

# **AMOREPACIFIC Group, Inc. and Subsidiaries**

**Consolidated Financial Statements  
December 31, 2016 and 2015**

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
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**December 31, 2016 and 2015**

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
AMOREPACIFIC Group, Inc.

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

### Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

**Other Matters**

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

Seoul, Korea  
March 9, 2017

This report is effective as of March 9, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2016 and 2015**

	Notes	(in thousands of Korean won)	
		2016	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6	₩ 969,030,314	₩ 1,003,173,041
Financial deposits	5,32	635,340,000	470,130,528
Available-for-sale financial assets	5,9,32,36	204,708,560	62,209,928
Trade receivables	5,7,33	344,574,234	316,657,727
Other receivables	5,7,33	15,805,529	21,787,800
Current tax assets	24	2,482,352	2,695,038
Other current assets	5,15	88,970,836	64,547,972
Inventories	8	478,226,344	393,265,728
Non-current assets held-for-sale	14	203,454,400	203,454,400
		<u>2,942,592,569</u>	<u>2,537,922,162</u>
<b>Non-current assets</b>			
Financial deposits	5,32	16,157,943	12,323,402
Other receivables	5,7,33	231,800,203	215,259,288
Available-for-sale financial assets	5,9,36	23,891,652	25,354,645
Property, plant and equipment	4,11	2,773,869,037	2,211,638,428
Investment properties	13,36	288,126,972	369,905,270
Intangible assets	4,12	749,091,983	730,861,691
Investments in associates	10	6,656,242	6,201,131
Deferred tax assets	24	55,973,746	37,546,516
Other non-current assets	15	234,863	956,662
		<u>4,145,802,641</u>	<u>3,610,047,033</u>
<b>Total assets</b>		<u>₩ 7,088,395,210</u>	<u>₩ 6,147,969,195</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,33,35	₩ 135,524,999	₩ 133,943,193
Borrowings	5,16,35	205,685,200	121,725,160
Other payables	5,33,35	363,838,253	270,418,612
Current tax liabilities	24	181,686,194	156,871,886
Deferred revenue		72,004,041	68,778,194
Provisions	17	22,575,520	11,633,973
Other current liabilities	5,18,35	339,830,616	215,136,841
		<u>1,321,144,823</u>	<u>978,507,859</u>
<b>Non-current liabilities</b>			
Borrowings	5,16,35	-	46,876,915
Net defined benefit liabilities	19	5,346,381	36,134,553
Deferred tax liabilities	24	172,596,504	176,261,549
Provisions	17	4,286,975	2,536,000
Other non-current liabilities	5,11,18,35	18,142,210	19,848,018
		<u>200,372,070</u>	<u>281,657,035</u>
<b>Total liabilities</b>		<u>1,521,516,893</u>	<u>1,260,164,894</u>
<b>Equity</b>			
Share capital	1	44,450,975	44,450,975
Share premium		672,986,708	672,986,708
Capital surplus		22,623,589	22,622,122
Other components of equity	20	(145,963,500)	(146,176,723)
Accumulated other comprehensive income	21	(11,876,549)	(9,239,890)
Retained earnings	22	2,251,021,224	1,948,073,924
<b>Equity attributable to owners of the Parent Company</b>		<u>2,833,242,447</u>	<u>2,532,717,116</u>
<b>Non-controlling interest</b>	34	<u>2,733,635,870</u>	<u>2,355,087,185</u>
<b>Total equity</b>		<u>5,566,878,317</u>	<u>4,887,804,301</u>
<b>Total liabilities and equity</b>		<u>₩ 7,088,395,210</u>	<u>₩ 6,147,969,195</u>

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2016 and 2015**

		<i>(in thousands of Korean won, except per share amounts)</i>	
	Notes	2016	2015
Revenue	4,25,33	₩ 6,697,560,669	₩ 5,661,205,541
Cost of sales	26,33	<u>1,640,887,838</u>	<u>1,414,959,580</u>
Gross profit		5,056,672,831	4,246,245,961
Selling and administrative expenses	26,27	<u>3,973,861,405</u>	<u>3,332,605,007</u>
Operating profit	4	<u>1,082,811,426</u>	<u>913,640,954</u>
Finance income	5,28	28,884,118	37,636,429
Finance costs	5,28	6,534,183	3,401,059
Other non-operating gains(losses), net	29	(18,495,946)	(27,674,943)
Share of net profit of associates	10	<u>1,604,496</u>	<u>1,400,387</u>
		<u>5,458,485</u>	<u>7,960,814</u>
Profit before income tax		1,088,269,911	921,601,768
Income tax expense	24	<u>276,741,380</u>	<u>247,656,492</u>
Profit for the period		<u>₩ 811,528,531</u>	<u>₩ 673,945,276</u>
<b>Profit is attributable to:</b>			
Owners of the Parent Company		₩ 342,394,117	₩ 260,436,992
Non-controlling interests	34	469,134,414	413,508,284
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liabilities	19,24	(14,409,089)	(33,718,723)
Items that may be subsequently reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets	5,9,21,24	720,614	(5,304,089)
Share of other comprehensive income of associates	10,21,24	128,057	52,727
Exchange differences on transaction of foreign operations	21,24	(5,507,069)	(167,742)
Other comprehensive income for the period, net of tax		<u>(19,067,487)</u>	<u>(39,137,827)</u>
Total comprehensive income for the period		<u>792,461,044</u>	<u>634,807,449</u>
<b>Total comprehensive income for the period is attributable to:</b>			
Owners of the Parent Company		332,825,561	241,666,357
Non-controlling interests		<u>459,635,483</u>	<u>393,141,092</u>
		<u>₩ 792,461,044</u>	<u>₩ 634,807,449</u>
Earnings per share attributable to owners of the Parent Company	30		
Basic earnings per ordinary share		₩ 4,240	₩ 3,219
Basic earnings per preferred share		4,246	3,224
Diluted earnings per ordinary share		4,240	3,126
Diluted earnings per preferred share		4,246	3,131

