AMOREPACIFIC Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011

AMOREPACIFIC Corporation and Subsidiaries
Index
December 31, 2012 and 2011

Page(s)

Report of Independent Auditors........1 – 2

Consolidated Financial Statements

Consolidated Statements of Financial Position........3

Consolidated Statements of Comprehensive Income........4

Consolidated Statements of Changes in Equity........5

Consolidated Statements of Cash Flows........6

Notes to Consolidated Financial Statements........7 – 64

Report of Independent Auditors

To the Board of Directors and Shareholders of
AMOREPACIFIC Corporation

We have audited the accompanying consolidated statements of financial position of AMOREPACIFIC Corporation and its subsidiaries (collectively the "Group") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, whose financial statements represent assets of ₩257,112 million as of December 31, 2012, and sales of ₩385,894 million for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for AMOREPACIFIC EUROPE S.A.S and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of AMOREPACIFIC Corporation and its subsidiaries as of December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

The accompanying consolidated financial statements as of and for the years ended December 31, 2012 and 2011, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 4 to the consolidated financial statements.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 14, 2013

This report is effective as of March 14, 2013, 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, 2012 and 2011

	Notes	(in thousands of Korean won) 2012	2011	(in thousands of U.S. dollars (Note 4)) 2012	2011
Assets					
Current assets					
Cash and cash equivalents	6,7,8	₩ 170,707,336	₩ 187,708,073	US$ 159,376	US$ 175,248
Bank deposits	6,7,33	142,499,277	155,735,881	133,040	145,398
Trade receivables	6,7,9,34	170,180,022	152,434,947	158,883	142,316
Other receivables	6,7,9,34	20,076,016	13,839,231	18,743	12,921
Other current assets	6,16	33,293,509	18,163,316	31,084	16,957
Inventories	10	267,432,831	225,802,737	249,681	210,814
		804,188,991	753,684,185	750,807	703,654
Non-current assets					
Bank deposits	6,7,33	5,157,823	3,656,200	4,815	3,414
Other receivables	6,7,9,34	82,382,745	59,298,268	76,914	55,362
Available-for-sale financial assets	6,11,36	6,243,315	9,208,589	5,829	8,597
Property, plant and equipment	5,13	1,766,807,497	1,655,475,331	1,649,526	1,545,584
Investment Property	15	203,231,632	185,545,760	189,741	173,229
Intangible assets	5,14	121,207,615	115,203,965	113,162	107,557
Investments in associates	12	5,093,040	4,665,396	4,755	4,356
Deferred income tax assets	25	31,869,648	28,683,501	29,754	26,779
Other non-current assets	16	10,394	6,373	10	6
		2,222,003,709	2,061,743,383	2,074,506	1,924,884
Total assets		₩ 3,026,192,700	₩ 2,815,427,568	US$ 2,825,313	US$ 2,628,538
Liabilities					
Current liabilities					
Trade payables	6,34,36	₩ 100,405,160	₩ 77,987,449	US$ 93,740	US$ 72,811
Borrowings	6,17,36	22,553,082	15,581,188	21,056	14,547
Other payables	6,34,36	150,720,993	181,272,063	140,716	169,239
Current income tax liabilities	25	41,516,869	39,201,483	38,761	36,599
Deferred revenue		42,144,245	53,615,002	39,347	50,056
Provisions for other liabilities	18	6,702,102	5,755,391	6,257	5,373
Other current liabilities	6,19,36	53,197,826	52,570,547	49,667	49,081
		417,240,277	425,983,123	389,544	397,706
Non-current liabilities					
Borrowings	6,17,36	42,850,044	45,903,627	40,006	42,857
Retirement benefit obligations	20	47,541,994	40,001,664	44,385	37,347
Deferred income tax liabilities	25	149,703,359	138,460,371	139,766	129,269
Other non-current liabilities	6,19,36	25,069,961	26,775,778	23,406	24,998
		265,165,358	251,141,440	247,563	234,471
Total liabilities		682,405,635	677,124,563	637,107	632,177
Equity attributable to owners of the Parent					
Capital stock	1	34,508,160	34,508,160	32,217	32,217
Additional paid-in capital		712,701,764	712,701,764	665,392	665,392
Capital surplus		7,761,340	7,690,214	7,246	7,180
Other components of equity	21	(1,810,164)	(1,810,164)	(1,689)	(1,690)
Accumulated other comprehensive income	22	(12,011,069)	(2,435,389)	(11,214)	(2,274)
Retained earnings	23	1,592,449,020	1,377,420,300	1,486,742	1,285,987
		2,333,599,051	2,128,074,885	2,178,694	1,986,812
Non-controlling interest		10,188,014	10,228,120	9,512	9,549
Total equity		2,343,787,065	2,138,303,005	2,188,206	1,996,361
Total liabilities and equity		₩ 3,026,192,700	₩ 2,815,427,568	US$ 2,825,313	US$ 2,628,538

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

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

	Notes		*(in thousands of Korean won, except per share amounts)* 2012		2011		*(in thousands of U.S. dollars (Note 4), except per share amounts)* 2012		2011
Sales	5,26,34	₩	2,849,462,499	₩	2,554,722,780	US$	2,660,314	US$	2,385,139
Cost of sales	27,34		847,204,206		774,623,273		790,966		723,203
Gross profit			2,002,258,293		1,780,099,507		1,869,348		1,661,936
Selling and administrative expenses	27,28		1,637,993,161		1,407,248,665		1,529,263		1,313,835
Operating profit	5		364,265,132		372,850,842		340,085		348,101
Finance income	6,29		12,208,475		11,165,262		11,398		10,424
Finance costs	6,29		2,125,289		1,922,957		1,984		1,795
Other non-operating gains(losses) - net	30		(15,378,554)		46,511,607		(14,358)		43,424
Share of profit of associates	12		1,674,509		1,037,293		1,563		968
			(3,620,859)		56,791,205		(3,381)		53,021
Profit before income tax			360,644,273		429,642,047		336,704		401,122
Income tax expense	25		92,200,470		102,373,283		86,080		95,578
Profit for the year		₩	268,443,803	₩	327,268,764	US$	250,624	US$	305,544
Profit attributable to:									
Owners of the parent		₩	269,616,078	₩	327,028,531	US$	251,718	US$	305,320
Non-controlling interests		₩	(1,172,275)	₩	240,233	US$	(1,094)	US$	224
Other comprehensive income									
Actuarial loss on post employment benefit obligations	20,25		(9,731,188)		(8,648,471)		(9,085)		(8,074)
Change in value of available-for-sale financial assets	6,11,22,25		(1,891,960)		(376,232)		(1,766)		(351)
Share of other comprehensive income of associates	12,22,25		(151,417)		(361,157)		(141)		(337)
Loss on currency translation of foreign operations - net	22,25		(8,159,748)		(739,437)		(7,619)		(691)
Total comprehensive income for the year		₩	248,509,490	₩	317,143,467	US$	232,013	US$	296,091
Attributable to:									
Equity holders of the Parent Company			250,341,090		316,995,957		233,723		295,954
Non-controlling interest			(1,831,600)		147,510		(1,710)		137
Total comprehensive income for the year		₩	248,509,490	₩	317,143,467	US$	232,013	US$	296,091
Earnings per share	31								
Earnings per share for profit attributable to the ordinary equity holders		₩	39,080	₩	47,403	US$	36.49	US$	44.26
Earnings per share for profit attributable to the preferred equity holders		₩	39,130	₩	47,454	US$	36.53	US$	44.30

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

The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 4.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2012 and 2011

(in thousands of Korean won)	Attributable to equity holders of the Company								
	Capital Stock	Additoinal paid-in capital	Capital Surplus	Other Components of Equity	Accumulated Other Comprehensive Income	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2011	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (1,051,286)	₩ 1,100,479,445	₩ 1,852,518,133	₩ 9,562,709	₩ 1,862,080,842
Comprehensive income									
Profit for the year	-	-	-	-	-	327,028,531	327,028,531	240,233	327,268,764
Actuarial loss on post employment benefit obligations	-	-	-	-	-	(8,648,471)	(8,648,471)	-	(8,648,471)
Change in value of available-for-sale financial assets	-	-	-	-	(376,232)	-	(376,232)	-	(376,232)
Share of other comprehensive income of associates	-	-	-	-	(325,863)	-	(325,863)	(35,294)	(361,157)
Loss on currency translation of foreign operations - net	-	-	-	-	(682,008)	-	(682,008)	(57,429)	(739,437)
Total comprehensive income for the year	34,508,160	712,701,764	7,690,214	(1,810,164)	(2,435,389)	1,418,859,505	2,169,514,090	9,710,219	2,179,224,309
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(41,439,205)	(41,439,205)	-	(41,439,205)
Stock issuance of non-controlling interest	-	-	-	-	-	-	-	517,901	517,901
Balance at December 31, 2011	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (2,435,389)	₩ 1,377,420,300	₩ 2,128,074,885	₩ 10,228,120	₩ 2,138,303,005
(in thousands of U.S. dollars (Note 4))	US$ 32,217	US$ 665,392	US$ 7,180	US$ (1,690)	US$ (2,274)	US$ 1,285,987	US$ 1,986,812	US$ 9,549	US$ 1,996,361
Balance at January 1, 2012	₩ 34,508,160	₩ 712,701,764	₩ 7,690,214	₩ (1,810,164)	₩ (2,435,389)	₩ 1,377,420,300	₩ 2,128,074,885	₩ 10,228,120	₩ 2,138,303,005
Comprehensive income									
Profit for the year	-	-	-	-	-	269,616,078	269,616,078	(1,172,275)	268,443,803
Actuarial loss on post employment benefit obligations	-	-	-	-	-	(9,699,309)	(9,699,309)	(31,879)	(9,731,188)
Change in value of available-for-sale financial assets	-	-	-	-	(1,891,960)	-	(1,891,960)	-	(1,891,960)
Share of other comprehensive income of associates	-	-	-	-	(135,845)	-	(135,845)	(15,572)	(151,417)
Loss on currency translation of foreign operations - net	-	-	-	-	(7,547,875)	-	(7,547,875)	(611,872)	(8,159,747)
Total comprehensive income for the year	34,508,160	712,701,764	7,690,214	(1,810,164)	(12,011,069)	1,637,337,069	2,378,415,974	8,396,522	2,386,812,496
Transactions with equity holders of the Company :									
Dividends to equity holders of the Company	-	-	-	-	-	(44,888,049)	(44,888,049)	-	(44,888,049)
Stock issuance of non-controlling interest	-	-	-	-	-	-	-	1,783,590	1,783,590
Others	-	-	71,126	-	-	-	71,126	7,902	79,028
Balance at December 31, 2012	₩ 34,508,160	₩ 712,701,764	₩ 7,761,340	₩ (1,810,164)	₩ (12,011,069)	₩ 1,592,449,020	₩ 2,333,599,051	₩ 10,188,014	₩ 2,343,787,065
(in thousands of U.S. dollars (Note 4))	US$ 32,217	US$ 665,392	US$ 7,246	US$ (1,689)	US$ (11,214)	US$ 1,486,742	US$ 2,178,694	US$ 9,512	US$ 2,188,206

