AMOREPACIFIC Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016

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Consolidated Financial Statements

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, 2017 and 2016, 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 AMOREPACIFIC Corporation and its subsidiaries as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

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 8, 2018

This report is effective as at March 8, 2018, 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, 2017 and 2016

(in thousands of Korean won)	**Notes**		**2017**		**2016**
Assets					
Current assets					
Cash and cash equivalents	5,6	₩	604,187,523	₩	623,703,584
Financial deposits	5,32		32,000,000		300,340,000
Available-for-sale financial assets	5,9,32,36		30,000,000		164,708,559
Trade receivables	5,7,33		324,664,570		294,456,289
Other receivables	5,7,33		55,312,174		45,372,274
Current tax assets	24		3,147,245		1,258,373
Other current assets	5,15		52,253,580		75,486,429
Inventories	8		374,759,015		409,865,745
Non-current assets held-for-sale	4,14		201,155,041		201,155,041
			1,677,479,148		2,116,346,294
Non-current assets					
Financial deposits	5,32		13,871,642		14,129,405
Other receivables	5,7,33		170,367,321		173,659,700
Available-for-sale financial assets	5,9,36		13,280,516		9,393,751
Property, plant and equipment	4,11,33		2,613,171,909		2,358,638,953
Investment properties	13,36		560,045,220		234,570,502
Intangible assets	4,12		239,734,765		228,094,002
Investments in associates	4,10		2,381,036		2,655,785
Net defined benefit assets	19		25,379,868		-
Deferred tax assets	24		42,711,849		43,900,217
Other non-current assets	15		17,260,965		188,520
			3,698,205,091		3,065,230,835
Total assets		₩	5,375,684,239	₩	5,181,577,129
Liabilities					
Current liabilities					
Trade payables	5,33,35	₩	132,083,969	₩	165,888,249
Borrowings	5,16,35		85,051,737		144,685,200
Other payables	5,33,35		212,057,325		315,343,173
Current tax liabilities	24		71,222,191		140,460,621
Deferred revenue			52,823,430		56,652,870
Provisions	17		15,330,725		19,720,492
Other current liabilities	5,11,18,35		477,878,691		328,468,404
			1,046,448,068		1,171,219,009
Non-current liabilities					
Borrowings	5,16,35		42,902,910		-
Net defined benefit liabilities	19		3,116,112		3,309,757
Deferred tax liabilities	24		83,741,790		93,379,828
Provisions	17		5,005,977		4,286,975
Other non-current liabilities	5,11,18,35		19,095,227		12,749,490
			153,862,016		113,726,050
Total liabilities			1,200,310,084		1,284,945,059
Equity					
Share capital	1		34,508,160		34,508,160
Share premium			712,701,764		712,701,764
Capital surplus			7,770,057		7,770,057
Other components of equity	20		(17,624,267)		(17,624,267)
Accumulated other comprehensive income	21		(40,076,475)		(17,195,099)
Retained earnings	22		3,456,502,862		3,158,666,867
Equity attributable to owners of the Parent Company			4,153,782,101		3,878,827,482
Non-controlling interest	34		21,592,054		17,804,588
Total equity			4,175,374,155		3,896,632,070
Total liabilities and equity		₩	5,375,684,239	₩	5,181,577,129

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, 2017 and 2016

(in thousands of Korean won, except per share amounts)	Notes		2017		2016
Revenue	4,25,33	₩	5,123,825,882	₩	5,645,440,161
Cost of sales	8,26,33		1,379,726,028		1,424,760,833
Gross profit			3,744,099,854		4,220,679,328
Selling and administrative expenses	26,27		3,147,700,717		3,372,575,874
Operating profit	4		596,399,137		848,103,454
Finance income	5,28		13,817,295		17,642,300
Finance costs	5,28		3,080,149		5,933,942
Other non-operating losses, net	5,29		(39,871,873)		(3,333,972)
Share of net profit of associates	10		79,454		80,378
			(29,055,273)		8,454,764
Profit before income tax			567,343,864		856,558,218
Income tax expense	24		169,340,852		210,829,558
Profit for the period		₩	398,003,012	₩	645,728,660
Profit is attributable to:					
Owners of the Parent Company		₩	394,010,904	₩	639,254,634
Non-controlling interests		₩	3,992,108	₩	6,474,026
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurements of net defined benefit liabilities	19,24		12,861,616		(10,487,692)
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		(204,595)		2,411,706
Share of other comprehensive income of associates	10,21,24		82,265		128,057
Exchange differences on transaction of foreign operations	21,24		(24,262,396)		(5,352,709)
Other comprehensive income for the period, net of tax			(11,523,110)		(13,300,638)
Total comprehensive income for the period		₩	386,479,902	₩	632,428,022
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company			383,991,144		625,660,496
Non-controlling interests			2,488,758		6,767,526
		₩	386,479,902	₩	632,428,022
Earnings per share attributable to owners of the Parent Company	30				
Basic earnings per ordinary share		₩	5,711	₩	9,267
Basic earnings per preferred share		₩	5,717	₩	9,272

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, 2017 and 2016

(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, 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
Balance at January 1, 2017	₩ 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
Comprehensive income									
Profit for the period	-	-	-	-	-	394,010,904	394,010,904	3,992,108	398,003,012
Remeasurements of net defined benefit liabilities	-	-	-	-	-	12,861,616	12,861,616	-	12,861,616
Changes in the value of available-for-sale financial assets	-	-	-	-	(204,595)	-	(204,595)	-	(204,595)
Share of other comprehensive income of associates	-	-	-	-	74,038	-	74,038	8,227	82,265
Exchange differences on transaction of foreign operations	-	-	-	-	(22,750,819)	-	(22,750,819)	(1,511,577)	(24,262,396)
Total comprehensive income for the period	-	-	-	-	(22,881,376)	406,872,520	383,991,144	2,488,758	386,479,902
Transactions with owners									
Dividends paid	-	-	-	-	-	(109,036,525)	(109,036,525)	-	(109,036,525)
Changes in non-controlling interest due to capital increase	-	-	-	-	-	-	-	1,298,708	1,298,708
Total transactions with owners	-	-	-	-	-	(109,036,525)	(109,036,525)	1,298,708	(107,737,817)
Balance at December 31, 2017	₩ 34,508,160	₩ 712,701,764	₩ 7,770,057	₩ (17,624,267)	₩ (40,076,475)	₩ 3,456,502,862	₩ 4,153,782,101	₩ 21,592,054	₩ 4,175,374,155

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, 2017 and 2016

(in thousands of Korean won)	Notes		2017		2016
Cash flows from operating activities					
Cash generated from operations	31	₩	755,689,579	₩	891,031,530
Interest received			13,881,601		16,402,028
Interest paid			(4,209,690)		(3,885,760)
Income tax paid			(252,798,021)		(226,596,036)
Net cash inflow from operating activities			512,563,469		676,951,762
Cash flows from investing activities					
Net decrease in current financial deposits			264,966,000		-
Net decrease in current available-for-sale financial assets			130,717,835		-
Decrease in other receivables			19,517,222		19,679,604
Decrease in non-current financial deposits			1,422,570		-
Proceeds from disposal of non-current available-for-sale financial assets			454,905		6,922,995
Proceeds from disposal of property, plant and equipment			1,269,255		1,232,914
Proceeds from disposal of intangible assets			578,443		156,507
Proceeds from disposal of investment properties			3,400,000		-
Proceeds from disposal of non-current assets held for sale	14		21,000,000		145,067,000
Dividens income from associates			107,760		-
Net increase in current financial deposits			-		(115,287,910)
Net increase in current available-for-sale financial assets			-		(102,332,512)
Increase in other receivables			(31,015,229)		(25,256,992)
Increase in non-current financial deposits			(1,500,003)		(3,504,076)
Payments for non-current available-for-sale financial assets			(411,645)		(1,235,095)
Payments for property, plant and equipment	11		(768,565,387)		(494,810,173)
Payments for intangible assets	12		(42,782,587)		(40,257,738)
Net cash outflow from investing activities			(400,840,861)		(609,625,476)
Cash flows from financing activities					
Proceeds from short-term borrowings	31		50,388,102		74,732,885
Proceeds from long-term borrowings	31		45,425,690		-
Capital increase by non-controlling shareholders			1,298,709		1,932,156
Repayments of short-term borrowings	31		(53,982,800)		(5,438,483)
Repayments of long-term borrowings	31		(44,992,042)		(73,826,433)
Dividends paid			(108,997,693)		(94,557,491)
Payments for acquisition of non-controlling interests	34		-		(35,818,440)
Net cash outflow from financing activities			(110,860,034)		(132,975,806)
Effects of exchange rate changes on cash and cash equivalents			(20,378,635)		2,185,293
Net decrease in cash and cash equivalents			(19,516,061)		(63,464,227)
Cash and cash equivalents at the beginning of the year			623,703,584		687,167,811
Cash and cash equivalents at the end of the year		₩	604,187,523	₩	623,703,584

