-Bae Suh
Parent Company	AMOREPACIFIC Group, Inc.
Ultimate parent company presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Subsidiaries	AMOREPACIFIC Global Operations Limited.
	AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.
	AMORE Cosmetics (Shanghai) Co., Ltd.
	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD. [1]
	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.
	We-Dream Co., Ltd.
	AMOREPACIFIC Trading Co., Ltd.
	AMOREPACIFIC Hong Kong Co., Limited
	AMOREPACIFIC Taiwan Co., Ltd.
	AMOREPACIFIC SINGAPORE PTE Co Ltd.
	AMOREPACIFIC MALAYSIA SDN. BHD.
	AMOREPACIFIC (Thailand) LIMITED
	PT. LANEIGE INDONESIA PACIFIC
	Innisfree Cosmetics India Private Limited
	AMOREPACIFIC Japan Co., Ltd.
	AMOREPACIFIC US, INC.
	AMOREPACIFIC CANADA INC. [2]
	AMOREPACIFIC EUROPE S.A.S
	Annick Goutal S.A.S
	AMOREPACIFIC ME FZ-LLC [2]
	AMOREPACIFIC Vietnam LTD.
Associate	Taiwan AMORE Co.,Ltd.
Subsidiaries of the Parent Company	Innisfree Corporation
	Etude Corporation
	AMOS Professional Corporation
	Espoir Corporation
	AESTURA Corporation
	PACIFICGLAS, Inc.
	PACIFICPACKAGE Corporation
	Osulloc Farm Co., Ltd. (formerly, Jangwon Co., Ltd.)
	COSVISION CO.,LTD.
Associate of the Parent Company	BBDO Korea Inc.
Other related party	Taeshin Inpack Corporation

[1] Newly established by the Company and AMOREPACIFIC Global Operation Limited., a subsidiary, with the contribution of 99.99% and 0.01%, respectively.

[2] Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%.

Sales and purchases with related parties for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016						
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Dividends paid
Parent Company							
AMOREPACIFIC Group,Inc.	₩ 2,073	₩ 22,928	₩ -	₩ -	₩ 3	₩ -	₩ 29,987
Subsidiaries of the Parent Company							
Innisfree Corporation	7,797	149,196	-	-	82	-	-
Etude Corporation	4,205	26,873	-	-	34	-	-
AMOS Professional Corporation	26,102	224	-	-	50	-	-
Espoir Corporation	524	437	-	-	-	-	-
AESTURA Corporation	1,392	64,679	-	4	4	-	-
PACIFICGLAS, Inc.	371	45,180	-	3	14	-	-
PACIFICPACKAGE Corporation	386	63,597	-	-	2	-	-
Osulloc Farm Co., Ltd.	118	1,601	-	-	1	81	-
COSVISION CO.,LTD.	1,431	25,705	-	13	101	-	-
Associate of the Parent Company							
BBDO Korea Inc.	-	-	-	-	-	22,904	-
Other related party							
Taeshin Inpack Corporation	-	20,920	-	-	-	-	-
	₩ 44,399	₩ 421,340	₩ -	₩ 20	₩ 291	₩ 22,985	₩ 29,987

(in millions of Korean won)	2015						
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Dividends paid
Parent Company							
AMOREPACIFIC Group,Inc.	₩ 1,824	₩ 19,459	₩ -	₩ -	₩ 14	₩ -	₩ 19,994
Associate							
Taiwan AMORE Co.,Ltd.	159	-	-	-	-	-	-
Subsidiaries of the Parent Company							
Innisfree Corporation	4,839	72,275	-	-	74	-	-
Etude Corporation	4,454	20,097	-	-	62	-	-
AMOS Professional Corporation	19,872	130	-	-	62	-	-
Espoir Corporation	1,707	69	-	-	8	-	-
AESTURA Corporation	1,553	51,920	-	1	99	-	-
PACIFICGLAS, Inc.	266	38,183	-	-	12	-	-
PACIFICPACKAGE Corporation	312	51,904	-	-	4	-	-
Osulloc Farm Co., Ltd.	107	1,603	-	-	5	27	-
COSVISION CO.,LTD.	1,159	26,961	-	-	26	-	-
Associate of the Parent Company							
BBDO Korea Inc.	-	-	-	-	-	19,803	-
Other related party							
Taeshin Inpack Corporation	-	21,285	-	-	-	-	-
	₩ 36,252	₩ 303,886	₩ -	₩ 1	₩ 366	₩ 19,830	₩ 19,994