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2016 and 2015**

(in thousands of Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Share premium	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at January 1, 2015</b>	₩ 44,450,975	₩ 673,016,873	₩ 22,621,590	₩ (146,520,240)	₩ (4,370,133)	₩ 1,728,638,947	₩ 2,317,838,012	₩ 2,005,527,385	₩ 4,323,365,397
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	260,436,992	260,436,992	413,508,284	673,945,276
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(13,900,878)	(13,900,878)	(19,817,845)	(33,718,723)
Changes in the value of available-for-sale financial assets	-	-	-	-	(4,696,737)	-	(4,696,737)	(607,352)	(5,304,089)
Share of other comprehensive income of associates	-	-	-	-	15,269	-	15,269	37,458	52,727
Exchange differences on transaction of foreign operations	-	-	-	-	(188,289)	-	(188,289)	20,547	(167,742)
<b>Total comprehensive income for the period</b>	-	-	-	-	(4,869,757)	246,536,114	241,666,357	393,141,092	634,807,449
<b>Transactions with owners</b>									
Dividends paid	-	-	-	-	-	(27,101,137)	(27,101,137)	(44,483,613)	(71,584,750)
Others	-	(30,165)	532	343,517	-	-	313,884	902,321	1,216,205
<b>Total transactions with owners</b>	-	(30,165)	532	343,517	-	(27,101,137)	(26,787,253)	(43,581,292)	(70,368,545)
<b>Balance at December 31, 2015</b>	₩ 44,450,975	₩ 672,986,708	₩ 22,622,122	₩ (146,176,723)	₩ (9,239,890)	₩ 1,948,073,924	₩ 2,532,717,116	₩ 2,355,087,185	₩ 4,887,804,301
<b>Balance at January 1, 2016</b>	₩ 44,450,975	₩ 672,986,708	₩ 22,622,122	₩ (146,176,723)	₩ (9,239,890)	₩ 1,948,073,924	₩ 2,532,717,116	₩ 2,355,087,185	₩ 4,887,804,301
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	342,394,117	342,394,117	469,134,414	811,528,531
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(6,931,896)	(6,931,896)	(7,477,193)	(14,409,089)
Changes in the fair value of available-for-sale financial assets	-	-	-	-	(849,445)	-	(849,445)	1,570,059	720,614
Share of other comprehensive income of associates	-	-	-	-	38,270	-	38,270	89,787	128,057
Exchange differences on transaction of foreign operations	-	-	-	-	(1,825,484)	-	(1,825,484)	(3,681,585)	(5,507,069)
<b>Total comprehensive income for the period</b>	-	-	-	-	(2,636,659)	335,462,221	332,825,562	459,635,482	792,461,044
<b>Transactions with owners</b>									
Dividends paid	-	-	-	-	-	(32,514,921)	(32,514,921)	(67,270,960)	(99,785,881)
Change in non-controlling interests due to capital increase	-	-	973	(45,980)	-	-	(45,007)	1,980,034	1,935,027
Change in non-controlling interests due to acquisition	-	-	494	259,203	-	-	259,697	(15,795,871)	(15,536,174)
<b>Total transactions with owners</b>	-	-	1,467	213,223	-	(32,514,921)	(32,300,231)	(81,086,797)	(113,387,028)
<b>Balance at December 31, 2016</b>	₩ 44,450,975	₩ 672,986,708	₩ 22,623,589	₩ (145,963,500)	₩ (11,876,549)	₩ 2,251,021,224	₩ 2,833,242,447	₩ 2,733,635,870	₩ 5,566,878,317

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

		<i>(in thousands of Korean won)</i>			
	Notes	2016		2015	
<b>Cash flows from operating activities</b>					
Cash generated from operations	31	₩	1,125,228,661	₩	933,477,088
Interest received			25,145,971		27,595,696
Interest paid			(4,449,786)		(3,384,656)
Income tax paid			(269,204,419)		(221,168,106)
<b>Net cash inflow from operating activities</b>			<u>876,720,427</u>		<u>736,520,022</u>
<b>Cash flows from investing activities</b>					
Net decrease in current financial deposits			-		100,422,394
Net decrease in current available-for-sale financial assets			-		147,296,263
Proceeds from decrease in other receivables			21,172,799		15,376,876
Proceeds from disposal of non-current available-for-sale financial assets			9,785,022		9,751,033
Proceeds from disposal of property, plant and equipment			1,757,904		6,407,561
Proceeds from disposal of intangible assets			331,780		1,221,579
Proceeds from disposal of non-current assets held-for-sale	14		145,067,000		40,000,000
Dividend income from associates			1,350,000		1,305,000
Net increase in current financial deposits			(163,287,910)		-
Net increase in current available-for-sale financial assets			(142,332,512)		-
Increase in other receivables			(32,996,621)		(57,627,424)
Increase in non-current financial deposits			(3,904,084)		(1,902,010)
Payments for non-current available-for-sale financial assets			(2,735,125)		(2,751,959)
Payments for property, plant and equipment			(602,346,870)		(277,801,316)
Payments for intangible assets			(45,979,817)		(64,970,767)
Payments for investment properties			-		(20,000)
Net cash outflow from acquisition of subsidiaries			-		(30,164)
<b>Net cash outflow from investing activities</b>			<u>(814,118,434)</u>		<u>(83,322,934)</u>
<b>Cash flows from financing activities</b>					
Proceeds from short-term borrowings			77,906,430		8,697,913
Increase in non-controlling interests			1,932,156		-
Repayments of short-term borrowings			(42,938,461)		(7,798,157)
Dividends paid			(99,745,540)		(71,584,750)
Payments for acquisition of non-controlling interest	34		(36,026,440)		-
<b>Net cash outflow from financing activities</b>			<u>(98,871,855)</u>		<u>(70,684,994)</u>
Effects of exchange rate changes on cash and cash equivalents			2,127,135		3,473,623
<b>Net increase (decrease) in cash and cash equivalents</b>			(34,142,727)		585,985,717
<b>Cash and cash equivalents at the beginning of the year</b>			1,003,173,041		417,187,324
<b>Cash and cash equivalents at the end of the year</b>		₩	<u>969,030,314</u>	₩	<u>1,003,173,041</u>