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 22 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, 2017, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, twenty one overseas local subsidiaries including AMOREPACIFIC Global Operations Limited. located in Hong Kong, and one domestic subsidiary.

As at December 31, 2017, 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, 2017, 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, 2017, 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	₩ 201,910	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 MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	41,690	100.00	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	9,415	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	19,383	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation AMOREPACIFIC Global Operations Limited.	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	8,584	2.29 97.71	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	4,441	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	2,497	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	20,673	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Marketing of cosmetics	1,519	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Marketing of cosmetics	5,479	100.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC AUSTRALIA PTY LTD	Marketing of cosmetics	-	100.00	Dec.31	Australia

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2017 and 2016, is as follows:

2017 (in millions of Korean won)	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.[1]	₩ 224,059	₩ 68,669	₩ 72,906	₩ 15,351	₩ (2,479)
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	3,605	3	-	(1,208)	(1,384)
AMORE Cosmetics (Shanghai) Co.,Ltd.	250,957	88,474	151,882	35,066	26,761
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	39,564	-	-	44	(858)
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	3,648	188	5,168	515	330
We-Dream Co., Ltd.	583	36	1,121	38	38
AMOREPACIFIC Trading Co., Ltd.	497,600	334,885	1,211,902	41,390	33,246
AMOREPACIFIC Hong Kong Co.,Limited	89,463	45,211	161,029	7,949	1,297
AMOREPACIFIC Taiwan Co.,Ltd.	25,978	13,008	47,159	3,751	3,239
AMOREPACIFIC SINGAPORE PTE Co Ltd.	55,829	33,161	66,916	3,048	2,143
AMOREPACIFIC MALAYSIA SDN. BHD.	23,060	11,155	38,483	923	691
AMOREPACIFIC (Thailand) LIMITED	27,055	9,911	36,732	1,903	1,390
PT. LANEIGE INDONESIA PACIFIC	9,416	4,578	14,893	289	(322)
Innisfree Cosmetics India Private Limited	3,660	1,849	3,247	(561)	(697)
AMOREPACIFIC Japan Co.,Ltd.	19,212	15,373	61,701	2,306	2,024
AMOREPACIFIC US, INC.	33,209	28,993	45,614	(2,616)	(3,341)
AMOREPACIFIC CANADA INC.	5,762	3,028	7,244	259	124
AMOREPACIFIC EUROPE S.A.S	32,930	34,616	21,895	(13,164)	(13,033)
Annick Goutal S.A.S	13,422	15,378	13,849	(4,731)	(4,783)
AMOREPACIFIC ME FZ-LLC	1,128	345	60	(452)	(564)
AMOREPACIFIC Vietnam LTD.	6,935	8,337	10,140	(247)	(125)
AMOREPACIFIC AUSTRALIA PTY LTD	-	-	-	-	-

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)

[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

Subsidiary newly included in the consolidation for the year ended December 31, 2017, is as follows:

Subsidiary	Reason
AMOREPACIFIC AUSTRALIA PTY LTD	Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%.

There are no subsidiaries excluded from the consolidation for the year ended December 31, 2017.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with 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 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, 2017. The adoption of these amendments did not have any material impact on the financial statements.

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

Amendments to Korean IFRS 1007 *Statement of Cash flows* require 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 (Note 31).

- 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.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(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, 2017 reporting periods and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactment to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease and low value assets. In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or

- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet elected the application method.

The Group is analyzing the financial effects of applying Korean IFRS 1116; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

Lessor accounting

The Group is analyzing the financial effects of applying Korean IFRS 1116, as a lessor; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is 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.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's consolidated financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

The Group plans to apply Korea IFRS 1109 for their annual reporting period commencing January 1, 2018 and is analyzing effects of applying the standard. However, the following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income [1]	
Hold for sale	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).
[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As at December 31, 2017, the Group owns loans and receivables of ₩ 1,202,135 million and financial assets available-for-sales of ₩ 43,281 million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Group measured loans and receivables of ₩ 1,202,135 million at amortized costs.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As at December 31, 2017, the Group holds debt instruments of ₩ 38,333 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Group holds equity instruments of ₩ 4,948 million classified as financial assets available-for-sale and there is no recycled unrealized gain or loss of arose from the equity instruments to profit or loss.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Group does not hold debt and equity instruments classified as financial assets at fair value through profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. As at December 31, 2017, none of financial liabilities are designated at fair value through profit or loss.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition. However, a loss allowance for lifetime expected credit losses is required for contract assets or trade receivables that are no considered to contain a significant financing component.

As at December 31, 2017, the Group holds financial instruments of ₩ 1,206,260 million (loans and receivables) measured at amortized costs and recognized loss allowance of ₩ 4,125 million for these assets.

- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 Revenue from Contracts with Customers issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption 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 elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings (or, if appropriate, other components of equity) as at January 1 2018, the period of initial application.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, 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 customers 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.

In 2017, the Group formed a task force team and adjusted the internal management process and related accounting system for the preparation of implementing Korean IFRS 1115 with external experts from accounting firm.

Korean IFRS 1115 affects to overall business practice including accounting treatment, sales strategy for products and manner in operating. Accordingly, the Group provides trainings for changes due to the application of new standards to employee, and periodically reports plan and process of the application to the managements.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on retainable information as at December 31, 2017, and the results of the assessment are explained as below. The results of the assessment as at December 31, 2017 may change due to additional information that the Group may obtain after the assessment.

(a) Identify performance obligation

The Group is mainly engaged in sales of goods including cosmetics, household products, food and other related products.

Based on the preliminary analysis for potential financial impact, as at December 31, 2017, the Group expects that identifying performance obligation will not have a material impact on the consolidated financial statements because the Group generally separates contracts to recognize revenue from service rendered, apart from sales of goods or products.

(b) Variable consideration

The Group has a practice of providing promotional incentive to enhance customer's revenue or of allowing sales returns in sales of goods, which may cause the consideration received or to receive from the customers to vary.

With implementation of Korean IFRS 1115, the Group estimates an amount of variable consideration by using the expected value which the Group expects to better predict the amount of consideration. The Group recognize revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled. Based on the preliminary analysis for potential financial impact, as at December 31, 2017, the Group expects that financial effects of applying Korean IFRS 1115 will not have a material impact on the consolidated financial statements.

(c) Allocation of transaction price

The Group operates customer royalty programmes in which, when a customer buys goods the Group grants the customer award credits. Also, the customer can redeem the award credits for discounted goods in the future. The customers' option is identified as a separate performance obligation with applying Korean IFRS 1115.