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

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	Notes		(in thousands of Korean won) 2012		2011		(in thousands of U.S. dollars(Note 4)) 2012		2011
Cash flows from operating activities									
Cash generated from operations	32	₩	346,360,510	₩	454,763,773	US$	323,369	US$	424,576
Interest received			8,949,566		9,456,773		8,355		8,829
Interest paid			(1,197,948)		(1,847,609)		(1,118)		(1,725)
Income tax paid			(78,531,275)		(59,359,036)		(73,318)		(55,419)
Net cash generated from operating activities			275,580,853		403,013,901		257,288		376,261
Cash flows from investing activities									
Decrease in deposits in financial institutions			10,730,127		16,833,051		10,018		15,716
Decrease in other receivables			10,296,533		11,958,943		9,613		11,165
Disposal of property, plant and equipment			9,131,481		10,019,507		8,525		9,354
Disposal of intangible assets			455,047		558,857		425		522
Dividends received from associates			559,624		312,812		522		292
Disposal of available-for-sale financial assets			5,034,793		2,037,183		4,701		1,902
Increase in trade and other receivables			(34,854,335)		(31,866,655)		(32,541)		(29,751)
Purchases of available-for-sale financial assets			(403,515)		(122,365)		(377)		(114)
Purchases of property, plant and equipment			(231,794,268)		(316,771,244)		(216,408)		(295,744)
Purchases of intangible assets			(17,681,690)		(33,701,788)		(16,508)		(31,465)
Acquisition of subsidiaries	35		(5,322,822)		(33,562,863)		(4,969)		(31,335)
Net cash used in investing activities			(253,849,025)		(374,304,562)		(236,999)		(349,458)
Cash flows from financing activities									
Proceeds from short-term borrowings			7,775,993		-		7,260		-
Proceeds from long-term borrowings			-		45,903,627		-		42,857
Stock issuance of non-controlling interest			1,783,591		517,901		1,665		484
Repayments of short-term borrowings			-		(1,264,873)		-		(1,181)
Dividends paid to equity holders of the Company			(44,870,941)		(41,417,503)		(41,892)		(38,668)
Net cash provided by(used in) financing activities			(35,311,357)		3,739,152		(32,967)		3,492
Changes in cash and cash equivalents from currency translation			(3,421,208)		(3,882,434)		(3,194)		(3,625)
Net increase(decrease) in cash and cash equivalents			(17,000,737)		28,566,057		(15,872)		26,670
Cash and cash equivalents at the beginning of year			187,708,073		159,142,016		175,248		148,578
Cash and cash equivalents at the end of year		₩	170,707,336	₩	187,708,073	US$	159,376	US$	175,248

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

1. General Information

General information about AMOREPACIFIC Corporation (the "Company") and its 17 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 of December 31, 2012, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office.

As of December 31, 2012, the Company's paid-in capital is ₩34,508 million, including ₩5,279 million of capital from preferred stock.

The Company is authorized to issue 27,500,000 shares of stock at a par value per share of ₩5,000. As of December 31, 2012, 5,845,849 shares of common stock and 1,055,783 shares of preferred stock are issued.

Preferred shareholders have no voting rights and are entitled to non-cumulative and non-participating preferred dividend at a rate of 1% over those provided to common shareholders. This preferred dividend rate is not applicable to stock dividend. Accordingly, in calculating earnings per share for preferred stocks, a different dividend rate is used.

The Company's common shareholders as of December 31, 2012, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group,Inc.	2,069,586	35
Kyung-Bae Suh	626,445	11
Other[1]	3,149,818	54
	5,845,849	100

[1] Including 3,293 treasury shares (Note 21).

The Company's consolidated subsidiaries as of December 31, 2012, are as follows:

Shareholder	Subsidiaries	Primary Business	Capital Stock (*in millions of Korean won*)	Percentage of Ownership(%)	Year End	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited	Holding company	₩ 104,816	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	14,274	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC Cosmetics New (Shanghai) Co.,Ltd.[1]	Manufacturing of cosmetics	34,829	69.21	Dec.31	China
AMORE Cosmetics (Shanghai) Co.,Ltd.				30.79		
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Trading Co. Ltd	Marketing of cosmetics	9,456	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	98,933	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited	Annick Goutal S.A.S	Marketing of cosmetics	9,267	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC US, Inc.	Marketing of cosmetics	40,423	100.00	Dec.31	U.S.A.
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Japan CO.,Ltd.	Marketing of cosmetics	28,037	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	11,621	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC SINGAPORE PTE. LTD.	Marketing of cosmetics	14,018	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC MALAYSIA SDN. BHD.	Marketing of cosmetics	2,950	100.00	Dec.31	Malaysia
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	Amorepacific VIETNAM JSC	Marketing of cosmetics	5,479	70.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	3,612	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	2,400	10.06	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited				89.94		
AMOREPACIFIC Global Operations Limited	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	354	99.44	Dec.31	India

[1]AMORE Cosmetics(Shanghai) Co., Ltd. previously owned 100% shares of this subsidiary which had a land use right. Due to the paid-in capital increase of ₩24,595 million by the Group, the ownership of the Group and AMORE Cosmetics(Shanghai) Co., Ltd. is now 69.21% and 30.79%, respectively.

The summary of the consolidated subsidiaries' financial information as of December 31, 2012 and 2011, and the results of their operations for the years then ended, which are included in the consolidated financial statements follows:

December 31, 2012 *(in millions of Korean won)*	**Total assets**	**Total liabilities**	**Sales**	**Net income (loss)**	**Total comprehensive income(loss)**
AMOREPACIFIC Global Operations Limited.[1]	₩ 133,988	₩ 45,261	₩ 1,540	₩ (704)	₩ (7,582)
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]	5,148	2	-	5	(59)
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.[1]	41,123	10,890	47,902	4,460	7,199
AMOREPACIFIC Cosmetics New (Shanghai) Co.,Ltd.	44,219	9,743	-	(94)	(1,089)
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	2,162	-	-	28	(33)
AMOREPACIFIC Trading Co.,Ltd.	91,692	53,904	258,683	9,165	4,136
AMOREPACIFIC EUROPE S.A.S	79,377	47,779	66,353	(10,323)	(12,529)
Anninck Goutal S.A.S	20,136	12,110	19,650	(719)	(1,495)
AMOREPACIFIC US, Inc.	10,684	4,985	17,998	(4,408)	(4,867)
AMOREPACIFIC Japan CO.,LTD.	11,961	10,874	47,036	(3,585)	(3,920)
AMOREPACIFIC Taiwan Co.,Ltd.	3,723	1,055	7,213	(695)	(783)
AMOREPACIFIC SINGAPORE PTE., LTD.	14,409	6,272	10,448	(1,666)	(2,039)
AMOREPACIFIC MALAYSIA SDN. BHD.	3,033	485	5,363	590	490
AMOREPACIFIC VIETNAM JSC	4,791	1,710	2,663	(765)	(981)
AMOREPACIFIC (Thailand) LIMITED	2,991	1,117	2,867	(668)	(727)
PT. LANEIGE INDONESIA PACIFIC	1,129	411	-	(283)	(359)
Innisfree Cosmetics India Private Limited	351	-	-	-	(2)

December 31, 2011 *(in millions of Korean won)*	**Total assets**	**Total liabilities**	**Sales**	**Net income (loss)**	**Total comprehensive income(loss)**
AMOREPACIFIC Global Operations Limited.[1]	₩ 135,653	₩ 45,914	₩ -	₩ (1,983)	₩ (11,575)
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]	5,207	2	-	(6)	88
AMOREPACIFIC Cosmetics (Shanghai) Co.,Ltd.[2]	35,391	7,846	29,708	3,251	1,211
AMOREPACIFIC Trading Co.,Ltd.	93,036	62,716	201,627	12,628	26,449
AMOREPACIFIC EUROPE S.A.S	84,902	40,775	92,039	699	3,367
Anninck Goutal S.A.S	16,666	9,669	20,130	302	271
AMOREPACIFIC US, Inc.	14,767	7,578	15,740	(2,409)	(2,101)
AMOREPACIFIC Japan CO.,LTD.	9,002	6,488	30,591	(4,367)	(10,834)
AMOREPACIFIC Taiwan Co.,Ltd.	3,829	796	5,976	(768)	749
AMOREPACIFIC SINGAPORE PTE., LTD.	2,699	530	4,931	151	163
LANEIGE MALAYSIA SDN BHD.	2,040	345	3,281	332	302
AMOREPACIFIC VIETNAM JSC	3,133	1,055	2,495	(1,032)	(1,350)

[1]Represents separate financial statements in which its investments in subsidiaries and associates are measured at cost.
[2]Consolidated financial statements in which AMOREPACIFIC Cosmetics New (Shanghai) Co., Ltd. is consolidated.

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

Subsidiaries which are newly consolidated in 2012 is:

Subsidiaries	**Reason**
AMOREPACIFIC (Thailand) LIMITED	Reclassified as a subsidiary from an associate after the acquisition of additional 51% shares by AMOREPACIFIC Global Operations Limited, a subsidiary of the Group (Note 35).
PT. LANEIGE INDONESIA PACIFIC	Reclassified as a subsidiary from an associate after the acquisition of additional 70% shares by AMOREPACIFIC Global Operations Limited, a subsidiary of the Group. As of December 31, 2012, the Group owns 91.01% shares of PT.Laneige Indonesia Pacific (Note 35).
AMOREPACIFIC (Shanghai) R&I Center Co., Ltd.	Newly established with all shares wholly owned by the Group.
Innisfree Cosmetics India Private Limited	Newly established through investment of 99.44% shares by the AMOREPACIFIC Global Operations Limited, a subsidiary of the Group.

There are no subsidiaries excluded from consolidation in 2012.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Group's financial statements for the annual period beginning on January 1, 2011, 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 consolidated financial statements of the Group were prepared in accordance with Korean IFRS.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group changed its accounting policy to present the operating income after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, *Presentation of Financial Statements.* The application of this amendment would not have impact on the Group's consolidated financial statements.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendment of Korean IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group is assessing the impact of application of the amended Korean IFRS 1019 on its consolidated financial statements.

- Enactment of Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, Consolidated Financial Statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosures of Interests in Other Entities*, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS1027, *Consolidated and Separate Financial Statements.*

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean IFRS1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the income statement.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.3 Segment Reporting

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

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

All foreign exchange gains and losses including those of borrowings and cash and cash equivalents are presented in the income statement within 'other non-operating gains/(losses)'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial 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. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included 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 income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits in banks, and other short-term highly liquid investments with original maturities of three months or less.