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2016 and 2015, are as follows:

	2016							
	Receivables				Payables			
(in millions of Korean won)	Trade receivables		Other receivables		Trade payables		Other payables	
Parent Company								
AMOREPACIFIC Group,Inc.	₩	302	₩	-	₩	1,827	₩	625
Associate								
Taiwan AMORE Co.,Ltd.		49		-		-		-
Subsidiaries of the Parent Company								
Innisfree Corporation		2,946		517		58,129		754
Etude Corporation		716		2,518		7,247		262
AMOS Professional Corporation		2,358		-		45		112
Espoir Corporation		84		10		109		15
AESTURA Corporation		575		-		2,941		170
PACIFICGLAS, Inc.		220		7		4,463		467
PACIFICPACKAGE Corporation		28		-		5,810		-
Osulloc Farm Co., Ltd.		10		19		11		11
COSVISION CO.,LTD.		-		30,080		2,224		-
Associate of the Parent Company								
BBDO Korea Inc.		-		-		-		6,904
Other related party								
Taeshin Inpack Corporation		-		-		1,464		-
	₩	7,288	₩	33,151	₩	84,270	₩	9,320

	2015							
	Receivables				Payables			
(in millions of Korean won)	Trade receivables		Other receivables		Trade payables		Other payables	
Parent Company								
AMOREPACIFIC Group,Inc.	₩	130	₩	208	₩	4,395	₩	625
Associate								
Taiwan AMORE Co.,Ltd.		49		-		-		-
Subsidiaries of the Parent Company								
Innisfree Corporation		867		530		31,817		812
Etude Corporation		439		1,286		8,779		176
AMOS Professional Corporation		2,210		92		5		113
Espoir Corporation		61		29		8		12
AESTURA Corporation		-		962		113		355
PACIFICGLAS, Inc.		-		25		3,986		467
PACIFICPACKAGE Corporation		47		4		5,309		-
Osulloc Farm Co., Ltd.		9		20		16		-
COSVISION CO.,LTD.		4,479		27,386		1,907		54
Associate of the Parent Company								
BBDO Korea Inc.		-		-		-		4,724
Other related party								
Taeshin Inpack Corporation		-		-		2,111		-
	₩	8,291	₩	30,542	₩	58,446	₩	7,338

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.

There is no fund transactions with related parties for the periods ended December 31, 2016.

As at December 31, 2016, 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 periods ended December 31, 2016 and 2015, consists of:

(In millions of Korean won)		2016		2015
Short-term employee benefits	₩	10,012	₩	10,037
Post-employment benefits		1,061		2,550
	₩	11,073	₩	12,587

34. Transactions with Non-controlling Interests

AMOREPACIFIC Global Operations Limited., a subsidiary, acquired the remaining 23% of the issued shares of AMOREPACIFIC Hong Kong Co. Limited., a subsidiary, for ₩34,626 million. The Group now holds 100% equity interest in AMOREPACIFIC Hong Kong Co. Limited.

Also, AMOREPACIFIC Global Operations Limited., a subsidiary, acquired the remaining 30% of the issued shares of AMOREPACIFIC Vietnam LTD, a subsidiary, for ₩1,193 million. The Group now holds 100% equity interest in AMOREPACIFIC Vietnam LTD.