In accordance with the current standard, the Group allocates the fair value of the consideration received or receivable in respect of revenues between the award credits and the sales of goods, and consideration for award credits is allocated preferentially based on their fair value and remaining amounts are allocated to sales of goods. However, the Group allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices with applying Korean IFRS 1115. Based on the preliminary analysis for potential financial impact, as at December 31, 2017, the Group expects its revenue will increase with applying Korean IFRS 1115.

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 an 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 into 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 an 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 an 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 an 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.

(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 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.

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

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered 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.

2.8 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 - 60 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years

	Useful life
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.

2.9 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.

2.10 Government Grants

Grants from the 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 related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.11 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

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal courses 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.

2.19 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases 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 lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income

2.20 Segment Reporting

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the representative director that makes strategic decisions.

2.21 Approval of Issuance of the Financial Statements

The consolidated financial statements 2017 were approved for issue by the Board of Directors on January 31, 2018 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 12).

(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 24).

If certain portion of the taxable income is not used for investments or increase in wages or dividends, the Group is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by these tax effects. 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 17, 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 (asset)

The present value of net defined benefit liability (asset) depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 19).

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
DB(Daily Beauty) & Sulloc	Personal care goods, green tea

The segment information for revenue and operating profit for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017			2016		
	Revenue	Operating profit	Depreciation and amortization	Revenue	Operating profit	Depreciation and amortization
Cosmetics	₩ 4,579,225	₩ 580,016	₩ 201,201	₩ 5,075,001	₩ 835,663	₩ 166,889
DB(Daily Beauty) & Sulloc	544,601	16,383	21,444	570,439	12,440	14,072
	₩ 5,123,826	₩ 596,399	₩ 222,645	₩ 5,645,440	₩ 848,103	₩ 180,961

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Total segment revenue	₩ 5,123,826	₩ 5,645,440
Eliminating intersegment revenue	-	-
Group revenue	₩ 5,123,826	₩ 5,645,440

Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Total segment operating profit	₩ 596,399	₩ 848,103
Eliminating intersegment revenue	-	-
Group operating profit	₩ 596,399	₩ 848,103

The segment information for assets and liabilities as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Cosmetics	₩ 4,541,638	₩ 1,067,923	₩ 4,376,740	₩ 1,143,189
DB(Daily Beauty) & Sulloc	834,046	132,387	804,837	141,756
Group assets and liabilities	₩ 5,375,684	₩ 1,200,310	₩ 5,181,577	₩ 1,284,945

Non-current asset held for sale amounting to ₩201,155 million (2016: ₩201,155 million) and investments in associates amounting to ₩2,381 million (2016: ₩2,656 million) were all included in cosmetics business division.

Acquisition of non-current assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Cosmetics	₩ 706,637	₩ 558,707
DB(Daily Beauty) & Sulloc	138,979	56,441
	₩ 845,616	₩ 615,148

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 years ended and as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Revenues 2017	Revenues 2016	Non-current assets[1] 2017	Non-current assets[1] 2016
Korea	₩ 3,199,541	₩ 3,845,392	₩ 2,527,331	₩ 2,271,013
Asia	1,832,736	1,636,165	289,182	283,260
North America	57,063	53,838	5,573	2,765
Others	34,486	110,045	30,821	29,695
	₩ 5,123,826	₩ 5,645,440	₩ 2,852,907	₩ 2,586,733

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

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2017 and 2016.

5. Financial Instruments by Category

Categorizations of financial assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)			2017		2016
Loans and receivables	Cash and cash equivalents	₩	604,188	₩	623,704
	Current financial deposits		32,000	₩	300,340
	Non-current financial deposits		13,872	₩	14,129
	Trade receivables		324,665	₩	294,456
	Current other receivables		55,312	₩	45,372
	Non-current other receivables		170,367	₩	173,660
	Other current assets[1]		1,731	₩	15,789
Available-for-sale financial assets	Equity securities		4,948	₩	5,160
	Current debt securities		30,000	₩	164,709
	Non-current debt securities		8,333	₩	4,234
		₩	1,245,416	₩	1,641,553

[1] Other current assets represent accrued revenues (Note 15).

Categorizations of financial liabilities as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)			2017		2016
Financial liabilities at amortized cost	Trade payables		132,084		165,888
	Short-term borrowings		85,052		144,685
	Long-term borrowings		42,903		-
	Other payables		212,057		315,343
	Other current liabilities[2]		211,647		83,558
	Other non-current liabilities[3]		17,998		12,433
		₩	701,741	₩	721,907

[2] Other current liabilities are comprised of dividend payables, accrued expenses and finance lease liabilities (Note 18).

[3] Other non-current liabilities are comprised of deposits received, accrued expenses, finance lease liabilities (Note 18).

Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Available-for-sale financial assets				
Gain(loss) on valuation (Other comprehensive income)	₩	(205)	₩	2,412
Gain on disposal (Profit or loss)		969		6,963
Loss on disposal (Profit or loss)		(249)		(162)
Interest income		1,141		1,779
Dividend income		157		45
Loans and receivables				
Interest income		12,676		15,244
Gain(loss) on foreign currency translation		(31,010)		5,374
Impairment loss		(739)		(788)
Financial assets at fair value through profit or loss				
Gain on valuation of derivative financial instruments		-		619
Financial liabilities at amortized cost				
Interest expense		(3,080)		(3,899)
Gain(loss) on foreign currency translation		9,834		(7,965)
Loss on valuation of financial liabilities		-		(2,035)

6. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Cash on hand	₩	212	₩	507
Ordinary deposits		141,646		184,433
Checking accounts		60,152		85,214
Other accounts		402,178		353,550
	₩	604,188	₩	623,704

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, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Trade receivables	₩	328,313	₩	297,884
Less: provision for impairment of trade receivables		(3,648)		(3,428)
Trade receivables, net	₩	324,665	₩	294,456
Current other receivables	₩	55,789	₩	45,849
Less: provision for impairment of current other receivables		(477)		(477)
Current other receivables, net	₩	55,312	₩	45,372
Non-current other receivables	₩	170,367	₩	173,660
Less: provision for impairment of non-current other receivables		-		-
Non-current other receivables, net	₩	170,367	₩	173,660

Details of other receivables are as follows:

	2017				2016			
(in millions of Korean won)		Current		Non-current		Current		Non-current
Non-trade receivables	₩	44,296	₩	-	₩	45,372	₩	-
Loans		17		32,812		-		30,204
Deposits provided		10,999		137,555		-		143,456
	₩	55,312	₩	170,367	₩	45,372	₩	173,660

The aging analysis of trade and other receivables as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017 Trade receivables	2017 Other receivables	2016 Trade receivables	2016 Other receivables
Receivables not past due	₩ 273,585	₩ 222,756	₩ 257,828	₩ 216,413
Past due but not impaired [1]				
Up to 3 months	44,476	368	26,986	510
4 to 6 months	4,813	1,326	5,233	632
7 to 12 months	798	967	2,865	797
Over 12 months	343	539	584	956
Impaired	4,298	200	4,388	201
	₩ 328,313	₩ 226,156	₩ 297,884	₩ 219,509

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

Movements on the provision for impairment of trade receivables for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Beginning balance	₩ 3,428	₩ 2,606
Impairment loss (Reversal)	739	788
Receivables written off	(528)	-
Exchange differences	9	34
Ending balance	₩ 3,648	₩ 3,428

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 27). 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, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Merchandise	₩	134,959	₩	150,896
Finished goods		124,934		154,905
Raw materials		23,809		23,982
Subsidiary materials		19,235		18,870
Others		71,822		61,213
	₩	374,759	₩	409,866

Inventories recognized as an expense during the year ended December 31, 2017 amounted to ₩1,512,818 million (2016: ₩1,395,200 million). They were included in 'cost of sales'.