2.6 Financial Instruments

2.6.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired and the nature of the assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial instruments held for trading. A financial instrument is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives including bifurcated derivatives from financial instruments containing embedded derivatives are also categorized as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents', 'financial institution deposits', 'trade and other receivables' and 'other assets' in the statement of financial position.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group intends and is able to hold to maturity. If the Group were to sell other than an insignificant amounts of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

2.6.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss, including interest income, are presented in the statement of income within 'finance income(cost)', in the period in which they arise. Dividends income from financial assets at fair value through profit or loss is recognized in the statement of income as part of 'other non-operating gains(losses)', when the Group's right to receive dividend payments is established

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'other non-operating gains(losses)'.

Interest on available-for-sale and held-to-maturity securities calculated using the effective interest method is recognized in the income statement as part of 'finance income'. Dividends on available-for-sale equity instruments are recognized in the income statement as part of 'other non-operating gains/(losses)' when the Group's right to receive dividend payments is established.

2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when 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 asset and settle the liability simultaneously.

2.6.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash from the investments have expired or have been transferred, and the Group has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Group has not retained control over these assets.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- Delinquency in interest or principal payments for more than three months;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will undergo bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data suggesting that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with respect to individual financial assets in the portfolio, such as:
  (i) adverse changes in the payment status of borrowers in the portfolio;
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the statement of income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the Group may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, for example decrease in fair value of the investments by more than 30% from its cost for more than six months, is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

2.8 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for doubtful accounts.

2.9 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. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost or deemed cost less accumulated depreciation and accumulated impairment loss. When the deemed cost is applied, the revaluation amount of property, plant and equipment is considered as fair value at the date of transition to Korean IFRS (or as fair value at the date of the revaluation under the previous standard).

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	10 - 40 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years
Fixtures and furniture	2 - 4 years
Other	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating gains/(losses)' in the income statement.

2.11 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their 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. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.12 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to assets are set up as deferred income which is recognized in profit or loss on a systematic and rational basis over the useful life of the asset.

Government grants relating to income are deferred and recognized in the statement of income as 'other non-operating gains' over the period that they are intended to compensate.

2.13 Intangible Assets

(a) Goodwill

Goodwill is measured as explained in Note 2.2(a) and goodwill arises on the acquisition of subsidiaries, associates and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Industrial property

Acquired industrial property rights, software and other intangible assets are shown at historical cost. Intangible assets acquired in a business combination are recognized at fair value at the acquisition date. These have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives, as follows:

Industrial property	5 - 20 years
Software	5 years
Other	3 - 5 years

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

2.14 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating gains/(losses)' in the statement of income.

The fair value of investment property disclosed in Note 15 reflects market conditions at the end of the reporting period, with adjustment that reflects specific asset's characteristics, condition and location. The book value for financial reporting purpose is determined based on the evaluation of the investment property by an independent valuer, who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

2.15 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16 Financial Liabilities

(a) Financial liabilities at fair value through profit or loss

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives including bifurcated derivatives from financial instruments containing embedded derivatives are also categorized as held-for-trading unless they are designated as hedges.

(b) Financial liabilities carried at amortized cost

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial assets that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade payables', 'other current liabilities', 'borrowings', and 'other liabilities' in the statement of financial position. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities within 12 months after the end of the reporting period, which are classified as current liabilities.

2.17 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the borrowings for at least 12 months after the end of the reporting period.

2.19 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, 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 tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Employee Benefits

The Group operates a pension scheme, and classifies this scheme as defined benefit pension plan. The Group's defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. 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 to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

2.22 Share Capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.23 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Group manufactures and sells cosmetics and personal care of goods. Sales of goods are recognized when products are delivered to the purchaser. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Group recognizes provisions for sales returns based on reasonable expectation reflecting sales return rates incurred historically.

(b) Rendering of services

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

(c) Royalty income

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

(d) Interest income

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

(e) Dividend income

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

(f) Rental income

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

(g) Customer Loyalty Programmes

The Group operates a customer loyalty programme in which customers are granted rewards to receive discounts on future purchases when purchasing products. The granted reward is recognized as a separately identifiable component of the sale transaction (initial sale transaction) that grants the reward. The fair value of consideration to give or given for the initial sale is allocated to the reward points and remaining of initial sale, and the consideration allocated to the reward points is measured based on the fair value of reward in exchange of reward points, which is the fair value of reward points considered the proportion of reward points that are not expected to be redeemed. Revenue from the award credits is recognized when it is redeemed, and the unredeemed proportion by customers is expected to be forfeited within 12 months after the initial sale.

2.24 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.

(a) Lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in 'other liabilities'. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

(b) Lessor

i) Lease classification

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the at the lease's commencement. A lease other than a finance lease is classified as an operating lease. Whether a lease is a finance lease depends on the substance of the transaction rather than the form of the contract and a lease is classified as finance lease when the substance of the transaction meets the following situations individually or in combination:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

The Group includes the residual value guaranteed by the lessee, a party related to the lessee, or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee as part of the minimum lease payment.

ii) Finance lease

The Group recognizes the assets held under a finance lease as a receivable at an amount equal to the net investment in the lease, which refers to the present value of the lease payments. The difference between the gross lease receivable and the present value of the lease receivable is recognized as unearned finance income.

Expenses incurred in relation to a finance lease, whose lease agreement has been entered but not yet executed as of the reporting period, are accounted as prepaid lease assets and transferred as finance lease receivables at the date of lease inception. The Group recognizes commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease as part of the finance lease receivable.

Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. This finance income allocation is based on a pattern reflecting a constant periodic return on the net investment in the finance lease.

Estimated unguaranteed residual values used in computing the lessor's gross investment in the lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognized immediately.

iii) 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.

2.25 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2012 consolidated financial statements of the Group was approved by the Board of Directors on February 7, 2013.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 14).

(b) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) Provisions

As described in Note 18, the Company recognizes provisions for estimated returns, profit-sharing and bonuses as of the reporting date. The amounts are estimated based on historical data.

(e) Customer loyalty programmes

By customer loyalty programmes, the Group allocates the consideration receivable to the award credits by reference to the fair value of goods providing, taking into account redemption rates and timing of redemption based on historical data.

(f) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 20.

4. US Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US$1: ₩1,071.10, the exchange rate in effect on December 31, 2012. Such presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

The December 31, 2011, U.S. dollar amounts, which were previously expressed at US$1: ₩1,153.30, the rate in effect on December 31, 2011, have been restated to reflect the exchange rate in effect on December 31, 2012.

5. Segment Information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker who formulates the strategic. Chief operating decision-maker considers the business from perspective of products of each segment.

The main products of each business division are as follows:

Divisions	Products
Cosmetics	Skin care, other beauty products
MC(Mass Cosmetic) & Sulloc	Personal care goods, green tea

The segment information for revenue and operating profit for the years ended December 31, 2012 and 2011, is as follows:

	2012			2011		
(in millions of Korean won)	Revenues	Operating profit	Depreciation and amortization	Revenues	Operating profit	Depreciation and amortization
Cosmetics	₩ 2,580,083	₩ 326,124	₩ 85,015	₩ 2,285,613	₩ 335,129	₩ 69,511
MC & Sulloc	437,456	39,051	15,137	402,492	40,223	12,080
	₩ 3,017,539	₩ 365,175	100,152	₩ 2,688,105	₩ 375,352	₩ 81,591

Adjustments from total segment revenue to the Group's revenue for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		**2012**		**2011**
Total segment revenue	₩	3,017,539	₩	2,688,105
Eliminating intercompany transactions, others		(168,077)		(133,382)
Group revenue	₩	2,849,462	₩	2,554,723

Adjustments from total segment operating profit to the Group's operating profit for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		**2012**		**2011**
Total segment operating profit	₩	365,175	₩	375,352
Eliminating intercompany transactions, others		(910)		(2,501)
Group operating profit	₩	364,265	₩	372,851

Assets and liabilities as of December 31, 2012 and 2011, are as follows:

	2012		**2011**	
(in millions of Korean won)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cosmetics	₩ 2,844,649	₩ 683,214	₩ 2,424,199	₩ 622,141
MC & Sulloc	499,385	54,402	500,485	88,972
Reportable Segment Asset and liability	3,344,034	737,616	2,924,684	711,113
Eliminating intercompany transactions, others	(317,841)	(55,210)	(109,256)	(33,988)
Group asset and liability	₩ 3,026,193	₩ 682,406	₩ 2,815,428	₩ 677,125

Additions to non-current assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		**2012**		**2011**
Cosmetics	₩	220,296	₩	245,654
MC & Sulloc		29,180		104,819
	₩	249,476	₩	350,473

Financial instruments are excluded from additions to non-current assets.

External revenues by geographic areas for the years ended December 31, 2012 and 2011, and non-current assets as of December 31, 2012 and 2011, are as follows:

	Revenues		Non-current assets[1]	
(in millions of Korean won)	**2012**	**2011**	**2012**	**2011**
Korea	₩ 2,414,680	₩ 2,248,321	₩ 1,760,617	₩ 1,654,606
North America	18,883	15,740	609	458
Europe	77,009	76,418	59,936	40,951
China	259,313	189,135	53,397	38,227
Other	79,577	25,109	13,456	36,437
	₩ 2,849,462	₩ 2,554,723	₩ 1,888,015	₩ 1,770,679

[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, 2012 and 2011.

6. Financial Instruments by Category

Categorizations of financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		**2012**	**2011**
Loans and receivables	Cash and cash equivalents	₩ 170,707	₩ 187,708
	Current financial institutions deposits	142,499	155,736
	Non-current financial institutions deposits	5,158	3,656
	Trade receivables	170,180	152,435
	Current other receivables	20,076	13,839
	Non-current other receivables	82,383	59,298
	Other current assets[1]	999	1,175
Available-for-sale financial assets	Marketable securities	-	2,846
	Non-marketable securities	1,791	1,721
	Debt investments	4,452	4,642
		₩ 598,245	₩ 583,056

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

Categorizations of financial liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012	2011
Financial liabilities at amortized cost	Trade payables	₩ 100,405	₩ 77,987
	Short-term borrowings	22,553	15,581
	Long-term borrowings	42,850	45,904
	Other payables	150,721	181,272
	Other current liabilities[2]	8,899	7,853
	Other non-current liabilities[3]	24,429	26,265
		₩ 349,857	₩ 354,862

[2] Other current liabilities are comprised of dividend payables and accrued expenses (Note 19).
[3] Other non-current liabilities are comprised of deposits received, long-term accrued expenses and financial lease liabilities (Note 19).