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2016 and 2015

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#### 1. General Information

General information of AMOREPACIFIC Group, Inc. which is the Parent Company in accordance with Korean IFRS 1110 *Consolidated Financial Statements* (referred to as “the Company”) and its 32 subsidiaries (collectively referred to as “the Group”) is as follows.

The Company was incorporated on September 5, 1945, under the laws of the Republic of Korea to engage in manufacturing, marketing and trading of cosmetics, personal care goods and other related products. However, on January 1, 2007, the Company’s legal form of business entity was changed to a holding company to provide management, administrative and financing services to its consolidated and unconsolidated subsidiaries. The Company listed its shares on the Korea Stock Exchange on April 30, 1973, and as approved by the shareholders on March 25, 2011, the Company changed its name from PACIFIC Corporation to AMOREPACIFIC Group, Inc.

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As at December 31, 2016, the Company’s share capital is ₩44,451 million, including ₩3,222 million of preferred shares. The Company is authorized to issue 360,000,000 shares at a par value per share of ₩500. On December 16, 2016, 2,667,200 convertible preferred shares were converted into ordinary shares with the expiration of its term of existence. As at December 31, 2016, the number of ordinary shares and preferred shares issued by the company are 82,458,180 and 6,443,770, respectively.

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

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

Shareholders	2016	
	Number of ordinary shares	Percentage of ownership (%)
Kyung- Bae Suh	44,443,620	53.9
Others <sup>1</sup>	38,014,560	46.1
	<u>82,458,180</u>	<u>100.0</u>

<sup>1</sup> Including 5,549,733 treasury shares

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2016 and 2015

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

Shareholder	Subsidiaries	Primary Business	Share capital (in millions of Korean won)	Percentage of ownership (%)	Year end	Location
AMOREPACIFIC Group, Inc.	AMOREPACIFIC Corporation <sup>1</sup>	Manufacturing and marketing of cosmetics	₩ 34,508	35.40	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Innisfree Corporation	Marketing of cosmetics	1,222	81.82	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Etude Corporation	Manufacturing and marketing of cosmetics	3,631	80.48	Dec.31	Korea
AMOREPACIFIC Group, Inc.	AMOS Professional Corporation	Marketing of hair care products	3,500	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Espoir Corporation	Marketing of cosmetics	1,019	80.48	Dec.31	Korea
AMOREPACIFIC Group, Inc.	AESTURA Corporation	Manufacturing and marketing of medicine	11,645	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	PACIFICGLAS, Inc.	Manufacturing and marketing of glass	5,000	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	PACIFICPACKAGE Corporation	Printing, manufacturing and marketing of paper containers	11,505	100.00	Dec.31	Korea
AMOREPACIFIC Group, Inc.	Osulloc Farm Co.,Ltd. (formerly, Jangwon Co., Ltd.)	Manufacturing and marketing of green tea	5,083	98.38	Dec.31	Korea
AMOREPACIFIC Group, Inc.	COSVISION CO.,LTD.	Manufacturing and marketing of cosmetics, detergents and organic compounds	8,250	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	188,923	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	Holding company	5,096	100.00	Dec.31	Singapore
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	49,103	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Manufacturing and R&D of cosmetics	41,690	99.99 0.01	Dec.31	Malaysia
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195	100.00	Dec.31	China
AMOREPACIFIC Corporation	We-Dream Co.,Ltd.	Packaging of products and managing of facilities	406	100.00	Dec.31	Korea
AESTURA Corporation	AESTURA (Shanghai) TRADING Co.,Ltd.	Marketing of medicine	64	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 Hong Kong Co.,Limited	Marketing of cosmetics	12	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Marketing of cosmetics	13,414	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Marketing of cosmetics	25,861	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Marketing of cosmetics	6,090	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Marketing of cosmetics	11,891	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation	PT. LANEIGE INDONESIA PACIFIC	Marketing of cosmetics	6,895	3.10 96.90	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Marketing of cosmetics	3,417	100.00	Dec.31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Marketing of cosmetics	33,105	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Marketing of cosmetics	45,888	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Marketing of cosmetics	1,615	100.00	Dec.31	Canada
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and marketing of cosmetics	98,933	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	Annick Goutal S.A.S	Marketing of cosmetics	16,240	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Marketing of cosmetics	1,031	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Marketing of cosmetics	5,479	30.00	Dec.31	Vietnam
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.				70.00		

<sup>1</sup> Although the Parent Company has less than 50% of voting power, it is included as a subsidiary as the related parties, including the Ultimate parent, have 48.0% of the voting power and the rest are widely distributed among shareholders and institution investors owning less than 1%. Taking into consideration the participatory and approval ratios of the past general meetings, the Company has de facto control to decide the financial and operating policies.