Loss on valuation of inventories and loss on disposal of inventories for the years ended December 31, 2017 and 2016 are as follows:

(in millions of Korean won)		2017		2016
Loss on valuation of inventories (Reversal)	₩	(2,916)	₩	2,285
Loss on disposal of inventories		33,733		37,069
	₩	30,817	₩	39,354

9. Available-for-sale Financial Assets

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

(in millions of Korean won)		2017		2016
Debt securities				
Asset backed securities	₩	30,000	₩	160,000
Government-issued securities		4,191		4,234
Investment securities		4,142		4,708
Equity securities				
Marketable equities				
Meritz Securities Co., Ltd.		890		673
GL Pharm Tech Corporation		2,926		3,355
Non-marketable equities				
Welskin Co., Ltd.		48		48
The Korea Economic Daily		81		81
ELANDRETAIL Ltd.		3		3
Biogenics Inc.		1,000		1,000
	₩	43,281	₩	174,102

Changes in available-for-sale financial assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Beginning balance	₩	174,102	₩	67,309
Acquisitions		130,412		363,639
Disposals		(260,456)		(260,175)
Gain (loss) on valuation		(211)		9,590
Exchange differences		(566)		147
Loss reclassified from equity [1]		-		(6,408)
Ending balance	₩	43,281	₩	174,102

[1] During 2016, other comprehensive income on valuation amounting to ₩6,408 million (tax effect: ₩1,551 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 29).

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, 2017 and 2016, is as follows:

(in millions of Korean won)	Percentage of ownership (%)	2017			2016		
		Acquisition cost	Book amount	Net asset amount	Acquisition cost	Book amount	Net asset amount
Taiwan AMORE Co.,Ltd.	50.0	₩ 131	₩ 2,381	₩ 2,381	₩ 131	₩ 2,656	₩ 2,499

Changes in investments in associates for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Taiwan AMORE Co.,Ltd. 2017	Taiwan AMORE Co.,Ltd. 2016
Beginning balance	₩ 2,656	₩ 2,375
Share of profit or loss of associates	79	80
Share of other comprehensive income of associates	82	128
Dividends received	(108)	-
Exchange differences	(328)	73
Ending balance	₩ 2,381	₩ 2,656

Summarized financial information of associates as at and for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 5,248	₩ 486	₩ 5,768	₩ 159	₩ 322

(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

11. Property, Plant and Equipment

Property, plant and equipment as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			2016		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 775,135	₩ -	₩ 775,135	₩ 819,587	₩ -	₩ 819,587
Buildings	1,231,676	(161,153)	1,070,523	699,430	(139,659)	559,771
Structures	51,715	(20,113)	31,602	48,757	(17,453)	31,304
Machinery	442,041	(187,025)	255,016	354,493	(159,440)	195,053
Vehicles	2,186	(1,439)	747	2,003	(1,264)	739
Tools	155,393	(127,863)	27,530	138,568	(112,741)	25,827
Fixtures and furniture	746,377	(447,534)	298,843	604,810	(346,673)	258,137
Others	748	(615)	133	599	(430)	169
Construction in progress	153,643	-	153,643	468,052	-	468,052
	₩ 3,558,914	₩ (945,742)	₩ 2,613,172	₩ 3,136,299	₩ (777,660)	₩ 2,358,639

Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017						
	Opening net book amount	Acquisition	Reclassification[1]	Disposal	Depreciation	Exchange differences	Closing net book amount
Land	₩ 819,587	₩ -	₩ (44,518)	₩ -	₩ -	₩ 66	₩ 775,135
Buildings	559,771	5,981	531,991	-	(21,855)	(5,365)	1,070,523
Structures	31,304	3,076	478	(157)	(2,878)	(221)	31,602
Machinery	195,053	16,172	76,319	(201)	(31,359)	(968)	255,016
Vehicles	739	23	260	(23)	(251)	(1)	747
Tools	25,827	16,950	251	-	(15,279)	(219)	27,530
Fixtures and furniture	258,137	125,024	48,971	(2,951)	(123,783)	(6,555)	298,843
Other	169	3	-	-	(31)	(8)	133
Construction in progress	468,052	635,604	(943,741)	(5,525)	-	(747)	153,643
	₩ 2,358,639	₩ 802,833	₩ (329,989)	₩ (8,857)	₩ (195,436)	₩ (14,018)	₩ 2,613,172

[1] In relation to the construction of new building in Yongsan-gu, Seoul, the book amount of ₩329,982 million based on lease ratio was reclassified into investment property (Note 13).

(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 13).

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

(in millions of Korean won)		2017		2016
Selling and administrative expenses[1]	₩	134,972	₩	99,952
Cost of sales		60,464		58,296
	₩	195,436	₩	158,248

[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, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Book amount	Secured amount	Related line item	Related amount	Secured party
Land and Buildings	₩ 20,596	₩ 1,249	LeaseHold Deposits Received	961	National Pension Service
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	17,366	3,594	LeaseHold Deposits Received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	358	100	LeaseHold Deposits Received	100	Social Welfare Organization Cheonggwang

(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

Details of finance lease as at December 31, 2017 and 2016, 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, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				2016			
	Land		**Buildings**		**Land**		**Buildings**	
Cost- capitalized finance leases	₩	1,561	₩	16,568	₩	1,546	₩	16,417
Accumulated depreciation		-		(6,565)		-		(6,124)
Net book amount	₩	1,561	₩	10,003	₩	1,546	₩	10,293

The total of future minimum lease payments to the lessor as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
Total minimum lease payments				
Within one year	₩	1,584	₩	1,569
Later than one year but not later than five years		-		1,570
		1,584		3,139
Unearned finance income		(23)		(103)
Net minimum lease payments				
Within one year		1,561		1,489
Later than one year but not later than five years		-		1,547
Total of finance lease liabilities (Note18)	₩	1,561	₩	3,036

The Group leases offices, stores, warehouses and computer facilities under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years. The lease payments recognized as expenses for the years ended December 31, 2017, is ₩321,049 million (2016: ₩291,463 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)	2017		2016	
Within one year	₩	80,490	₩	139,964
Later than one year but not later than five years		48,779		143,527
Later than five years		776		3,011
	₩	130,045	₩	286,502

12. Intangible Assets

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Goodwill	Industrial property	Software	Others	Total
Beginning balance	₩ 26,768	₩ 14,806	₩ 116,522	₩ 69,998	₩ 228,094
Acquisition	-	-	8,008	34,775	42,783
Reclassification	-	8,448	21,979	(30,427)	-
Disposal	-	(16)	(193)	(670)	(879)
Amortization	-	(2,086)	(24,528)	(595)	(27,209)
Impairment loss	-	-	-	(40)	(40)
Exchange differences	(1,847)	21	(442)	(746)	(3,014)
Ending balance	₩ 24,921	₩ 21,173	₩ 121,346	₩ 72,295	₩ 239,735

(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

Amortization of intangible assets is charged to the following accounts:

(in millions of Korean won)	2017	2016
Selling and administrative expenses[1]	₩ 26,119	₩ 21,306
Cost of sales	1,090	1,407
	₩ 27,209	₩ 22,713

[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)		2017		2016
Annick Goutal CGU	₩	5,790	₩	5,737
AMOREPACIFIC Hong Kong CGU		7,619		8,662
China CGU		3,979		4,213
Vietnam CGU		3,429		3,858
Singapore Etude House CGU		3,274		3,413
Thailand CGU		524		537
Indonesia CGU		306		348
	₩	24,921	₩	26,768

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 2017 are as follows:

	Annick Goutal CGU	AMOREPACIFIC Hong Kong CGU	China CGU	Vietnam CGU	Singapore Etude House CGU
Gross margin rate	71.47 %	72.89 %	62.94 %	63.65 %	80.79 %
Growth rate[1]	13.86 %	6.83 %	16.60 %	27.66 %	7.10 %
Pre-tax discount rate	6.21 %	7.99 %	13.47 %	8.65 %	5.98 %

[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, 2017.