Income and loss of financial instruments by category for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Available-for-sale financial assets		
Gain(Loss) on valuation (Other comprehensive income(loss))	₩ (1,892)	₩ (376)
Gain(Loss) on disposal (Profit or loss)	1,947	224
Gain(Loss) on disposal (Reclassification)[1]	2,215	(228)
Interest income	95	166
Dividend income	61	58
Loans and receivables		
Interest income	12,113	10,999
Gain(Loss) on foreign currencytranslation	(2,080)	323
Impairment(Recovery)	3,878	(1,219)
Financial liabilities at amortized cost		
Interest expense	(2,125)	(1,923)
Gain(Loss) on foreign currencytranslation	297	(247)

[1] Reclassification to profit/loss represents amounts transferred from components of other comprehensive income.

7. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates as of December 31, 2012 and 2011:

Trade receivables

(in millions of Korean won)	2012	2011
Counterparties with external credit rating		
A	₩ 95,281	₩ 76,511
BBB	303	623
	95,584	77,134
Counterparties without external credit rating		
Group 1[1]	1,002	1,021
Group 2[2]	48,603	35,358
Group 3[3]	-	-
	49,605	36,379
	₩ 145,189	₩ 113,513

[1] New customers/related parties (less than 6 months)
[2] Existing customers/related parties (more than 6 months) with no defaults in the past
[3] Existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

Other receivables

(in millions of Korean won)	2012	2011
Counterparties with external credit rating		
A	₩ 73	₩ 83
Counterparties without external credit rating		
Group 1[1]	1,212	1,178
Group 2[2]	98,011	71,876
Group 3[3]	-	-
	99,223	73,054
	₩ 99,296	₩ 73,137

Cash equivalents and financial institutions deposits

(in millions of Korean won)	2012	2011
AAA	₩ 318,294	₩ 346,995

8. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Cash on hand	₩ 71	₩ 105
Ordinary deposits	28,855	21,534
Checking accounts	28,260	10,643
MMDA	113,521	155,426
	₩ 170,707	₩ 187,708

9. Trade and Other Receivables

Trade and other receivables as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Trade receivables	₩ 172,808	₩ 158,942
Less: provision for impairment of trade receivables	(2,628)	(6,507)
Trade receivables, net	₩ 170,180	₩ 152,435
Current other receivables	₩ 20,352	₩ 14,115
Less: provision for impairment of current other receivables	(276)	(276)
Current other receivables, net	₩ 20,076	₩ 13,839
Non-current other receivables	₩ 82,383	₩ 59,298
Less: provision for impairment of non-current other receivables	-	-
Non-current other receivables, net	₩ 82,383	₩ 59,298

Details of other receivables are as follows:

	2012		2011	
(in millions of Korean won)	Current	Non-current	Current	Non-current
Non-trade receivables	₩ 20,076	₩ -	₩ 13,839	₩ -
Loans	-	22,823	-	19,775
Deposits provided	-	59,560	-	39,523
	₩ 20,076	₩ 82,383	₩ 13,839	₩ 59,298

The aging analysis of trade and other receivables as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012 Trade receivables	2012 Other receivables	2011 Trade receivables	2011 Other receivables
Receivables not past due	₩ 145,189	₩ 99,296	₩ 113,513	₩ 73,137
Past due but not impaired				
Up to 3 months	18,628	1,149	28,152	-
4 to 6 months	2,200	1,959	5,888	-
7 to 12 months	1,163	54	3,264	-
Over 12 months	3,000	1	1,618	-
Impaired	2,628	276	6,507	276
	₩ 172,808	₩ 102,735	₩ 158,942	₩ 73,413

Movements on the provision for impairment of trade receivables for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Beginning	₩ 6,507	₩ 5,307
Provision for receivables impairment (Reversal)	(3,878)	1,219
Receivables written off during the year as uncollectible	(1)	(19)
Ending	₩ 2,628	₩ 6,507

The creation and release of provision for impaired receivables have been included in 'selling and administrative expenses' in the statement of income (Note 28). Amounts charged to the allowance account are generally written off, 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 reporting date is the carrying value of each class of receivable mentioned above.

10. Inventories

Inventories as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012		2011
Merchandise	₩	42,999	₩	30,690
Finished goods		112,100		95,045
Semi-finished goods		25,217		24,586
Work-in-process		2,180		1,676
Raw materials		41,942		35,869
Subsidiary materials		20,197		19,230
Supplies		3,676		4,493
Materials in transit		19,122		14,214
	₩	267,433	₩	225,803

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩783,710 million (2011: ₩708,500 million).

Movements on the provision for impairment of trade receivables for the years ended December 31, 2012 and 2011 are as follows:

(in millions of Korean won)		2012		2011
Loss on valuation of inventories	₩	(204)	₩	4,091
Loss on disposal of inventories		13,264		13,303
	₩	13,060	₩	17,394

11. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
Debt investments				
Government-issued securities	W	4,452	W	4,642
Equity securities				
Non-marketable equities		1,791		1,721
GL Pharm Tech Co., Ltd.		191		191
Welskin Co., Ltd.		48		48
I'M Investment Securities Co., Ltd. (formerly Solomon Investment Bank Co., Ltd.)		468		398
The Korea Economic Daily		81		81
ELANDRETAL Ltd.		3		3
Biogenics Co., Ltd.		1,000		1,000
Marketable equities		-		2,846
Medy-tox Inc.		-		2,846
	W	6,243	W	9,209

Marketable equities are measured at fair value using quoted price in an active market. The equity of I'M Investment Securities Co., Ltd., among the non-marketable equities, is measured at fair value using recent arm's length market transactions between knowledgeable, willing parties, since the market for this equity is not active.

Other non-marketable equities, except the equity of I'M Investment Securities Co., Ltd., are measured at cost, since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, or the difference between the fair value and the acquisition cost is immaterial. Debt investments are measured at cost, since the difference between the fair value and the acquisition cost is immaterial.

The changes in available-for-sale financial assets as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
Beginning	W	9,209	W	11,549
Additions		404		122
Disposals		(873)		(2,041)
Gains/(losses) on valuation		427		(713)
Gains/(losses) transfer from equity[1]		(2,924)		292
Ending	W	6,243	W	9,209

[1] The Company removed profits of W2,924 million (deferred tax: W709 million) for the year ended December 31, 2012 and profits of W141 million (deferred tax : W31 million) and losses of W434 million (deferred tax: W96 million) for the year ended December 31, 2011, from equity into the statement of income(Notes 6 and 22).

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

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

12. Associates

Associates as of December 31, 2012 and 2011, are as follows:

Associates	Percentage of Ownership	2012			2011		
(in millions of Korean won)		Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value
Taiwan AMORE Co.,Ltd.	50.00	₩ 131	₩ 1,808	₩ 1,953	₩ 131	₩ 1,715	₩ 1,788
AMOREPACIFIC HongKong Co.,Limited	30.00	1,220	3,285	4,744	1,220	2,836	3,939
AMOREPACIFIC (Thailand) LIMITED[1]	-	-	-	-	430	114	19
		₩ 1,351	₩ 5,093	₩ 6,697	₩ 1,781	₩ 4,665	₩ 5,746

[1]Reclassified as a subsidiary after acquiring additional 51% shares in 2012.

Changes in investments in associates for the years ended December 31, 2012 and 2011, are as follows:

2012 *(in millions of Korean won)*	Taiwan AMORE Co.,Ltd.	AMOREPACIFIC HongKong Co.,Limited	AMOREPACIFIC (Thailand) LIMITED	Total
Beginning	₩ 1,715	₩ 2,836	₩ 114	₩ 4,665
Acquisition/Reclassification	-	-	(114)	(114)
Share of profit	383	1,292	-	1,675
Changes in other comprehensive income	(166)	(407)	-	(573)
Dividends	(124)	(436)	-	(560)
Ending	₩ 1,808	₩ 3,285	₩ -	₩ 5,093

2011 *(in millions of Korean won)*	Taiwan AMORE Co.,Ltd.	AMOREPACIFIC HongKong Co.,Limited	AMOREPACIFIC (Thailand) LIMITED	Total
Beginning	₩ 1,571	₩ 2,255	₩ 332	₩ 4,158
Acquisition	-	-	-	-
Share of profit(loss)	376	861	(200)	1,037
Changes in other comprehensive income	(111)	(88)	(18)	(217)
Dividends	(121)	(192)	-	(313)
Ending	₩ 1,715	₩ 2,836	₩ 114	₩ 4,665

Summary of financial information of associates as of and for the years ended December 31, 2012 and 2011, follows:

December 31, 2012 *(in millions of Korean won)*	Total Assets	Total Liabilities	Revenue	Net Income	Comprehensive Income
Taiwan AMORE Co.,Ltd.	₩ 5,129	₩ 1,223	₩ 7,174	₩ 766	₩ 636
AMOREPACIFIC HongKong Co.,Limited.	28,936	13,122	66,524	5,222	4,148

December 31, 2011 *(in millions of Korean won)*	Total Assets	Total Liabilities	Revenue	Net Income (Loss)	Comprehensive Income (Loss)
Taiwan AMORE Co.,Ltd.	₩ 4,607	₩ 1,032	₩ 7,687	₩ 753	₩ 683
AMOREPACIFIC HongKong Co.,Limited.	25,504	12,373	52,006	4,180	4,465
AMOREPACIFIC (Thailand) LIMITED	320	281	1,558	(405)	(423)

13. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012 Acquisition cost	2012 Accumulated depreciation	2012 Book value	2011 Acquisition cost	2011 Accumulated depreciation	2011 Book value
Land	₩ 860,425	₩ -	₩ 860,425	₩ 798,986	₩ -	₩ 798,986
Buildings	543,648	(90,124)	453,524	535,089	(97,928)	437,161
Structures	49,065	(13,251)	35,814	50,756	(14,064)	36,692
Machinery	266,774	(108,326)	158,448	239,933	(93,695)	146,238
Vehicles	2,855	(2,097)	758	2,792	(1,923)	869
Tools	128,810	(108,178)	20,632	114,595	(97,636)	16,959
Fixtures and furniture	488,841	(337,388)	151,453	427,928	(298,569)	129,359
Other	1,629	(977)	652	1,474	(842)	632
Construction in progress	85,101	-	85,101	88,579	-	88,579
	₩ 2,427,148	₩ (660,341)	₩ 1,766,807	₩ 2,260,132	₩ (604,657)	₩ 1,655,475

Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows:

2012 *(in millions of Korean won)*	Balance as of January 1, 2012	Acquisition	Reclassification[1]	Disposal	Depreciation	Acquisition in the business combination	Currency translation differences	Balance as of December 31, 2012
Land	₩ 798,986	₩ 10,031	₩ 58,980	₩ (7,428)	₩ -	₩ -	₩ (144)	₩ 860,425
Buildings	437,161	1,541	31,799	(593)	(15,204)	-	(1,180)	453,524
Structures	36,692	199	1,428	-	(2,513)	-	8	35,814
Machinery	146,238	10,212	17,496	(1)	(15,174)	-	(323)	158,448
Vehicles	869	114	-	(2)	(220)	-	(3)	758
Tools	16,959	13,455	1,639	-	(11,370)	-	(51)	20,632
Fixtures and furniture	129,359	61,972	8,218	(1,178)	(46,201)	426	(1,143)	151,453
Other	632	473	-	(5)	(417)	-	(31)	652
Construction in progress	88,579	133,797	(136,829)	-	-	91	(537)	85,101
	₩ 1,655,475	₩ 231,794	₩ (17,269)	₩ (9,207)	₩ (91,099)	₩ 517	₩ (3,404)	₩ 1,766,807