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2016 and 2015**

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

(in millions of Korean won)	2016						
	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)		
AMOREPACIFIC Corporation <sup>1</sup>	₩ 4,618,650	₩ 813,485	₩ 4,270,867	₩ 593,919	₩ 585,843		
Innisfree Corporation	466,907	97,164	767,882	148,545	147,390		
Etude Corporation	120,305	41,176	316,635	24,100	23,051		
AMOS Professional Corporation	63,567	8,918	79,263	13,102	12,752		
Espoir Corporation	20,787	3,231	37,844	(829)	(920)		
AESTURA Corporation <sup>1</sup>	109,038	21,297	103,343	2,066	434		
PACIFICGLAS, Inc.	59,791	21,538	61,716	(5,881)	(5,988)		
PACIFICPACKAGE Corporation	67,783	14,906	71,461	4,788	4,666		
Osulloc Farm Co.,Ltd (formerly, Jangwon Co., Ltd.)	91,113	9,223	17,888	3,456	3,646		
COSVISION CO.,LTD.	131,451	80,544	190,299	2,560	2,354		
AMOREPACIFIC Global Operations Limited. <sup>1</sup>	242,569	96,127	81,349	5,474	10,689		
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. <sup>1</sup>	4,986	-	-	(7)	32		
AMORE Cosmetics (Shanghai) Co.,Ltd.	237,868	102,123	162,509	31,997	28,516		
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	43,245	2,823	-	-	(1,268)		
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	3,842	712	5,989	1,175	1,108		
We-Dream Co.,Ltd.	980	487	488	88	88		
AESTURA (Shanghai) TRADING Co.,Ltd.	61	-	-	-	3		
AMOREPACIFIC Trading Co., Ltd.	438,660	309,214	1,092,107	21,644	17,966		
AMOREPACIFIC HongKong Co., Limited	94,553	35,638	165,683	12,338	14,066		
AMOREPACIFIC Taiwan Co.,Ltd.	22,496	12,765	38,094	1,843	2,312		
AMOREPACIFIC SINGAPORE PTE Co Ltd.	36,063	15,539	62,900	4,439	4,584		
AMOREPACIFIC MALAYSIA SDN. BHD.	18,229	10,340	28,552	1,177	879		
AMOREPACIFIC (Thailand) LIMITED	26,185	17,923	28,309	565	697		
PT. LANEIGE INDONESIA PACIFIC	6,215	2,792	8,053	147	933		
Innisfree Cosmetics India Private Limited	2,202	718	1,004	(1,045)	(996)		
AMOREPACIFIC Japan Co.,Ltd.	13,038	11,214	59,931	1,444	1,422		
AMOREPACIFIC US, INC.	33,943	26,393	49,833	(1,258)	(1,031)		
AMOREPACIFIC CANADA INC.	5,120	3,392	3,454	150	113		
AMOREPACIFIC EUROPE S.A.S	43,194	31,791	53,321	1,530	1,137		
Annick Goutal S.A.S	11,388	12,939	14,732	(3,566)	(3,480)		
AMOREPACIFIC ME FZ-LLC	1,149	290	-	(170)	(172)		
AMOREPACIFIC Vietnam LTD.	5,688	7,002	5,336	(733)	(751)		

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
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<i>(in millions of Korean won)</i>	2015					
	Total assets	Total liabilities	Revenue	Profit (loss) for the period	Total comprehensive income(loss)	
AMOREPACIFIC Corporation <sup>1</sup>	₩ 3,974,528	₩ 662,189	₩ 3,757,959	₩ 534,235	₩ 505,209	
Innisfree Corporation	318,983	81,963	592,060	94,497	93,535	
Etude Corporation	94,160	38,081	257,782	(4,592)	(7,239)	
AMOS Professional Corporation	58,639	9,252	64,603	11,882	10,540	
Espoir Corporation	22,498	4,022	30,030	(2,538)	(2,860)	
AESTURA Corporation	106,873	19,305	91,999	(8,914)	(10,270)	
PACIFICGLAS, Inc.	59,705	16,091	62,159	(2,099)	(2,265)	
PACIFICPACKAGE Corporation	63,177	14,967	57,841	2,856	2,614	
Osulloc Farm Co.,Ltd.(formerly, Jangwon Co., Ltd.)	87,037	8,794	13,443	1,575	1,147	
COSVISION CO.,LTD.	85,174	36,968	164,030	4,201	4,073	
AMOREPACIFIC Global Operations Limited. <sup>1</sup>	180,133	63,034	57,381	(169)	6,009	
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. <sup>1</sup>	4,957	3	-	96	75	
AMORE Cosmetics (Shanghai) Co.,Ltd.	227,893	120,802	114,160	18,558	19,343	
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	2,343	321	3,433	95	112	
We-Dream Co.,Ltd.	49	-	-	(1)	(1)	
AMOREPACIFIC Trading Co., Ltd.	341,394	230,196	787,105	37,966	41,133	
AMOREPACIFIC HongKong Co., Limited	86,333	35,491	153,527	12,047	14,604	
AMOREPACIFIC Taiwan Co.,Ltd.	14,961	7,543	27,431	1,542	1,672	
AMOREPACIFIC SINGAPORE PTE Co Ltd.	26,474	10,496	46,319	2,845	2,747	
AMOREPACIFIC MALAYSIA SDN. BHD.	11,748	7,878	17,981	669	139	
AMOREPACIFIC (Thailand) LIMITED	12,632	9,757	19,861	(210)	(307)	
PT. LANEIGE INDONESIA PACIFIC	3,318	1,071	4,726	84	(586)	
Innisfree Cosmetics India Private Limited	1,486	200	233	(901)	(916)	
AMOREPACIFIC Japan Co.,Ltd.	10,414	10,019	43,164	84	(135)	
AMOREPACIFIC US, INC.	28,504	19,980	48,488	326	844	
AMOREPACIFIC EUROPE S.A.S	36,245	26,253	49,169	(10,066)	(11,809)	
Annick Goutal S.A.S	15,037	12,554	16,286	(1,595)	(2,112)	
AMOREPACIFIC Vietnam LTD.	2,971	3,526	4,228	111	26	