13. Investment Property

Details of investment property as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			2016		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 239,183	₩ -	₩ 239,183	₩ 157,850	₩ -	₩ 157,850
Buildings	327,538	(6.711)	320,827	9,628	(5,688)	3,940
Structures	115	(80)	35	115	(77)	38
Construction in progress	-	-	-	72,743	-	72,743
	₩ 566,836	₩ (6,791)	₩ 560,045	₩ 240,336	₩ (5,765)	₩ 234,571

Changes in investment property for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017									
	Land		**Building**		**Structures**		**Construction in process**		**Total**	
Beginning balance	₩	157,850	₩	3,940	₩	38	₩	72,743	₩	234,571
Acquisition		-		-		-		-		-
Reclassification[1]		84,822		317,910		-		(72,743)		329,989
Depreciation		-		(1,023)		(3)		-		(1,026)
Disposal		(3,489)		-		-		-		(3,489)
Ending balance	₩	239,183	₩	320,827	₩	35	₩	-	₩	560,045

(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

[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, 2017, is ₩549,632 million (2016: ₩260,877 million).

The amount recognized as income in relation to investment property is ₩538 million, (2016: nil) for the year ended December 31, 2017.

14. Non-current Assets Held-for-sale

Details of non-current assets held-for-sale as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017 Cost	2017 Accumulated depreciation	2017 Book amount	2016 Cost	2016 Accumulated depreciation	2016 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

During the year ended December 31, 2017, the Group received ₩21,000 million of outstanding balance from a buyer and transferred its ownership, in relation to the contract for the land and buildings located in Yongin-si, Gyeonggi Province, which was recognized as non-current assets held-for-sale. In connection with the contract, the Group has entered into an additional contract, in which the right to resell the land and buildings to the Group is granted to the buyer. The exercise period of the right is from February 23, 2018 to March 26, 2018 and its exercise price is ₩180,067 million. As at December 31, 2017, the Group did not remove these assets from the books as it was determined that the risks and rewards of the assets were not transferred to the buyer yet.

On January 31, 2018, after the end of the reporting period, the Group renewed the contract to change the exercise period of the right to resell the assets granted to the buyer regarding the contract for the land and buildings located in Yongin-si, Gyeonggi province, which was recognized as non-current assets held-for-sale, from August 23, 2018 to September 26, 2018.

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 years ended December 31, 2017 and 2016.

15. Other Assets

Other assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017 Current	2017 Non-current	2016 Current	2016 Non-current
Accrued revenues	₩ 1,731	₩ -	₩ 15,789	₩ -
Advance payments	18,794	-	27,908	-
Prepaid expenses	27,657	17,261	25,459	178
Prepaid value added tax	3,688	-	5,673	-
Others	384	-	657	11
	₩ 52,254	₩ 17,261	₩ 75,486	₩ 189

16. Borrowings

Details of carrying amount of borrowings as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Creditor	Interest rate (%) December 31, 2017		2017		2016
Short-term borrowings						
Bank overdrafts of EUR 479,352 (2015: EUR 473,113)	KEB Hana Bank Paris Branch	1.09	₩	613	₩	600
Bank overdrafts (2015: EUR 4,668,772)	KEB Hana Bank Paris Branch	-		-		5,918
Bank overdrafts of EUR 3,314,343 (2015: EUR 792,420)	KEB Hana Bank Paris Branch	1.09		4,240		1,004
Loans for working capital of EUR 7,000,000 (2015: EUR 7,000,000)	Citibank N.A France	0.64		8,955		8,873
Loans for working capital of JPY 500,000,000 (2015: JPY 400,000,000)	SBJ BANK Yokohama Branch	0.90		4,745		4,147
Loans for working capital of HKD 110,000,000 (2015: HKD 220,000,000)	CITI N.A HONG KONG	2.16		15,078		34,283
Loans for working capital of USD 30,000,000 (2015: USD 35,000,000)	Citibank (China) Co. Ltd.	2.37		31,592		41,551
Loans for working capital of EUR 12,500,000	KEB Hana Bank Paris Branch	0.95		15,991		-
Loans for working capital of EUR 3,000,000	Citibank N.A France	0.75		3,838		-
				85,052		96,376
Current portion of long-term borrowings						
Loans for working capital (2015: USD 40,000,000)	CITI N.A HONG KONG and others	-		-		48,309
				-		48,309
Long-term borrowings						
Loans for working capital HKD 313,000,000	CITI N.A HONG KONG	1.65		42,903		-
				42,903		-
			₩	127,955	₩	144,685

Redemption schedule of long-term borrowings as at December 31, 2017, is as follows:

(in millions of Korean won)	Maturity date		Amount
	2020.07.20	₩	42,903

17. Provisions

Details and changes of provisions for liabilities and charges for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017									
	Current							Non-current		
	Provision for sales return	Compensation for sale[1]	Profit-sharing and bonuses	Accrual for accumulated paid leave	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total
Beginning	₩ 4,369	₩ 4,000	₩ 4,694	₩ 5,109	-	₩ 1,548	₩ 19,720	₩ 3,549	₩ 738	₩ 4,287
Increase	-	-	1,485	30	5,165	747	7,427	556	193	749
Decrease	(439)	(4,000)	(3,091)	(771)	(2,533)	(651)	(11,485)	-	-	-
Exchange differences	(152)	-	(209)	9	-	21	(331)	-	(30)	(30)
Ending	₩ 3,778	₩ -	₩ 2,879	₩ 4,377	₩ 2,632	₩ 1,665	₩ 15,331	₩ 4,105	₩ 901	₩ 5,006

[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)	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	3,831	2,338	1,569	46,999	1,013	744	1,757
Decrease	-	(34,312)	(262)	(150)	-	(34,724)	-	-	-
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

18. Other Liabilities

Other liabilities as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Current	Non-current	Current	Non-current
Withholdings	₩ 10,808	₩ -	₩ 14,665	₩ -
Value added tax withheld	31,836	-	34,577	-
Advances from customers	219,369	-	189,259	-
Deposits received	-	17,793	-	8,095
Accrued expenses	209,731	205	83,242	1,302
Finance lease liabilities	1,561	-	-	3,036
Dividends payable	355	-	316	-
Others	4,219	1,097	6,409	316
	₩ 477,879	₩ 19,095	₩ 328,468	₩ 12,749

19. Post-employment Benefits

19.1 Defined Benefit Plan

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Present value of funded defined benefit obligations	₩	285,147	₩	272,878
Present value of unfunded defined benefit obligations		3,116		2,886
		288,263		275,764
Fair value of plan assets[1]		(310,527)		(272,454)
Net defined benefit liabilities (assets)	₩	(22,264)	₩	3,310

[1] The contributions to the National Pension Fund of ₩146 million (2016: ₩153 million) are included in the fair value of plan assets as at December 31, 2017.