2011 (in millions of Korean won)	Balance as of January 1, 2011	Acquisition	Reclassification[1]	Disposal	Depreciation	Acquisition in the business combination	Currency translation differences	Balance as of December 31, 2011
Land	₩ 984,783	₩ 280	₩ (179,812)	₩ (6,195)	₩ -	₩ -	₩ (70)	₩ 798,986
Buildings	246,760	838	203,723	(1,160)	(12,867)	-	(133)	437,161
Structures	21,914	97	16,739	(131)	(1,847)	-	(80)	36,692
Machinery	41,124	8,240	105,912	(917)	(8,165)	-	44	146,238
Vehicles	720	350	19	(19)	(203)	-	2	869
Tools	14,704	11,812	1,420	(31)	(10,976)	-	30	16,959
Fixtures and furniture	107,321	46,945	10,031	(1,423)	(36,464)	2,082	867	129,359
Other	1,028	210	(212)	(3)	(382)	-	(9)	632
Construction in progress	185,026	247,999	(344,561)	-	-	-	115	88,579
	₩ 1,603,380	₩ 316,771	₩ (186,741)	₩ (9,879)	₩ (70,904)	₩ 2,082	₩ 766	₩ 1,655,475

[1] The Group began productions in the Osan plant and transferred the production and logistics function of the existing Suwon and Kimcheon plants to the Osan plant during the prior year. Accordingly, the Group reclassified land , buildings and structures existing in Suwon and Kimcheon amounting to ₩185,546 million, ₩17,497 million and ₩1,678 million, respectively, to investment property (Note 15).

One of the subsidiaries, AMOREPACIFIC EUROPE S.A.S leases land and buildings under non-cancellable finance lease agreements. The lease terms are between 13 and 15 years, and ownership of the assets will be transferred to AMOREPACIFIC EUROPE S.A.S after the lease terms are terminated.

Land and buildings include the following amounts where the Company is a lessee under a finance lease as of December 31, 2012 and 2011:

	2012		2011	
(in millions of Korean won)	**Land**	**Buildings**	**Land**	**Buildings**
Cost- capitalized finance leases	₩ 2,613	₩ 26,051	₩ 2,757	₩ 27,483
Accumulated depreciation	-	(7,625)	-	(7,410)
Net book amount	₩ 2,613	₩ 18,426	₩ 2,757	₩ 20,073

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

(in millions of Korean won)	**2012**	**2011**
Selling and administrative expenses[1]	₩ 51,324	₩ 41,117
Cost of sales	39,775	29,787
	₩ 91,099	₩ 70,904

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

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows:

2012 *(in millions of Korean won)*	**Goodwill**	**Industrial property**	**Software**	**Other**	**Total**
Balance as of January 1, 2012	₩ 34,666	₩ 10,559	₩ 23,444	₩ 46,535	₩ 115,204
Acquisition	-	1,140	4,643	11,899	17,682
Reclassification	-	-	3,047	(4,952)	(1,905)
Disposal	-	(223)	-	(171)	(394)
Amortization	-	(898)	(7,949)	(206)	(9,053)
Acquisition in the business combination	4,771	-	6	-	4,777
Currency translation differences	(3,440)	(138)	(79)	(1,446)	(5,103)
Balance as of December 31, 2012	₩ 35,997	₩ 10,440	₩ 23,112	₩ 51,659	₩ 121,208

2011 *(in millions of Korean won)*	**Goodwill**	**Industrial property**	**Software**	**Other**	**Total**
Balance as of January 1, 2011	₩ 7,135	₩ 6,624	₩ 18,653	₩ 16,129	₩ 48,541
Acquisition	-	2,057	2,526	29,119	33,702
Reclassification	-	-	8,832	(7,637)	1,195
Disposal	-	-	(5)	(288)	(293)
Amortization	-	(786)	(6,743)	(3,158)	(10,687)
Acquisition in the business combination	24,838	2,670	134	8,772	36,414
Currency translation differences	2,693	(6)	47	3,598	6,332
Balance as of December 31, 2011	₩ 34,666	₩ 10,559	₩ 23,444	₩ 46,535	₩ 115,204

Amortization of intangible assets is charged to the following accounts:

(in millions of Korean won)	**2012**	**2011**
Selling and administrative expenses[1]	₩ 8,167	₩ 10,289
Cost of sales	886	398
	₩ 9,053	₩ 10,687

[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 and the Company used the same goodwill allocation method as of December 31, 2012 and 2011:

(in millions of Korean won)		2012		2011
Annick Goutal CGU	₩	23,507	₩	27,359
China CGU		4,179		3,293
Vietnam CGU		3,742		4,014
Singapore Etude House CGU		3,581		-
Thailand CGU		559		-
Indonesia CGU		429		-
	₩	35,997	₩	34,666

Goodwill impairment reviews are undertaken annually. Impairment test suggests that, all of the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

The key assumptions used for value-in-use calculations in 2012 are as follows:

	Annick Goutal CGU	China CGU	Vietnam CGU	Singapore Etude House CGU
Gross margin	8.62%	4.91%	0.52%	8.75%
Growth rate[1]	9.64%	31.01%	15.01%	6.47%
Pre-tax discount rate[2]	7.99%	12.33%	15.64%	6.78%

[1] Weighted average revenue growth rate used to extrapolate cash flows for five-year period is measured based on the historical growth rate.

[2] Pre-tax discount rate applied to the pre-tax cash flow projections

The Group determined budgeted gross margin rate based on past performance and its expectations of the future. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

15. Investment Property

Changes in investment property for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	Land		Buildings		Structures		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Beginning	₩ 185,546	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 185,546	₩ -
Reclassification	-	185,546	17,497	-	1,678	-	19,175	185,546
Depreciation	-	-	(1,337)	-	(152)	-	(1,489)	-
Disposal	-	-	-	-	-	-	-	-
Ending	₩ 185,546	₩ 185,546	₩ 16,160	₩ -	₩ 1,526	₩ -	₩ 203,232	₩ 185,546

The Group decided to sell land, buildings and others existing in Suwon and Kimcheon plant during 2012. In this regard, the Group reclassified the land, buildings and structures amounting to ₩173,243 million, ₩17,497 million and ₩1,678 million, respectively, from investment properties to non-current assets held-for-sale. However, since the probability of selling these within one year at the end of the reporting period is not likely, these assets have been reclassified as investment properties.

Fair value of investment property as of December 31, 2012, is ₩203,232 million (2011: ₩188,756 million).

There was no gain related to investment property for the years ended December 31, 2012 and 2011.

16. Other Assets

Other assets as of December 31, 2012 and 2011, are as follows:

	2012		2011	
(in millions of Korean won)	Current	Non-current	Current	Non-current
Accrued revenues	₩ 999	₩ -	₩ 1,175	₩ -
Advance payments	15,249	-	4,272	-
Prepaid expenses	13,943	10	12,208	6
Others	3,103	-	508	-
	₩ 33,294	₩ 10	₩ 18,163	₩ 6

17. Borrowings

Details of borrowings as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	Bank	Interest rate at December 31, 2012		2012		2011
Short-term Borrowings						
Bank overdrafts of EUR 4,372,954 (2011: EUR 2,744,633)	Societe Generale Bank and others	1.3	₩	6,193	₩	4,100
Loans for working capital of EUR 5,000,000 (2011: EUR 5,000,000)	Citibank	1.5		7,082		7,471
Bank overdrafts of USD 173,136	Citibank	2.45		185		-
Borrowings from an associate of HKD 5,950,000	Etude Co., Ltd.	3.4		822		-
Loans for working capital of JPY 429,000,000 (2011: JPY 270,000,000)	Shinhan Bank Japan	1.45		5,352		4,010
Borrowings from an associate of JPY 234,000,000	Etude Co., Ltd.	3.4		2,919		-
				22,553		15,581
Long-term Borrowings						
Loans for working capital of USD 40,000,000 (2011: USD 40,000,000)	Citibank and others	1.81		42,850		45,904
			₩	65,403	₩	61,485

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

(in millions of Korean won) Year		Amount
2014	₩	42,850

18. Provisions for Liabilities and Charges

Changes of provisions for liabilities and charges as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012 Provision for sales return	2012 Profit-sharing and bonuses	2012 Provision for restructuring	2012 Total	2011 Provision for sales return	2011 Profit-sharing and bonuses	2011 Total
Beginning	₩ 5,617	₩ 138	₩ -	₩ 5,755	₩ 13,410	₩ 224	₩ 13,634
Increase	1,952	30,837	4,245	37,034	3,466	64,363	67,829
Decrease	(5,069)	(30,883)	-	(35,952)	(11,261)	(64,450)	(75,711)
Currency translation differences	(29)	(12)	(94)	(135)	2	1	3
Ending	₩ 2,471	₩ 80	₩ 4,151	₩ 6,702	₩ 5,617	₩ 138	₩ 5,755

19. Other Liabilities

Other liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012 Current	2012 Non-current	2011 Current	2011 Non-current
Withholdings	₩ 9,195	₩ -	₩ 9,204	₩ -
Value added tax withheld	23,539	-	22,390	-
Advances from customers	10,039	-	12,038	-
Deposits received	-	8,900	-	8,220
Accrued expenses	8,671	2,606	7,639	2,289
Financial liabilities	-	12,923	-	15,756
Dividends payable	228	-	214	-
Others	1,526	641	1,086	511
	₩ 53,198	₩ 25,070	₩ 52,571	₩ 26,776

Minimum lease payments to the lessor as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Total minimum lease payment		
No later than 1 year	₩ 2,601	₩ 2,744
Between 1 and 5 years	10,093	10,974
Later than 5 years	1,753	4,267
	14,447	17,285
Unearned finance cost	(1,524)	(2,229)
Net minimum lease payment		
No later than 1 year	2,103	2,123
Between 1 and 5 years	9,091	9,493
Later than 5 years	1,729	4,140
	₩ 12,923	₩ 15,756

20. Defined Benefit Liability

Defined benefit liability recognized on the statements of financial position as of December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012		2011	
Present value of funded defined benefit liability	₩	140,080	₩	121,237
Present value of non-funded defined benefit liability		2,188		888
		150,268		122,125
Fair value of plan assets		(102,726)		(82,123)
	₩	47,542	₩	40,002

The amounts recognized on the statements of income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
Current service cost	₩	21,161	₩	16,379
Interest expenses		6,772		6,356
Expected return on plan assets		(3,865)		(3,143)
	₩	24,068	₩	19,592

The accumulated amounts of actuarial gains and losses recognized within other comprehensive income for the years ended December 31, 2012 and 2011, are ₩ (30,355) million and ₩ (20,624) million, respectively.