Effects of transactions with non-controlling interests on the equity attributable to owners of the Parent Company for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		AMOREPACIFIC Hong Kong Co. Limited.		AMOREPACIFIC Vietnam LTD.
Carrying amount of non-controlling interests acquired	₩	15,543	₩	763
Consideration paid to non-controlling interests		(34,626)		(1,193)
Offsetting of financial liabilities[1]		20,666		-
Reclassification of non-controlling interest		(158)		43
Excess of consideration paid recognized in the transactions with non-controlling interests reserve within equity	₩	1,425	₩	(387)

[1] Financial liabilities, recognized in relation to the obligation to purchase remaining interests under the arrangement among shareholders at the initial business combination.

35. Risk Management

35.1 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 any adverse effects on the financial performance of the Group.

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 foreign currency transactions, 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 at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		2015	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 281,003	₩ 118,550	₩ 101,250	₩ 205,391
EUR	2,681	2,375	556	1,493
JPY	-	9,742	-	816
	₩ 283,684	₩ 130,667	₩ 101,806	₩ 207,700

As at December 31, 2016 and 2015, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on profit before income tax would be as follows:

(in millions of Korean won)	2016		2015	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 16,245	₩ (16,245)	₩ (10,414)	₩ 10,414
EUR	31	(31)	(94)	94
JPY	(974)	974	(82)	82

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

ii) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises on floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

At the end of the reporting period, the Group has more floating rate deposits than floating rate borrowings, and because of this, net interest expenses decrease when interest rates increase. 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 ₩1,236 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit Risk

Credit risk is managed on a group basis. 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.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. If customers have no independent rating and their credit risk needs to be reduced, their credit is enhanced through pledged property and deposit and guarantee insurance. For customers without insurance and collateral, the Group strictly manages credit risk in accordance with the internal credit-rating standard. Sales to retail customers are settled in cash or using major credit cards.

The Group reviews whether the above trade receivables are individually or collectively impaired at the end of the every reporting period.

(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.

	2016					
(in millions of Korean won)	**Up to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book amount**
Trade payables	₩ 165,888	₩ -	₩ -	₩ -	₩ 165,888	₩ 165,888
Borrowings	145,617	-	-	-	145,617	144,685
Other payables	315,343	-	-	-	315,343	315,343
Other liabilities	83,558	12,549	-	-	96,107	95,991

	2015					
(in millions of Korean won)	**Up to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Book amount**
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

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.

35.2 Capital Risk Management

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

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

(in millions of Korean won, except for ratios)		**2016**		**2015**
Liabilities (A)	₩	1,284,945	₩	1,070,771
Equity (B)		3,896,632		3,372,331
Cash and cash equivalents and current financial deposits (C)		938,173		880,993
Borrowings (D)		144,685		147,102
Debt-to-equity ratio (A/B)		32.98%		31.75%
Net Borrowings ratio (D-C)/B		(-)20.36%		(-)21.76%

36. Fair Value

36.1 Fair Value Hierarchy

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

	2016							
(in millions of Korean won)		**Level 1**		**Level 2**		**Level 3**		**Total**
Recurring fair value measurements								
Available-for-sale financial assets	₩	8,736	₩	-	₩	-	₩	8,736
Disclosed fair value								
Investment property		-		-		260,877		260,877

	2015							
(in millions of Korean won)		**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

36.2 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 at December 31, 2016, 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 at the end of reporting period.

(b) 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.

36.3 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)		2016		2015
Debt securities				
Asset backed securities	₩	160,000	₩	60,000
Government-issued securities		4,234		2,999
Equity securities				
GL Pharm Tech Co., Ltd. [1]	₩	-	₩	191
Welskin Co., Ltd.		48		48
The Korea Economic Daily		81		81
ELANDRETAL Ltd.		3		3
Biogenics Co., Ltd.		1,000		1,000
	₩	165,366	₩	64,322

[1] The Group`s equity securities of GL Pharm Tech Co., Ltd are measured at fair value based on the quoted price in an active market as GL Pharm Tech Co., Ltd became a public corporation through merger with special purpose acquisition company for the period ended December 31, 2016.

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.