Movements in the defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Beginning balance	₩	275,764	₩	242,508
Current service cost		36,355		32,883
Interest expense		9,565		8,216
Remeasurements:				
Actuarial loss from changes in demographic assumptions		-		-
Actuarial loss from changes in financial assumptions		(24,061)		711
Actuarial loss from experience adjustments		1,938		8,469
Exchange differences		16		(25)
Payments from plans:				
Benefit payments		(12,739)		(16,096)
Transfer to associates		1,425		(1,361)
Others		-		459
Ending balance	₩	288,263	₩	275,764

Movements in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Beginning balance	₩	272,454	₩	212,639
Interest income		9,825		7,405
Remeasurements:				
Return on plan assets		(5,374)		(4,656)
Contributions:				
Employers		45,101		74,000
Payments from plans:				
Benefit payments		(12,730)		(16,054)
Transfer to associates		1,290		(1,226)
Others		(39)		346
Ending balance	₩	310,527	₩	272,454

The significant actuarial assumptions as at December 31, 2017 and 2016, are as follows:

	2017	2016
Discount rate	3.5~3.9%	3.60%
Salary growth rate	5.61%	6.19%

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%P	8.36% decrease	9.76% increase
Salary growth rate	1.00%P	9.49% increase	8.31% 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, 2017 and 2016, consist of:

(in millions of Korean won)	2017		2016	
	Unquoted price	**Composition**	**Unquoted price**	**Composition**
Deposits	₩ 310,381	99.95 %	₩ 272,301	99.94 %
National Pension Fund	146	0.05 %	153	0.06 %
	₩ 310,527	100.00 %	₩ 272,454	100.00 %

The weighted average maturity of the defined benefit obligation is 9.16 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as at December 31, 2017, 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	₩ 17,097	₩ 21,321	₩ 74,486	₩ 168,721	₩ 281,625

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, 2018, are ₩44,083 million.

19.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 541 million (2016: ₩ 348 million).

20. Other Components of Equity

Other components of equity as at December 31, 2017 and 2016, consist of:

(in millions of Korean won)	**2017**	**2016**
Treasury shares[1]	₩ (1,381)	₩ (1,381)
Other capital adjustments	(16,243)	(16,243)
	₩ (17,624)	₩ (17,624)

[1] Represents 33,041 ordinary shares and 6,213 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, 2017 and 2016, consists of the following:

(in millions of Korean won)		2017		2016
Changes in the value of available-for-sale financial assets	₩	1,797	₩	2,002
Exchange differences on transaction of foreign operations		(42,051)		(19,300)
Share of other comprehensive income of associates		178		103
	₩	(40,076)	₩	(17,195)

Changes in accumulated other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017									
		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	₩	2,002	₩	(205)	₩	-	₩	-	₩	1,797
Exchange differences on transaction of foreign operations		(19,300)		(24,262)		-		1,511		(42,051)
Share of other comprehensive income of associates		103		82		-		(7)		178
	₩	(17,195)	₩	(24,385)	₩	-	₩	1,504	₩	(40,076)

(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)

22. Retained Earnings

Retained earnings as at December 31, 2017 and 2016, consist of:

(in millions of Korean won)		2017		2016
Legal reserves[1]	₩	18,109	₩	18,109
Discretionary reserves		2,109,000		2,109,000
Retained earnings before appropriation		1,329,394		1,031,558
	₩	3,456,503	₩	3,158,667

[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 2017 and 2016 are as follows:

	2017		2016	
	Ordinary shares	**Preferred shares**	**Ordinary shares**	**Preferred shares**
Dividends paid	₩ 92,312 million	₩ 16,724 million	₩ 78,874 million	₩ 14,297 million
Dividends per share (in Korean won)	1,580	1,585	1,350	1,355

Dividends in respect of the year ended December 31, 2017, of ₩1,280 per ordinary share and ₩1,285 per preferred share, amounting to a total dividend of ₩74,785 million on ordinary shares and ₩13,559 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 16, 2018. These financial statements do not reflect these dividend payable.

24. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)		2017		2016
Current tax	₩	186,002	₩	238,319
Deferred tax		(16,661)		(27,489)
Income tax expense	₩	169,341	₩	210,830

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)		2017		2016
Profit before income tax expense	₩	567,344	₩	856,558
Tax at domestic tax rates applicable to profits in the respective countries		138,298		207,480
Tax effects of:				
Income not subject to tax		(15)		(2,059)
Expenses not deductible for tax purposes		6,770		2,480
Tax losses for which no deferred income tax asset was recognized		7,365		2,306
Utilization of previously unrecognized tax losses		(5,075)		(3,148)
Impact on deferred income tax due to changes in tax rate		5,628		-
Tax credits		(2,168)		(2,495)
Adjustment in respect of prior years		17,542		103
Effects of the tax refund		-		3,900
Others		996		2,263
Income tax expense	₩	169,341	₩	210,830

The weighted average applicable tax rate of the Group was 29.85% (2016: 24.61%).

The tax effect relating to components of other comprehensive income(expenses) for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain(loss) on valuation of available-for-sale financial assets	₩ (212)	₩ 7	₩ (205)	₩ 3,169	₩ (757)	₩ 2,412
Remeasurements	16,749	(3,887)	12,862	(13,836)	3,348	(10,488)
Share of other comprehensive income of associates	82	-	82	128	-	128
Exchange differences on transaction of foreign operations	(24,262)	-	(24,262)	(5,353)	-	(5,353)
	₩ (7,643)	₩ (3,880)	₩ (11,523)	₩ (15,892)	₩ 2,591	₩ (13,301)

The analysis of deferred tax assets and liabilities as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017	2016
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 88,470	₩ 82,005
Deferred tax asset to be recovered within 12 months	57,807	62,302
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(183,132)	(187,774)
Deferred tax liability to be recovered within 12 months	(4,175)	(6,012)
Deferred tax liabilities, net	₩ (41,030)	₩ (49,479)

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)	2017					
	Beginning balance	Statement of profit or loss	Other comprehensive income	Change in the Korean tax rate	Exchange differences	Ending balance
Deferred tax assets						
Provision for impairment	₩ 711	₩ 405	₩ -	₩ -	₩ (57)	₩ 1,059
Trade receivables	14,641	(4,194)	-	777	-	11,224
Other receivables	2,684	(2,684)	-	-	-	-
Non-current assets held-for-sale	-	1,188	-	88	-	1,276
Inventories	580	(294)	-	-	(1)	285
Property, plant and equipment	10,668	1,298	-	329	(346)	11,949
Intangible assets	5	-	-	-	-	5
Government grants	432	(328)	-	8	-	112
Investments in subsidiaries	11,306	(804)	-	-	-	10,502
Deferred revenue	13,589	(1,082)	-	835	(90)	13,252
Accrued expenses	26,019	1,892	-	-	(3,936)	23,975
Provision for sales return	1,693	(995)	-	48	(3)	743
Provision for restoration	-	637	-	47	-	684
Accrual for accumulated paid leave	980	(85)	-	67	-	962
Post-employment benefit obligations	56,063	9,625	(5,134)	4,455	6	65,015
Long-term employee benefits	859	135	-	74	-	1,068
Other current liabilities	2,878	514	-	252	-	3,644
Tax loss carryforwards	709	(660)	-	-	(51)	(2)
Others	490	(2)	-	36	-	524
	144,307	4,566	(5,134)	7,016	(4,478)	146,277
Deferred tax liabilities						
Accrued revenue	(752)	461	-	(22)	-	(313)
Other receivables	(82)	5	-	(6)	-	(83)
Inventories	(2,616)	708	-	(142)	-	(2,050)
Property, plant and equipment	(103,577)	16,764	-	(6,457)	-	(93,270)
Intangible assests	(4,846)	(48)	-	(53)	146	(4,801)
Available-for-sale financial assets	(72)	-	8	43	-	(21)
Investments in subsidiaries	(931)	-	-	(70)	-	(1,001)
Plan assets	(65,886)	(10,448)	1,246	(5,585)	-	(80,673)
Reserve for technology development	(12,504)	9,277	-	(240)	-	(3,467)
Other current liabilities	(2,520)	1,004	-	(112)	-	(1,628)
	(193,786)	17,723	1,254	(12,644)	146	(187,307)
	₩ (49,479)	₩ 22,289	₩ (3,880)	₩ (5,628)	₩ (4,332)	₩ (41,030)

(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)

Deferred 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 ₩169,838 million in respect of losses amounting to ₩55,439 million that can be carried forward against future taxable income.