Defined benefit liability is charged to the following accounts:

(in millions of Korean won)	2012		2011	
Cost of sales	₩	3,519	₩	3,136
Selling and administrative expenses		20,549		16,456
	₩	24,068	₩	19,592

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012		2011	
Beginning balance	₩	122,125	₩	102,182
Current service cost		21,161		16,379
Transfer to associates		(1,037)		(962)
Interest expense		6,772		6,356
Benefits paid		(11,113)		(14,299)
Acquisition from business combination		-		881
Actuarial gains and losses		12,461		11,588
Currency translation differences		(101)		-
Ending balance	₩	150,268	₩	122,125

The movements in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012		2011
Beginning balance	₩	82,123	₩	66,935
Expected return on plan assets		3,865		3,143
Transfer to(from) associates		(643)		-
Employer contribution		25,000		20,283
Benefits paid		(7,344)		(8,416)
Actuarial gains and losses		(275)		178
Ending balance	₩	102,726	₩	82,123

The Group's managements assume that the expected amount of employer contribution during the annual period beginning on or after the reporting date is ₩21,350 million.

Actual return of plan assets was ₩3,589 million (2011: ₩3,321 million).

The principal actuarial assumptions as of December 31, 2012 and 2011, were as follows:

	2012	2011
Discount rate	2.75% ~ 4.75%	3.80% ~ 5.75%
Expected return on plan assets	4.50%	4.50%
Future salary increases	5.00% ~ 6.42%	5.00% ~ 6.74%

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

(in millions of Korean won)	Changes in principal assumption	Impact on overall liability			
			2012		2011
Discount rate	1% increase	₩	(11,329)	₩	(8,700)
	1% decrease		13,110		9,998
Inflation rate	1% increase		12,760		9,800
	1% decrease		(11,262)		(8,701)

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2012, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		December 31, 2012		December 31, 2011		December 31, 2010		January 1, 2010
Present value of defined benefit liability	₩	150,268	₩	122,125	₩	102,182	₩	99,854
Fair value of plan assets		(102,726)		(82,123)		(66,935)		(72,918)
Deficit(Surplus) of the funded plans		47,542		40,002		35,247		2,936
Defined benefit liability adjustments		3,968		5,289		6,818		-
Defined benefit asset adjustments		275		(178)		(48)		-

Plan assets as of December 31, 2012 and 2011, consist of the following:

(in millions of Korean won)		2012		2011
Insurance commodity with guaranteed interest contract	₩	102,363	₩	81,720
Deposits to the National Pension Service		363		403
	₩	102,726	₩	82,123

21. Other Components of Equity

Other components of equity as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012		2011
Treasury stock[1]	₩	(1,381)	₩	(1,381)
Other capital adjustments		(429)		(429)
	₩	(1,810)	₩	(1,810)

[1] Represents 3,293 common shares and 609 preferred shares of treasury stock. The Company intends to dispose of the remaining treasury stock depending on the market conditions.

22. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2012 and 2011, consists of the following:

(in millions of Korean won)		2012		2011
Change in value of available-for-sale financial assets	₩	(274)	₩	1,618
Currency translation differences		(11,557)		(4,009)
Share of other comprehensive income of associates		(180)		(44)
	₩	(12,011)	₩	(2,435)

Changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

2012 *(in millions of Korean won)*		Beginning		Increase (Decrease)		Reclassification to profit or loss		Reclassification to non-controlling interest		Ending
Change in value of available-for-sale financial assets	₩	1,618	₩	323	₩	(2,215)	₩	-	₩	(274)
Currency translation differences		(4,009)		(8,160)		-		612		(11,557)
Share of other comprehensive income of associates		(44)		(151)		-		15		(180)
	₩	(2,435)	₩	(7,988)	₩	(2,215)	₩	627	₩	(12,011)

2011 *(in millions of Korean won)*		Beginning		Increase (Decrease)		Reclassification to profit or loss		Reclassification to non-controlling interest		Ending
Change in value of available-for-sale financial assets	W	1,994	W	(604)	W	228	W	-	W	1,618
Currency translation differences		(3,327)		(739)		-		57		(4,009)
Share of other comprehensive income of associates		282		(361)		-		35		(44)
	W	(1,051)	W	(1,704)	W	228	W	92	W	(2,435)

23. Retained Earnings

Retained earnings as of December 31, 2012 and 2011, consist of:

(in millions of Korean won)		2012		2011
Legal reserves[1]	₩	18,109	₩	18,109
Discretionary reserves		973,000		708,000
Unappropriated retained earnings		601,304		651,311
	₩	1,592,449	₩	1,377,420

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders. When total amount of capital reserves and earned surplus reserve exceeds 1.5 times of capital stock, capital reserves and earned surplus reserves can be reduced in a range of the excess amount through the resolution of general meeting of shareholders.

24. Dividends per share

Details of dividends declared by the Company, dividends payout ratio and dividend yield ratio for the years ended December 31, 2012 and 2011, are as follows:

Dividends

		2012	2011
Number of shares eligible for dividends	Common stock	5,842,556	5,842,562
	Preferred stock	1,055,174	1,055,175
Dividend rate	Common stock	130%	130%
	Preferred stock	131%	131%
Dividend amount	Common stock	₩ 37,977 million	₩ 37,977 million
	Preferred stock	6,911 million	6,911 million
Dividend payout ratio (Dividends/Net income)		16.3%	14.1%
Dividend yield ratio (Dividend per share/Market price)	Common stock	0.54%	0.62%
	Preferred stock	1.72%	2.34%

25. Income Tax and Deferred Income Tax

Income tax expense for the years ended December 31, 2012 and 2011, consists of:

(in millions of Korean won)		2012		2011
Current income taxes	₩	81,424	₩	67,874
Deferred income tax due to temporary differences		7,257		32,599
Deferred income tax charged to other comprehensive income		3,519		1,900
Income taxes	₩	92,200	₩	102,373

Deferred income taxes charged to other comprehensive income are as follows:

(in millions of Korean won)		2012		2011
Change in value of available-for-sale financial assets	₩	604	₩	46
Actuarial gains and losses		3,005		2,761
Deferred income tax charged to other comprehensive income		5		(8)
Currency translation differences		(95)		(899)
	₩	3,519	₩	1,900

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)		2012		2011
Profit before tax	₩	360,644	₩	429,642
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩	84,203	₩	103,478
Add(deduct):				
Income not subject to tax		(3,521)		(11,853)
Expenses not deductible for tax purposes		4,947		1,292
Change in recognition of deferred income tax based on future realizability		3,720		2,826
Tax credits		(5,107)		(3,748)
Effect of the changes in tax rate		-		12,542
Income tax supplementary payment		8,756		87
Others		(798)		(2,251)
Income taxes	₩	92,200	₩	102,373
Effective tax rate (Income tax over net income before tax)		25.57%		23.83%

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 70,309	₩ 63,534
Deferred tax asset to be recovered within 12 months	11,129	9,494
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(196,342)	(181,311)
Deferred tax liability to be recovered within 12 months	(2,931)	(1,494)
Deferred tax assets(liabilities), net	₩ (117,835)	₩ (109,777)

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

2012 *(in millions of Korean won)*	January 1, 2012	Income statement	Other comprehensive	Currency translation differences	December 31, 2012
Deferred tax assets					
Allowance for doubtful accounts	₩ 441	₩ (422)	₩ -	₩ -	₩ 19
Inventory	682	(681)	-	-	1
Property, plant and equipment	5,671	(2,151)	-	(71)	3,449
Intangible assets	371	(366)	-	-	5
Government grants	711	44	-	-	755
Available-for-sale financial assets	559	-	88	-	647
Subsidiaries	2,164	1,276	(90)	-	3,350
Deferred revenue	17,222	(1,140)	-	(108)	15,974
Accrued expenses	2,316	(31)	-	(134)	2,151
Provision liability	1,462	(822)	-	- 9	631
Other current liabilities	1,563	(479)	-	-	1,084
Retirement benefit obligation	20,049	4,999	3,005	- 10	28,043
Selling and administrative expenses	157	1,760	-	-	1,917
Tax loss carryforwards	19,266	4,654	-	(1,106)	22,814
Others	394	204	-	-	598
	73,028	6,845	3,003	(1,438)	81,438
Deferred tax liabilities					
Accrued revenue	(284)	45	-	-	(239)
Other receivables	(139)	100	-	-	(40)
Property, plant and equipment	(110,102)	6,559	-	-	(103,543)
Intangible assests	(5,147)	189	-	637	(4,321)
Available-for-sale financial assets	(517)	-	516	-	-
Plan assets	(19,776)	(4,803)	-	-	(24,579)
Reserve for technology development	(39,446)	(18,231)	-	-	(57,677)
Advanced depreciation provision	(6,184)	-	-	-	(6,184)
Selling and administrative expenses	(1,209)	(1,480)	-	-	(2,690)
	(182,804)	(17,621)	516	637	(199,273)
	₩ (109,777)	₩ (10,776)	₩ 3,519	₩ (801)	₩ (117,835)

2011 (in millions of Korean won)	January 1, 2011	Business combination[1]	Income statement	Other comprehensive income	Effect of the changes in tax rate	Currency translation differences	December 31, 2011
Deferred tax assets							
Allowance for doubtful accounts	₩ 532	₩ -	₩ (91)	₩ -	₩ -	₩ -	₩ 441
Inventory	1,392	-	(710)	-	-	-	682
Property, plant and equipment	11,160	-	(5,918)	-	414	15	5,671
Intangible assets	486	-	(149)	-	34	-	371
Government grants	395	-	251	-	65	-	711
Available-for-sale financial assets	508	-	-	-	51	-	559
Subsidiaries	825	-	2,332	(907)	(86)	-	2,164
Deferred revenue	16,449	-	(412)	-	1,011	174	17,222
Accrued expenses	-	-	2,284	-	-	32	2,316
Provision liability	2,872	171	(1,698)	-	117	-	1,462
Other current liabilities	836	-	727	-	-	-	1,563
Retirement benefit obligation	16,646	186	(1,350)	2,761	1,806	-	20,049
Selling and administrative expenses	453	-	(296)	-	-	-	157
Loss on foreign currency translation	25	-	(25)	-	-	-	-
Tax loss carryforwards	19,860	-	(349)	-	-	(245)	19,266
Others	384	-	(21)	-	31	-	394
	72,823	357	(5,425)	1,854	3,443	(24)	73,028
Deferred tax liabilities							
Accrued revenue	(212)	-	(72)	-	-	-	(284)
Other receivables	(17)	-	(110)	-	(13)	-	(140)
Property, plant and equipment	(97,447)	-	(2,646)	-	(10,009)	-	(110,102)
Intangible assests	(172)	(4,648)	(13)	-	(17)	(297)	(5,147)
Available-for-sale financial assets	(562)	-	-	46	-	-	(516)
Plan assets	(14,618)	-	(3,360)	-	(1,798)	-	(19,776)
Reserve for technology development	(25,667)	-	(10,193)	-	(3,586)	-	(39,446)
Advanced depreciation provision	(5,622)	-	-	-	(562)	-	(6,184)
Selling and administrative expenses	(1,072)	-	(138)	-	-	-	(1,210)
	(145,389)	(4,648)	(16,532)	46	(15,985)	(297)	(182,805)
	₩ (72,566)	₩ (4,291)	₩ (21,957)	₩ 1,900	₩ (12,542)	₩ (321)	₩ (109,777)

[1] Additional deferred tax liabilities amounting to ₩1,632 million related to acquisition of shares of Annick Goutal S.A.S, and ₩2,659 million related to land usage right of AMORE Cosmetics (Shanghai) Co.,Ltd. were recorded during the prior year.