<sup>1</sup> Represents separate financial statements in which its investments in subsidiaries and associates are measured at cost.

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

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
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**Changes in Scope for consolidation**

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

<b>Subsidiary</b>	<b>Reason</b>
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.	Newly established by AMOREPACIFIC Corporation and AMOREPACIFIC Global Operation Limited., a subsidiary, with the contribution of 99.99% and 0.01%, respectively.
AESTURA (Shanghai) TRADING Co.,Ltd.	Newly established by AESTURA Corporation, a subsidiary, with the contribution of 100%
AMOREPACIFIC CANADA INC.	Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%.
AMOREPACIFIC ME FZ-LLC	

**2. Significant Accounting Policies**

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

**2.1 Basis of Preparation**

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

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

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2016 and 2015

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#### 2.2 Changes in Accounting Policies and Disclosures

##### *(a) New and amended standards adopted by the Group*

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

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

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

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

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

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

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

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

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

- Amendments to Korean IFRS 1012 *Income Tax*

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2016 and 2015

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#### - Korean IFRS 1109 *Financial Instruments*

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

#### - Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*.

The Group must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

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

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2016 and 2015

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#### 2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

##### *(a) Subsidiaries*

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

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

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

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

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

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### *(b) Associates*

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

## **2.4 Foreign Currency Translation**

#### *(a) Functional and presentation currency*

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

#### *(b) Transactions and balances*

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

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

#### *(c) Translation to the presentation currency*

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period,
- income and expenses for each statement of profit or loss are translated at average exchange rates,
- all resulting exchange differences are recognized in other comprehensive income.

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2016 and 2015

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

#### 2.5 Financial Assets

##### *(a) Classification and measurement*

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

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

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

##### *(b) Impairment*

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

Impairment of loans and receivables is presented as a deduction in an allowance account, and that of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

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

# **AMOREPACIFIC Group, Inc. and Subsidiaries**

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

### **December 31, 2016 and 2015**

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#### *(c) Derecognition*

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as “borrowings” in the statement of financial position.

#### *(d) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

## **2.6 Derivative Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

## **2.7 Inventories**

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

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

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

## **2.9 Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-

**AMOREPACIFIC Group, Inc. and Subsidiaries**  
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line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	<b>Useful life</b>
Buildings	10 - 40 years
Structures	10 - 40 years
Machinery	5 - 20 years
Vehicles	4 - 6 years
Tools	3 years
Fixtures and furniture	2 - 5 years
Others	10 - 40 years

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

#### **2.10 Borrowing Costs**

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

#### **2.11 Government Grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position either by deducting the grant in arriving at the carrying amount of the asset, and government grants related to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

#### **2.12 Intangible Assets**

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

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

Software development costs that are directly attributable to internally generated by the Group are recognized when the criteria; such as, technically feasible, generate probable future economic

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<b>Useful life</b>
Industrial property rights	5 - 20 years
Software	5 - 10 years
Others	3 - 45 years

#### **2.13 Investment Property**

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

#### **2.14 Impairment of Non-financial Assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### **2.15 Financial Liabilities**

##### *(a) Classification and measurement*

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

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

# **AMOREPACIFIC Group, Inc. and Subsidiaries**

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

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Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the statement of profit or loss as 'finance costs', together with interest expenses recognized from other financial liabilities.

#### *(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified.

#### **2.16 Provisions**

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

#### **2.17 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

#### **2.18 Employee Benefits**

##### *(a) Post-employment benefits*

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

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

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

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

##### *(b) Other long-term employee benefits*

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

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#### 2.19 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts and after elimination of inter-company transactions.

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

##### *(a) Sales of goods*

The Group manufactures and sells cosmetics and personal care of goods. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler.

##### *(b) Rendering of services*

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such a transaction is recognised 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 recognised 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 loans 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.

# **AMOREPACIFIC Group, Inc. and Subsidiaries**

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#### *(g) Customer loyalty program*

A customer loyalty program is operated by the Group to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Group grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards such as free or discounted goods or services. The award credits are recognized as a separately identifiable component of the initial sale transaction. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The fair value of the award credits is measured by taking into account the proportion of the award credits that are not expected to be redeemed by customers. Revenue from the award credits is recognized when the points are redeemed and the award credits expire 12 months after the initial sale.

#### **2.20 Lease**

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

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

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

#### **2.21 Segment Reporting**

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

#### **2.22 Approval of Issuance of the Financial Statements**

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

# AMOREPACIFIC Group, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements

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General Meeting.

### 3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *(a) Estimated goodwill impairment*

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

#### *(b) Income taxes*

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 25).

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

#### *(c) Provisions*

As described in Note 18, the Company recognizes provisions for estimated returns, profit-sharing and bonuses, estimated short-term payroll expenses related with accumulated paid leave and estimated other long-term payroll expenses as at the reporting date. The amounts are estimated based on past experience.