The maturity of unused tax losses is as follows:

(in millions of Korean won)	**2017**
2018 ~ 2020	₩ 16,947
2021 ~ 2036	66,610
No limit	86,281
	₩ 169,838

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, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Taxable temporary differences	₩	(151,233)	₩	(121,598)
Deductible temporary differences		65,865		66,108
	₩	(85,368)	₩	(55,490)

25. Revenue

Revenue for the years ended December 31, 2017 and 2016, consists of the following:

(in millions of Korean won)		2017		2016
Sales of goods	₩	5,089,585	₩	5,625,263
Rendering of services		28,466		14,507
Others				
Rental income		3,433		3,336
Royalty income		554		271
Others		1,788		2,063
		5,775		5,670
	₩	5,123,826	₩	5,645,440

26. Breakdown of Expenses by Nature

Breakdown of expenses by nature for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Changes in inventories	₩	35,107	₩	(85,928)
Purchase of raw materials and merchandise		1,477,711		1,481,128
Employee benefits expenses		665,953		630,794
Depreciation and amortization		223,431		180,961
Advertising expense		540,471		557,776
Commission expense		525,222		487,320
Distribution commission		800,031		1,030,917
Other expenses		259,501		514,369
Total[1]	₩	4,527,427	₩	4,797,337

[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 years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Salaries and post-employment benefits	₩	454,790	₩	436,442
Employee benefits		84,511		82,258
Advertising expense		540,471		557,776
Depreciation and amortization		153,570		121,258
Commission expense		469,059		437,580
Distribution commission		800,031		1,030,917
Freight expense		100,122		100,386
Taxes and dues		37,009		42,915
Research and development		91,848		98,792
Other		416,290		464,252
	₩	3,147,701	₩	3,372,576

28. Finance Income and Costs

Financial income and costs for the years ended December 31, 2017 and 2016, are as follows:

(*in millions of Korean won*)		2017		2016
Finance income				
Interest income on loans and receivables	₩	12,676	₩	15,244
Interest income on available-for-sale financial assets		1,141		1,779
Gain on valuation of derivative instruments		-		619
	₩	13,817	₩	17,642
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(3,080)	₩	(3,899)
Loss on valuation of financial liabilities carried at amortized cost		-		(2,035)
	₩	(3,080)	₩	(5,934)

29. Other Non-operating Gains/ (Losses)

Other non-operating gains/ (losses) for the years ended December 31, 2017 and 2016, consist of:

(in millions of Korean won)		2017		2016
Other non-operating income				
Gain on foreign currency transactions	₩	14,044	₩	16,479
Gain on foreign currency translation		5,800		15,766
Gain on disposal of property, plant and equipment		1,628		275
Gain on disposal of available-for-sale financial assets		969		6,963
Dividend income		157		45
Others		19,559		20,309
		42,157		59,837
Other non-operating expenses				
Loss on foreign currency transactions		(27,692)		(23,387)
Loss on foreign currency translation		(13,328)		(11,449)
Loss on disposal of property, plant and equipment		(8,622)		(2,689)
Loss on disposal of intangible assets		(301)		(279)
Loss on disposal of investment property		(89)		-
Impairment losses of property, plant and equipment		-		(940)
Impairment losses of intangible assets		(40)		(552)
Loss on disposal of available-for-sale financial assets		(249)		(162)
Donations		(10,948)		(12,656)
Others		(20,760)		(11,057)
		(82,029)		(63,171)
	₩	(39,872)	₩	(3,334)

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 20).

Basic earnings per ordinary share for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		2017		2016
Profit attributable to owners of the Parent Company	₩	394,011	₩	639,255
Profit attributable to ordinary shares		333,692		541,420
Weighted average number of ordinary shares outstanding (unit: shares)		58,425,449		58,425,449
Basic earnings per ordinary share (in Korean won)	₩	5,711	₩	9,267

Basic earnings per preferred share[1] for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		2017		2016
Profit attributable to owners of the Parent Company	₩	394,011	₩	639,255
Profit attributable to preferred shares		60,319		97,835
Weighted average number of preferred shares outstanding (unit: shares)		10,551,617		10,551,619
Basic earnings per preferred share (in Korean won)	₩	5,717	₩	9,272

[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 years ended December 31, 2017 and 2016, are as follows:

(*in millions of Korean won*)		2017		2016
Profit for the period	₩	398,003	₩	645,729
Adjustments for:				
Finance income, net		(10,737)		(11,708)
Loss(gain) on foreign currency translation, net		7,528		(4,317)
Loss on foreign currency transactions, net		3,374		-
Depreciation and amortization		223,671		181,201
Loss on disposal of property, plant and equipment and intangible assets		7,384		2,693
Impairment loss of property, plant and equipment and intangible assets		40		1,492
Gain on disposal of available-for-sale financial assets		(720)		(6,801)
Income tax expense		169,341		210,830
Share of profit of associates		(79)		(80)
Post-employment benefits		36,095		33,694
Others		14,808		1,633
Changes in assets and liabilities from operating activities				
Increase in trade receivables		(36,504)		(10,786)
Decrease (increase) in other receivables		1,043		(8,049)
Decrease (increase) in inventories		35,107		(85,928)
Decrease (increase) in other assets		17,720		(18,837)
Increase (decrease) in trade payables		(31,618)		6,064
Increase(decrease) in other payables		(41,037)		10,583
Increase (decrease) in provisions		(8,835)		12,437
Increase in other liabilities		16,042		5,359
Benefits payment		(12,739)		(16,096)
Net transfer-in (transfer-out) of post-employment benefits of associates		1,425		(1,361)
Increase in plan assets, net		(33,622)		(56,720)

Cash generated from operations	₩ 755,690	₩ 891,032

Significant transactions not affecting cash flows for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Reclassification of construction in-progress to property, plant and equipment	₩ 847,809	₩ 44,694
Reclassification of property, plant and equipment to investment property	329,989	(81,354)
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets	45,866	107,323
Reclassification of current portion of long-term borrowings	-	46,350

Changes in liabilities arising from financial activities for the periods ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Short-term borrowings	Current portion of long-term borrowings	Borrowings	Total
At January 1, 2016	₩ 24,676	₩ 75,549	₩ 46,877	₩ 147,102
Cash flows	69,294	(73,826)	-	(4,532)
Reclassification	-	46,350	(46,350)	-
Exchange differences	2,406	236	(527)	2,115
At December 31, 2016	₩ 96,376	₩ 48,309	₩ -	₩ 144,685
Cash flows	(3,595)	(44,992)	45,426	(3,161)
Exchange differences	(7,729)	(3,317)	(2,523)	(13,569)
At December 31, 2017	₩ 85,052	₩ -	₩ 42,903	₩ 127,955

32. Commitments and Contingencies

Details of financial commitment with financial institution as at December 31, 2017 and 2016, are as follows:

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

Financial institution	Commitment	2017 Limit	2017 Outstanding balance	2016 Limit	2016 Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 21,000	₩ 1,135	₩ 35,000	₩ 2,318
	Letter of credit	USD 4,000	-	USD 4,000	USD 160