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 13,879 million in respect of losses amounting to ₩41,640 million that can be carried forward against future taxable income. There is no limit to expiration of tax losses.

The temporary differences from the subsidiaries whose disposal is not in the foreseeable future were not recognized because of the uncertainty in realizability of the deferred tax assets, and the amount as of December 31, 2012, and 2011, are as follows:

(in millions of Korean won)	2012	2011
Taxable temporary differences	₩ (18,705)	₩ (31,330)
Deductible temporary differences	101,710	82,795
	₩ 83,005	₩ 51,465

26. Revenues

Revenues for the years ended December 31, 2012 and 2011, consist of the following:

(in millions of Korean won)			2012		2011
	Sales of finished goods	₩	2,266,489	₩	2,106,409
Sale of goods	Sales of merchandise		555,697		424,549
			2,822,186		2,530,958
Rendering of services			21,491		19,481
	Rental income		3,100		2,372
	Royalty income		1,385		1,024
Others	Others		1,300		888
			5,785		4,284
		₩	2,849,462	₩	2,554,723

27. Expenses by Nature

Expenses by nature for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012		2011
Changes in inventories	₩	(41,630)	₩	(13,373)
Purchase of raw materials and merchandise		825,340		721,873
Employee benefit expense		401,652		327,705
Depreciation and amortization		100,152		66,132
Advertising expense		399,026		354,577
Research and development		62,231		61,529
Commission expense		229,587		215,478
Distribution commission		369,109		295,607
Other expenses		139,730		152,344
Total[1]	₩	2,485,197	₩	2,181,872

[1] Sum of cost of sales, and selling and administrative expenses on the statements of comprehensive income.

28. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012		2011
Employee benefits	₩	298,131	₩	236,814
Welfare and fringe benefits		44,118		41,375
Advertising expense		399,026		354,577
Depreciation and amortization		53,599		42,363
Commission expense		201,277		192,895
Distribution commission		369,109		295,607
Freight expense		57,190		55,337
Taxes and dues		27,098		24,064
Research and development		62,231		61,529
Other		126,214		102,688
	₩	1,637,993	₩	1,407,249

29. Finance Income and Costs

Financial income and costs for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)		2012		2011
Finance income				
Interest income on loans and receivables	₩	12,113	₩	10,999
Interest income on available-for-sale financial assets		95		166
	₩	12,208	₩	11,165
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(2,125)	₩	(1,923)

30. Other non-operating gains/(losses)

Other non-operating gains/(losses) for the years ended December 31, 2012 and 2011, consist of:

(in millions of Korean won)	2012	2011
Other non-operating gains		
Gain on foreign currency transactions	₩ 2,401	₩ 2,876
Gain on foreign currency translation	506	1,104
Gain on disposal of property, plant and equipment	219	2,545
Gain on disposal of non-current assets held for sale	-	47,183
Gain on disposal of intangible assets	77	271
Gain on disposal of available-for-sale financial assets	4,162	169
Others	5,860	10,697
	13,225	64,845
Other non-operating losses		
Loss on foreign currency transactions	(3,688)	(3,378)
Loss on foreign currency translation	(1,002)	(526)
Loss on disposal of property, plant and equipment	(294)	(2,405)
Loss on disposal of available-for-sale financial assets	-	(172)
Donations	(3,945)	(5,588)
Others	(19,675)	(6,264)
	(28,604)	(18,333)
	₩ (15,379)	₩ 46,512

31. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Basic earnings per common share for the years ended December 31, 2012 and 2011, is as follows:

		2012		2011
Profit attributable to equity holders of the Company	₩	269,616 million	₩	327,029 million
Net income attributable to common stock		228,327 million		276,957 million
Weighted average number of ordinary shares in issue (unit: shares)		5,842,556		5,842,562
Basic earnings per ordinary share (in won)	₩	39,080	₩	47,403

Basic earnings per preferred share for the years ended December 31, 2012 and 2011, is as follows:

		2012		2011
Profit attributable to equity holders of the Company	₩	269,616 million	₩	327,029 million
Net income attributable to preferred stock		41,289 million		50,072 million
Weighted average number of preferred shares in issue (unit: shares)		1,055,176		1,055,176
Basic earnings per preferred share (in won)	₩	39,130	₩	47,454

Diluted earnings per share is equal to basic earnings per share, since the Company did not issue dilutive securities such as convertible preferred shares, convertible bonds and bond with stock warrants.

32. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)		2012		2011
Net income	₩	268,444	₩	327,269
Adjustments for:		203,758		145,681
Interest income, net		(9,263)		(9,242)
Loss(gain) on foreign currency translation		1,193		(1,174)
Depreciation and amortization		101,641		81,591
Gain on disposal of property, plant and equipment and intangible assets		14		(406)
Gain on disposal of non-current assets held for sale		-		(47,183)
Income tax		92,200		102,373
Gain from associates		(1,675)		(1,037)
Provision for severance benefits		24,068		19,592
Gain on disposal of available-for-sale financial assets		(4,162)		-
Others		(258)		1,167
Changes in working capital				
Increase in trade receivables		(16,251)		(9,887)
Increase in other receivables		(6,236)		(1,614)
Increase in inventories		(41,324)		(13,327)
Decrease(increase) in other assets		(13,369)		1,295
Increase(decrease) in trade payables		22,027		(2,820)
Increase(decrease) in other payables		(30,546)		34,577
Increase(decrease) in provisions		947		(7,665)
Increase(decrease) in other liabilities		(11,926)		8,372
Payment of severance benefits		(11,113)		(14,299)
Net transfer-out of severance benefits of associates		(1,037)		(962)
Increase in plan assets, net		(17,013)		(11,866)
Cash generated from operations	₩	346,361	₩	454,764

Significant transactions not affecting cash flows for the years ended December 31, 2012 and 2011 are as follows:

(in t millions of Korean won)		2012		2011
Reclassification of construction in-progress to specific property, plant and equipment	₩	136,829	₩	344,561
Reclassification of land to investment property		19,174		185,546
Offsetting non-current assets held for sale and long-term advances from customers		-		83,971

33. Commitments and Contingencies

As of the reporting date, the Company has a bank overdraft agreement with a limit of ₩8,000 million and a loan agreement with a limit of ₩25,000 million with Woori Bank with trade receivables as collateral in which the Company guarantees payment to the bank if the factoring of trade receivables takes place before the payment is due. As of the reporting date, the outstanding balance of the loan agreement secured by credit sales that has not yet reached maturity is ₩12,320 million (2011: ₩9,713 million). Additionally, as of the reporting date, the Company has a letter of credit agreement with a limit of USD 4,000 thousand with Woori Bank and the amount USD 49 thousand (2011: USD 1,162 thousand) has been drawn.

As of the reporting date, Seoul Guarantee Insurance has provided the Company with payment guarantees such as court bond guarantees, performance guarantees and others amounting to ₩2,284 million (2011: ₩1,911 million).

Important contracts subsidiaries entered into with financial institutions as of the reporting date are as follows:

Subsidiaries	Contracts
AMOREPACIFIC Global Operations Limited	Subsidiary has a syndicated loan agreement with Citibank and five other banks with a limit of USD 40,000 thousand and the outstanding balance is USD 40,000 thousand. Subsidiary has a bank overdraft agreement with a limit of USD 10,000 thousand with Citibank and the outstanding balance is USD 173 thousand.
AMOREPACIFIC Trading Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of USD 10,000 thousand with Citibank and there is no outstanding balance.
AMOREPACIFIC EUROPE S.A.S	Subsidiary has a finance lease agreement with Societe Generale Bank and one other bank amounting to EUR 14,101 thousand, and a loan agreement with Societe Generale Bank and two other banks with a limit of EUR 15,500 thousand and the outstanding balance is EUR 9,373 thousand.
AMOREPACIFIC Japan Co., Ltd.	Subsidiary has a bank overdraft agreement with a limit of JPY 500,000 thousand with Shinhan Bank Japan and the outstanding balance is JPY 429,000 thousand.

As of the reporting date, current bank deposits amounting to ₩8,000 million and non-current bank deposits amounting to ₩6 million are restricted in use for guarantees provided for subsidiaries' borrowings and as guarantee deposits for the maintenance of checking accounts. Non-current bank deposits amounting to ₩3,438 million (RMB 20,000 thousand) are restricted in use for permission of door-to-door sales.

As of the reporting date, certain land and buildings are pledged as collaterals in relation to deposits received, and details are as following:

(in millions of Korean won)

Financial institutions	Assets pledged as collateral		Provisional pledged amount
Woori Bank	Land and buildings	₩	1,246
National Pension Service	Land and buildings		961
AJU CAPITAL CO., LTD.	Land and buildings		459
Others	Land and buildings		375
		₩	3,041

The Group leases certain office, warehouse and computer equipment under non-cancellable operating lease arrangements with the lease term of one to five years. Lease payments recognized in the income statement under operating lease were ₩66,647 million (2011: ₩57,564 million).