#### *(d) Customer loyalty programs*

By customer loyalty programs, 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.

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(e) *Net defined benefit liability*

The present value of net defined benefit liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 20).

**4. Segment Information**

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

The main products of each business division are as follows:

<b>Divisions</b>	<b>Products</b>
Cosmetics	Cosmetics and household products
Others	Cosmetics containers and hair products

The segment information for revenue and operating profit for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>			<b>2015</b>		
	<b>Revenue</b>	<b>Operating profit</b>	<b>Depreciation and amortization</b>	<b>Revenue</b>	<b>Operating profit</b>	<b>Depreciation and amortization</b>
Cosmetics	₩ 6,565,872	₩1,056,496	₩ 206,116	₩ 5,535,031	₩ 890,981	₩ 173,186
Others	362,775	27,263	14,497	315,433	15,566	15,295
	6,928,647	₩1,083,759	₩ 220,613	₩ 5,850,464	₩ 906,547	₩ 188,481

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Total segment revenue	₩ 6,928,647	₩ 5,850,464
Elimination of intercompany transactions and others	(231,086)	(189,258)
Group revenue	₩ 6,697,561	₩ 5,661,206

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Total segment operating profit	₩	1,083,759	₩	906,547
Intersegment revenue (expense)		(948)		7,094
Operating profit	₩	<u>1,082,811</u>	₩	<u>913,641</u>

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Cosmetics	₩ 6,325,071	₩ 2,045,126	₩ 5,214,910	₩ 1,151,778
Others	2,097,576	99,325	2,070,015	113,622
Total reportable segment assets and liabilities	<u>8,422,647</u>	<u>2,144,451</u>	<u>7,284,925</u>	<u>1,265,400</u>
Elimination of intercompany transactions and others	(1,334,252)	(622,934)	(1,136,956)	(5,235)
Total Group assets and liabilities	<u>₩ 7,088,395</u>	<u>₩ 1,521,517</u>	<u>₩ 6,147,969</u>	<u>₩ 1,260,165</u>

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Cosmetics	₩	715,226	₩	339,316
Others		24,438		36,252
	₩	<u>739,664</u>	₩	<u>375,568</u>

The above acquisition of non-current assets do not contain financial instruments.

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

<i>(in millions of Korean won)</i>	<b>Revenue</b>		<b>Non-current assets<sup>1</sup></b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Korea	₩ 5,049,425	₩ 4,441,064	₩ 3,207,241	₩ 2,679,435
North America	51,176	48,488	2,765	3,212
Europe	53,891	50,517	29,537	37,102
China	1,090,905	765,786	199,563	181,387
Others	452,164	355,351	83,855	41,364
	<u>₩ 6,697,561</u>	<u>₩ 5,661,206</u>	<u>₩ 3,522,961</u>	<u>₩ 2,942,500</u>

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<sup>1</sup> Non-current assets consist of property, plant and equipment and intangible assets.

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

**5. Financial Instruments by Category**

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

<i>(in millions of Korean won)</i>		<b>2016</b>	<b>2015</b>
Loans and receivables	Cash and cash equivalents	₩ 969,030	₩ 1,003,173
	Current financial deposits	635,340	470,131
	Non-current financial deposits	16,158	12,323
	Trade receivables	344,574	316,658
	Current other receivables	15,806	21,788
	Non-current other receivables	231,800	215,259
	Other current assets <sup>1</sup>	18,568	15,902
Available-for-sale financial assets	Equity securities	19,658	22,356
	Current debt securities	204,709	62,210
	Non-current debt securities	4,234	2,999
Financial assets at fair value through profit or loss	Derivative instruments	-	802
		<u>₩ 2,459,877</u>	<u>₩ 2,143,601</u>

<sup>1</sup> Other current assets represent accrued revenues (Note 16).

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

<i>(in millions of Korean won)</i>		<b>2016</b>	<b>2015</b>
Financial liabilities at amortized cost	Trade payables	₩ 135,525	₩ 133,943
	Short-term borrowings	205,685	121,725
	Long-term borrowings	-	46,877
	Other payables	363,838	270,419
	Other current liabilities <sup>2</sup>	83,604	78,340
	Other non-current liabilities <sup>3</sup>	14,825	16,045
		<u>₩ 803,477</u>	<u>₩ 667,349</u>

<sup>2</sup> Other current liabilities consist of dividend payables, accrued expenses and other financial liabilities (Note 19).

<sup>3</sup> Other non-current liabilities consist of deposits received, accrued expenses and financial lease liabilities (Note 19).

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Available-for-sale financial assets		
Gain(loss) on valuation (other comprehensive income)	₩ 721	₩ (5,304)
Gain on disposal (profit or loss)	7,819	9,797
Loss on disposal (profit or loss)	(1,628)	(1,688)
Interest income	2,653	4,661
Dividend income	332	-
Impairment loss	(1,083)	-
Loans and receivables		
Interest income	25,612	23,047
Gain(loss) on foreign currency translation	7,315	(2,313)
Impairment loss	(1,150)	(1,182)
Financial assets at fair value through profit or loss		
Gain on valuation of derivative financial instruments	619	1,005
Financial liabilities at amortized cost		
Interest expense	(4,499)	(3,401)
Loss on foreign currency translation	(7,977)	(737)
Gain(loss) on valuation of financial liabilities	(2,035)	8,923

**6. Cash and Cash Equivalents**

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Cash on hand	₩ 536	₩ 120
Ordinary deposits	189,231	478,065
Checking accounts	85,214	109,444
Other accounts	694,049	415,544
	<u>₩ 969,030</u>	<u>₩ 1,003,173</u>