At the end of reporting period, Seoul Guarantee Insurance has provided the Company with payment guarantees such as performance guarantees and others amounting to ₩9,592 million (2016: ₩9,840 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	2017		2016	
			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
	CITI N.A HONG KONG	Long-term borrowings	HKD 313,000	HKD 313,000	-	-
	CITI N.A HONG KONG	Short-term borrowings	HKD 220,000	HKD 110,000	HKD 220,000	HKD 220,000
	CITY N.A HONG KONG	Overdraft	USD 10,000	-	USD 10,000	-
AMORE Cosmetics (shanghai) Co., Ltd.	Citibank (China) Co., Ltd	Short-term borrowing	USD 30,000	USD 30,000	USD 35,000	USD 35,000
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 15,000	-	HKD 15,000	-
	Bank of East Asia	Overdraft	HKD 10,000	-	HKD 10,000	-
AMOREPACIFIC Japan CO., LTD	SBJ BANK Yokohama Branch	Short-term borrowings	JPY 1,000,000	JPY 500,000	JPY 1,000,000	JPY 400,000
AMOREPACIFIC EUROPE S.A.S	Sogebali S.A.	Lease finance	EUR 4,184	EUR 775	EUR 4,184	EUR 2,476
	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 479	EUR 500	EUR 473
PACIFIC CREATION S.A.S[1]	KEB Hana Bank Paris Branch	Overdraft	-	-	EUR 12,500	EUR 4,669
	KEB Hana Bank Paris Branch	Short-term borrowings	EUR 12,500	EUR 12,500	-	-
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 3,314	EUR 3,000	EUR 792
	Citibank N.A France	Short-term borrowings	EUR 3,000	EUR 3,000	-	-

[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**		**2017**		**2016**
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩	15,000	₩	15,000
Current financial deposits	Agreement of shared growth and cooperation		14,000		14,000
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, 2017, the Group is a defendant in 13 cases aggregating ₩7,139 million for compensation for damages, injunction against patent infringement and others, and the Group is a plaintiff in 19 cases aggregating ₩594 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, 2017. The Group expects that these cases would not have any material impact on its financial statements.

As at December 31, 2017, the amount of contract for the construction of a new building located in Yongsan is ₩95,132 million.

As at December 31, 2017, the Group has entered into a long-term rental contract for a new building located in Yongsan with associates including Innisfree Corporation and external customers, and the contract terms are between 5 and 10 years.

During the year ended December 31, 2017, the Group has entered into an additional contract to grant a right to resell the assets to the buyer in relation to the contract for the land and buildings located in Yongin-si, Gyeonggi Province, which was recognized as non-current assets held-for-sale (Note 14).

33. Related Party Transactions

Details of the parents and subsidiaries as at December 31, 2017, are as follows:

Classification	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.
	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.
	AMOREPACIFIC EUROPE S.A.S
	Annick Goutal S.A.S
	AMOREPACIFIC ME FZ-LLC
	AMOREPACIFIC Vietnam LTD.
	AMOREPACIFIC AUSTRALIA PTY LTD[1]
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.
	COSVISION CO.,LTD.
Associate of the Parent Company	BBDO Korea Inc.
Other related party	Taeshin Inpack Corporation

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

Sales and purchases with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017							
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Dividends received	Dividends paid
Parent Company								
AMOREPACIFIC Group,Inc.	₩ 1,952	₩ 21,955	₩ 57,762	₩ 56,962	₩ -	₩ -	₩ -	₩ 35,094
Subsidiaries of the Parent Company								
Innisfree Corporation	11,741	132,638	-	-	1,627	-	-	-
Etude Corporation	4,988	24,566	78	8	4,587	-	-	-
AMOS Professional Corporation	21,802	1,407	-	-	47	-	-	-
Espoir Corporation	1,152	2,365	235	-	1	-	-	-
AESTURA Corporation	1,645	73,020	39	-	18	-	-	-
PACIFICGLAS, Inc.	392	40,075	-	-	11	-	-	-
PACIFICPACKAGE Corporation	320	46,024	-	-	-	-	-	-
Osulloc Farm Co., Ltd.	136	1,685	2,418	-	-	206	-	-
COSVISION CO.,LTD.	1,146	26,884	-	-	-	-	-	-
Associate of the Parent Company								
BBDO Korea Inc.	-	-	-	-	-	16,245	-	-
Associate								
Taiwan AMORE Co.,Ltd.	-	-	-	-	-	-	108	-
Other related party								
Taeshin Inpack Corporation	-	15,627	-	-	-	-	-	-
	₩ 45,274	₩ 386,246	₩ 60,532	₩ 56,970	₩ 6,291	₩ 16,451	₩ 108	₩ 35,094

(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

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Parent Company				
AMOREPACIFIC Group,Inc.	₩ 100	₩ 2,308	₩ 1,710	₩ 1,459
Subsidiaries of the Parent Company				
Innisfree Corporation	1,391	864	59,583	3,416
Etude Corporation	967	2,639	10,098	2,707
AMOS Professional Corporation	2,085	47	6	4,076
Espoir Corporation	82	6	213	791
AESTURA Corporation	621	183	4,245	980
PACIFICGLAS, Inc.	41	5	4,990	467
PACIFICPACKAGE Corporation	25	2	5,534	-
Osulloc Farm Co., Ltd.	11	-	19	9
COSVISION CO.,LTD.	86	33,429	3,410	101
Associate of the Parent Company				
BBDO Korea Inc.	-	-	-	5,575
Other related party				
Taeshin Inpack Corporation	-	-	1,392	-
	₩ 5,409	₩ 39,483	₩ 91,200	₩ 19,581

(in millions of Korean won)	2016			
	Receivables		Payables	
	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

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 years ended December 31, 2017 and 2016.

As at December 31, 2017, there are no collaterals and payment guarantees provided to or provided by related parties other than the Group.

As at December 31, 2017, the Group has entered into a long-term rental contract for a new building located in Yongsan with related parties including Innisfree Corporation and the contract is valid for five years. In addition, the Group has entered into a business agency contract with domestic related parties and recognized consideration received in connection with the contract as revenue.

Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2017 and 2016, consists of:

(In millions of Korean won)		2017		2016
Short-term employee benefits	₩	16,440	₩	10,012
Post-employment benefits		1,017		1,061
	₩	17,457	₩	11,073

34. Transactions with Non-controlling Interests

During 2016, 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.

In addition, during 2016, 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 year ended December 31, 2016, 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, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
USD	₩ 199,723	₩ 114,919	₩ 281,003	₩ 118,550
EUR	587	1,464	2,681	2,375
JPY	-	2,794	-	9,742
	₩ 200,310	₩ 119,177	₩ 283,684	₩ 130,667

As at December 31, 2017 and 2016, 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)	2017		2016	
	10% Increase	**10% Decrease**	**10% Increase**	**10% Decrease**
USD	₩ 8,480	₩ (8,480)	₩ 16,245	₩ (16,245)
EUR	(88)	88	31	(31)
JPY	(279)	279	(974)	974

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 ₩1,062 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.

(in millions of Korean won)	2017					
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total	Book amount
Trade payables	₩ 132,084	₩ -	₩ -	₩ -	₩ 132,084	₩ 132,084
Borrowings	86,652	708	43,295	-	130,655	127,955
Other payables	212,057	-	-	-	212,057	212,057
Other liabilities	211,669	19,308	-	-	230,977	229,645

(in millions of Korean won)	2016					
	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

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)		2017		2016
Liabilities (A)	₩	1,200,310	₩	1,284,945
Equity (B)		4,175,374		3,896,632
Cash and cash equivalents and current financial deposits (C)		650,059		938,173
Borrowings (D)		127,955		144,685
Debt-to-equity ratio (A/B)		28.75%		32.98%
Net Borrowings ratio (D-C)/B		(-)12.50%		(-)20.36%

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).

(in millions of Korean won)	2017							
		Level 1		Level 2		Level 3		Total
Recurring fair value measurements								
Available-for-sale financial assets	₩	7,958	₩	-	₩	-	₩	7,958
Disclosed fair value								
Investment property		-		-		549,632		549,632

(in millions of Korean won)	2016							
		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

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, 2017, are as follows:

(a) 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, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Debt securities				
Asset backed securities	₩	30,000	₩	160,000
Government-issued securities		4,191		4,234
Equity securities				
Welskin Co., Ltd.		48		48
The Korea Economic Daily		81		81
ELANDRETAL Ltd.		3		3
Biogenics Inc.		1,000		1,000
	₩	35,323	₩	165,366

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.