The future minimum lease payments under operating lease agreements at of the reporting date are as follows:

(in millions of Korean won)		Amount
No later than 1 year	₩	62,219
1 year to 5 years		34,089
Later than 5 years		29
	₩	96,337

34. Related Party Transactions

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

Classfication	Name
Ultimate parent	Kyung-Bae Suh
Immediate parent	AMOREPACIFIC Group, Inc.
Ultimate parent presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Subsidiaries	AMOREPACIFIC Global Operations Limited. AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. AMORE Cosmetics (Shanghai) Co., Ltd. AMOREPACIFIC Cosmetics New (Shanghai) Co., Ltd. AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd. AMOREPACIFIC Trading Co., Ltd. AMOREPACIFIC EUROPE S.A.S Annick Goutal S.A.S AMOREPACIFIC US, INC. AMOREPACIFIC Japan CO., Ltd. AMOREPACIFIC Taiwan Co., Ltd. AMOREPACIFIC SINGAPORE PTE. LTD. AMOREPACIFIC MALAYSIA SDN. BHD. Amorepacific VIETNAM JSC AMOREPACIFIC (Thailand) LIMITED PT. LANEIGE INDONESIA PACIFIC Innisfree Cosmetics India Private Limited

Significant transactions with related parties for the years ended December 31, 2012 and 2011, are as follows:

	2012		2011	
(in millions of Korean won)	**Sales**	**Purchases**	**Sales**	**Purchases**
Immediate parent				
AMOREPACIFIC Group,Inc.	₩ 601	₩ 7,573	₩ 195	₩ 1,888
Associates				
Taiwan AMORE Co.,Ltd. and others	16,828	-	14,052	-
Others				
Etude Corporation	3,685	13,218	3,319	1,576
Innisfree Corporation	5,235	4,503	4,508	3,594
AMOS Professional Corporation	14,855	192	12,297	144
PACIFICPHARMA Corporation	1,327	50,892	973	41,274
PACIFICGLAS, Inc.	208	29,952	175	30,100
PACIFICPACKAGE Corporation	142	46,177	58	36,404
Jangwon Co.,Ltd	218	5,768	23	6,411
COSVISION CO.,LTD.[1]	57,261	5,431	12,387	1,029
BBDO Korea Inc.	-	11,673	-	6,693
Taeshin Inpack Corporation	-	14,854	-	15,857
	82,931	182,660	33,740	143,082
	₩ 100,360	₩ 190,233	₩ 47,987	₩ 144,970

[1] The controlling company, Amorepacific Group,Inc., acquired 100% of shares in COSVISION CO.,LTD. during 2011, and the Company therefore included COSVISION CO.,LTD. as a related party. Transactions with and year-end balances arising from above transactions are amounts after it became a related party.

Balances with related parties as of December 31, 2012 and 2011, are as follows:

	2012		2011	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**
Immediate parent				
AMOREPACIFIC Group,Inc.	₩ 462	₩ 916	₩ 76	₩ 418
Associates				
Taiwan AMORE Co.,Ltd. and others	2,775	-	1,750	-
Others				
Etude Corporation	758	7,438	410	5,320
Innisfree Corporation	927	1,247	1,884	93
AMOS Professional Corporation	2,128	97	475	96
PACIFICPHARMA Corporation	414	5,574	8	4,390
PACIFICGLAS, Inc.	14	3,944	-	1,748
PACIFICPACKAGE Corporation	13	4,827	-	369
Jangwon Co.,Ltd	3	26	11	2,710
COSVISION CO.,LTD.	14,717	506	100	-
BBDO Korea Inc.	-	1,069	987	985
Taeshin Inpack Corporation	-	1,783	10,337	411
	18,974	26,511	14,212	16,122
	₩ 22,211	₩ 27,427	₩ 16,038	₩ 16,540

Compensation for key management for the years ended December 31, 2012 and 2011, consists of:

(In millions of Korean won)		2012		2011
Short-term employee benefits	₩	11,202	₩	9,046
Post-employment benefits		1,629		1,355
	₩	12,831	₩	10,401

Key management refers to the directors who have significant control and responsibilities on the Company's operations and business.

There is no guarantee provided for related parties other than Group as of the reporting date.

As of the reporting date, no bad debt provision was made with respect to the receivables from related parties.

35. Acquisition of subsidiary

35.1 AMOREPACIFIC (Thailand) LIMITED

On January 30, 2012, the Group's subsidiary, AMOREPACIFIC Global Operations Limited acquired an additional 51% ownership in AMOREPACIFIC (Thailand) LIMITED, on top of its 49% ownership, to expand its cosmetic market and strengthen competitiveness.

The amount of AMOREPACIFIC (Thailand) LIMITED's identifiable assets and liabilities are as follows:

(In millions of Korean won)		Amount
Cash and cash equivalents	₩	2,435
Trade and other receivables[1]		164
Other assets		80
Inventories		132
Property, plant and equipment		117
Intangible assets		6
Trade payables		(87)
Borrowings		(108)
Other liabilities		(137)
Net assets	₩	2,602

[1] Fair value of trade and other receivables are ₩164 million, and trade receivables amounting to ₩163 million are included. Gross amount of trade and other receivables on arrangement at acquisition date is ₩164 million. There are no receivables expected to be uncollectible.

The amount of goodwill recognized is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	3,179
Fair value of net assets		(2,602)
Goodwill[1]	₩	577

[1] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of AMOREPACIFIC (Thailand) LIMITED is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	3,179
Deducted: cash and cash equivalents of acquiree		(2,435)
Deducted: investments in associates		(114)
Cash and cash equivalents	₩	630

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

The Group provided acquisition-related costs such as legal fees and due diligence fees amounting to ₩69 million, and recognized it as selling and administrative expenses in the consolidated statements of comprehensive income.

The revenue and net income included in consolidated statements of comprehensive income contributed by AMOREPACIFIC (Thailand) LIMITED amount to ₩2,867 million and ₩(723) million, respectively.

35.2 AMOREPACIFIC SINGAPORE PTE., LTD's acquisition of Etude House

On July 1, 2012, the Group's subsidiary, AMOREPACIFIC SINGAPORE PTE., LTD. acquired Etude House CGU to expand its cosmetic market and strengthen competitiveness.

The amount of Etude House's identifiable assets and liabilities are as follows:

(In millions of Korean won)		Amount
Cash and cash equivalents	₩	74
Other receivables[1]		561
Inventories		175
Property, plant and equipment		344
Trade payables		(202)
Net assets	₩	952

[1] Fair value of other receivables is ₩561 million. Gross amount of other receivables on arrangement at acquisition date is ₩561 million. There are no receivables expected to be uncollectible.

The amount of goodwill recognized is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	4,672
Fair value of net assets		(952)
Goodwill[1]	₩	3,720

[1] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of Etude House is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	4,672
Deducted: cash and cash equivalents of acquiree		(74)
Cash and cash equivalents	₩	4,598

The Group provided acquisition-related costs such as legal fees and due diligence fees amounting to ₩214 million, and recognized it as selling and administrative expenses in the consolidated statements of comprehensive income.

The amount of revenue and net income included in consolidated statement of comprehensive income contributed by Etude House amount to ₩3,390 million and ₩(93) million, respectively.

35.3 PT. LANEIGE INDONESIA PACIFIC

On July 1, 2012, the Group's subsidiary, AMOREPACIFIC Global Operations Limited obtained control of PT. LANEIGE INDONESIA PACIFIC by acquiring an additional 70% ownership to expand its cosmetic market and strengthen competitiveness. As of December 31, 2012, the AMOREPACIFIC Global Operations Limited owns 89.94% of PT. LANEIGE INDONESIA PACIFIC through its paid-in capital increase. As of December 31,2012, the Group owns 91.01% of PT. LANEIGE INDONESIA PACIFIC.

The amount of PT. LANEIGE INDONESIA PACIFIC's identifiable assets and liabilities are as follows:

(In millions of Korean won)		Amount
Cash and cash equivalents	₩	16
Other assets		6
Property, plant and equipment		56
Trade payables		(218)
Borrowings		(379)
Net assets	₩	(519)

The amount of goodwill recognized is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	110
Fair value of net assets		519
Deducted: investments in associates[1]		(156)
Goodwill[2]	₩	473

[1] The Group's subsidiary, AMOREPACIFIC Global Operations Limited has stopped applying the equity method on its 30% ownership at the acquisition date. Thus, ₩156 million of loss for the year relating to fair value of net assets was adjusted.
[2] None of the goodwill recognized is expected to be deductible for income tax purposes.

Net cash flow following the acquisition of PT. LANEIGE INDONESIA PACIFIC is as follows:

(In millions of Korean won)		Amount
Gross consideration transferred	₩	110
Deducted: cash and cash equivalents of acquiree		(16)
Cash and cash equivalents	₩	94

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

There is no revenue but the net income included in consolidated statement of comprehensive income contributed by PT. LANEIGE INDONESIA PACIFIC amounts to ₩(394) million.

36. Risk Management

36.1 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by a treasury department under policies approved by the board of directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The treasury department provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and the Japanese yen.

The purpose of foreign exchange risk management is to maximize the Group's value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2012 and 2011, are as follows:

	2012		2011	
(in millions of Korean won)	Assets	Liabilities	Assets	Liabilities
USD	₩ 32,732	₩ 65,174	₩ 16,271	₩ 3,546
EUR	4,954	494	483	2,320
JPY	-	2,488	-	4,356
	₩ 37,686	₩ 68,156	₩ 16,754	₩ 10,222

As of December 31, 2012 and 2011, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

(in millions of Korean won)	2012 Increase 10%	2012 Decrease 10%	2011 Increase 10%	2011 Decrease 10%
USD	₩ (3,244)	₩ 3,244	₩ 1,272	₩ (1,272)
EUR	446	(446)	(184)	184
JPY	(249)	249	(436)	436

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

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

To mitigate interest rate risk, the Group manages interest rate risk proactively by: minimizing external borrowings by maximizing internal cash sharing, reducing borrowings with high interest rates, maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates and monitoring weekly and monthly interest rate trends in domestic and international markets.

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 ₩451 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit Risk

Credit risk is managed by the Group as a whole. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For general customer, the Group evaluates and manages the collaterals (real estate, pledged deposit, payment guarantees, guarantee insurance, others) Also, to decrease credit risk, only 50~75% of market price of real states are acknowledged as collateral value. If the market price changes suddenly, the Group adjusts the collateral value, calculates credit limit and executes it strictly with authorized discretionary power and procedures.

(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 above 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.

	December 31, 2012					
(in millions of Korean won)	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total	Book value
Trade payables	₩ 100,405	₩ -	₩ -	₩ -	₩ 100,405	₩ 100,405
Borrowings	23,777	43,191	-	-	66,968	65,403
Other payables	150,721	-	-	-	150,721	150,721
Other liabilities	11,500	14,108	7,493	1,753	34,854	33,328

	December 31, 2011					
(in millions of Korean won)	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total	Book value
Trade payables	₩ 77,987	₩ -	₩ -	₩ -	₩ 77,987	₩ 77,987
Borrowings	16,384	87	45,947	-	62,418	61,485
Other payables	181,272	-	-	-	181,272	181,272
Other liabilities	10,597	13,285	8,230	4,267	36,379	34,118

36.2 Capital Management

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

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

(in millions of Korean won, except for ratios)	December 31, 2012	December 31, 2011
Liabilities (A)	682,406	677,125
Equity (B)	2,343,787	2,138,303
Cash and cash equivalents and current financial deposits (C)	313,207	343,444
Borrowings (D)	65,403	61,485
Debt-to-equity ratio (A/B)	29.12%	31.67%
Net Borrowings ratio (D-C)/B	(-)10.57%	(-)13.19%

36.3 Fair Value Estimation

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	December 31, 2012			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	₩ -	₩ -	₩ 468	₩ 468

	December 31, 2011			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	₩ 2,846	₩ -	₩ 398	₩ 3,244