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

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**7. Trade and Other Receivables**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Trade receivables	₩	348,284	₩	319,376
Less: provision for impairment		(3,710)		(2,718)
Trade receivables, net	₩	<u>344,574</u>	₩	<u>316,658</u>
Current other receivables	₩	16,494	₩	22,282
Less: provision for impairment		(688)		(494)
Current other receivables, net	₩	<u>15,806</u>	₩	<u>21,788</u>
Non-current other receivables	₩	231,800	₩	215,259
Less: provision for impairment		-		-
Non-current other receivables, net	₩	<u>231,800</u>	₩	<u>215,259</u>

Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Non-trade receivables	₩ 15,806	₩ -	₩ 21,788	₩ -
Loans	-	32,602	-	34,827
Deposits provided	-	199,198	-	180,432
	<u>₩ 15,806</u>	<u>₩ 231,800</u>	<u>₩ 21,788</u>	<u>₩ 215,259</u>

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

<i>(in millions of Korean won)</i>	2016		2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	₩ 290,312	₩ 244,985	₩ 286,070	₩ 237,053
Past due but not impaired <sup>1</sup>				
Up to 3 months	40,970	510	23,252	-
4 to 6 months	7,182	632	2,403	-
7 to 12 months	4,096	797	1,937	-
Over 12 months	1,054	957	2,204	-
	<u>53,302</u>	<u>2,896</u>	<u>29,796</u>	<u>-</u>
Impaired				
Over 3 months	4,670	413	3,510	488
	<u>4,670</u>	<u>413</u>	<u>3,510</u>	<u>488</u>
	<u>₩ 348,284</u>	<u>₩ 248,294</u>	<u>₩ 319,376</u>	<u>₩ 237,541</u>

<sup>1</sup> Trade receivables past due but not impaired relate to a number of independent customers who have no recent history of default.

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

<i>(in millions of Korean won)</i>	2016	2015
Beginning balance	₩ 2,718	₩ 3,059
Impairment loss	1,150	1,182
Receivables written off during the year as uncollectible	(192)	(1,463)
Exchange differences	34	(60)
Ending balance	<u>₩ 3,710</u>	<u>₩ 2,718</u>

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

The Group's trade and other receivables are spread to a great number of customers, so there is no important credit risk concentrated. The maximum exposure of trade and other receivables to credit risk at the end of reporting period is the carrying amount of each class of receivable mentioned above.

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**8. Inventories**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Merchandise	₩	183,242	₩	150,575
Finished goods		164,960		130,825
Raw materials		31,163		30,785
Subsidiary materials		22,644		22,058
Others		76,217		59,023
	₩	<u>478,226</u>	₩	<u>393,266</u>

Inventories recognized as an expense during the year ended December 31, 2016 amounted to ₩1,649,635 million (2015: ₩1,485,223 million). They were included in 'cost of sales'.

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Loss on valuation of inventories	₩	3,349	₩	364
Loss on disposal of inventories		50,927		35,160
	₩	<u>54,276</u>	₩	<u>35,524</u>

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

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Available-for-sale debt securities		
Asset backed securities	₩ 200,000	₩ 60,000
Government-issued securities	4,234	2,999
Investment securities	4,709	2,210
	<u>208,943</u>	<u>65,209</u>
Available-for-sale equity securities		
Marketable equity securities		
Humedix Co., Ltd.	635	1,818
Meritz Securities Co., Ltd.	4,854	5,605
Neothetics, Inc.	317	382
Obalon Therapeutics <sup>1</sup>	5,137	-
GL Pharm Tech Co., Ltd. <sup>2</sup>	3,355	-
	<u>14,298</u>	<u>7,805</u>
Non-marketable equity securities		
ANTERIOS, INC. <sup>3</sup>	-	4,067
Obalon Therapeutics <sup>1</sup>	-	5,378
Brickell Biotech <sup>4</sup>	-	1,083
Way Wearable Inc.	1,000	1,000
Elastagen Pty Ltd.	1,699	1,699
Eirion Therapeutics, Inc. <sup>3</sup>	28	-
ZOYI Corporation	1,500	-
GL Pharm Tech Co., Ltd. <sup>2</sup>	-	191
Welskin Co., Ltd.	48	48
The Korea Economic Daily	81	81
Biogenics Co., Ltd.	1,000	1,000
ELANDRETAIL Ltd.	3	3
Chungbuk Printing Association	1	1
	<u>5,360</u>	<u>14,551</u>
	<u>₩ 228,601</u>	<u>₩ 87,565</u>

<sup>1</sup> The Group's equity securities of Obalon Therapeutics are measured at fair value based on the quoted price in an active market as Obalon Therapeutics became a public corporation for the period ended December 31, 2016.

<sup>2</sup> The Group's equity securities of GL Pharm Tech Co., Ltd are measured at fair value based on the quoted price in an active market as GL Pharm Tech Co., Ltd became a public corporation through

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merger with special purpose acquisition company for the period ended December 31, 2016.

<sup>3</sup> ANTERIOS, INC. was merged into Allergan PLC for the period ended December 31, 2016, and the Group received cash and shares of Eirion Therapeutics, Inc., a newly established corporation for the disposal, under the arrangement between the two companies.

<sup>4</sup> The Group recognized the total impairment of equity securities of Brickell Biotech for the period ended December 31, 2016.

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Beginning balance	₩	87,565	₩	240,290
Acquisitions		425,167		246,885
Disposals		(284,302)		(392,671)
Gains on valuation		8,103		1,404
Impairment		(1,083)		-
Exchange differences		147		(149)
Losses reclassified from equity <sup>1</sup>		(6,996)		(8,194)
Ending balance	₩	228,601	₩	87,565

<sup>1</sup> Other comprehensive income on valuation amounting to ₩6,996 million (tax effect: ₩1,681 million) (2015: ₩8,194 million, (tax effect: ₩1,813 million)), which was recognized in equity, was reclassified into gain on disposal. The gain on disposal is included in other non-operating gains (losses) in the statements of profit or loss (Note 30).

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

**10. Associates**

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

<i>(in millions of Korean won)</i>	Percentage of ownership (%)	<b>2016</b>			
		Acquisition cost	Book amount	Net asset amount	
Taiwan AMORE Co.,Ltd.	50.00	₩ 131	₩ 2,656	₩	2,499
BBDO Korea Inc.	30.00	949	3,943		3,943
Anhui Pacific Tea Co., Ltd. <sup>1</sup>	80.00	786	57		57
		₩ 1,866	₩ 6,656	₩	6,499

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<i>(in millions of Korean won)</i>	2015			
	Percentage of ownership (%)	Acquisition cost	Book amount	Net asset amount
Taiwan AMORE Co.,Ltd.	50.00	₩ 131	₩ 2,375	₩ 2,334
BBDO Korea Inc.	30.00	949	3,750	3,750
Anhui Pacific Tea Co., Ltd. <sup>1</sup>	80.00	786	76	76
		<u>₩ 1,866</u>	<u>₩ 6,201</u>	<u>₩ 6,160</u>

<sup>1</sup> A subsidiary for consolidation but not included in the scope of consolidation due to its immateriality.

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

<i>(in millions of Korean won)</i>	2016			
	Taiwan AMORE Co., Ltd.	BBDO Korea Inc.	Anhui Pacific Tea Co., Ltd.	Total
Beginning balance	₩ 2,375	₩ 3,750	₩ 76	₩ 6,201
Share of profit or loss of associates	80	1,543	(19)	1,604
Share of other comprehensive income of associates	128	-	-	128
Dividends	-	(1,350)	-	(1,350)
Exchange differences	73	-	-	73
Ending balance	<u>₩ 2,656</u>	<u>₩ 3,943</u>	<u>₩ 57</u>	<u>₩ 6,656</u>

<i>(in millions of Korean won)</i>	2015			
	Taiwan AMORE Co., Ltd.	BBDO Korea Inc.	Anhui Pacific Tea Co., Ltd.	Total
Beginning balance	₩ 2,134	₩ 3,646	₩ 130	₩ 5,910
Share of profit or loss of associates	45	1,409	(54)	1,400
Share of other comprehensive income of associates	53	-	-	53
Dividends	-	(1,305)	-	(1,305)
Exchange differences	143	-	-	143
Ending balance	<u>₩ 2,375</u>	<u>₩ 3,750</u>	<u>₩ 76</u>	<u>₩ 6,201</u>

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

<i>(in millions of Korean won)</i>	2016				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co., Ltd.	₩ 5,645	₩ 647	₩ 5,636	₩ 122	₩ 375
BBDO Korea Inc.	41,760	28,618	37,762	5,142	5,142
Anhui Pacific Tea Co., Ltd.	71	-	-	-	-

  

<i>(in millions of Korean won)</i>	2015				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co., Ltd.	₩ 5,384	₩ 715	₩ 5,075	₩ 90	₩ 195
BBDO Korea Inc.	42,258	29,758	35,547	4,697	4,697
Anhui Pacific Tea Co., Ltd.	96	-	-	-	-

**11. Property, Plant and Equipment**

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

<i>(in millions of Korean won)</i>	2016			2015		
	Acquisition cost	Accumulated depreciation	Book amount	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 952,167	₩ -	₩ 952,167	₩ 849,824	₩ -	₩ 849,824
Buildings	787,771	(154,151)	633,620	788,190	(133,758)	654,432
Structures	58,110	(21,280)	36,830	56,744	(18,593)	38,151
Machinery	499,441	(238,330)	261,111	444,246	(207,378)	236,868
Vehicles	3,630	(2,195)	1,435	3,167	(1,910)	1,257
Tools	153,981	(124,685)	29,296	148,747	(124,893)	23,854
Fixtures and furniture	739,268	(444,685)	294,583	600,772	(369,773)	230,999
Others	6,396	(2,254)	4,142	11,423	(4,932)	6,491
Construction in progress	560,685	-	560,685	169,762	-	169,762
	<u>₩ 3,761,449</u>	<u>₩ (987,580)</u>	<u>₩ 2,773,869</u>	<u>₩ 3,072,875</u>	<u>₩ (861,237)</u>	<u>₩ 2,211,638</u>

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

**2016**

<i>(in millions of Korean won)</i>	Opening net book amount	Acquisition	Reclassification <sup>1</sup>	Disposal	Depreciation	Impairment loss	Exchange differences	Closing net book amount
Land	₩ 849,824	₩ 5	₩ 102,381	₩ (28)	₩ -	₩ -	₩ (15)	₩ 952,167
Buildings	654,432	211	3,680	(356)	(21,201)	-	(3,146)	633,620
Structures	38,151	330	1,682	(299)	(3,052)	-	18	36,830
Machinery	236,868	39,002	27,711	(832)	(34,487)	(6,655)	(496)	261,111
Vehicles	1,257	435	263	(103)	(416)	-	(1)	1,435
Tools	23,854	19,718	295	-	(14,426)	(58)	(87)	29,296
Fixtures and furniture	230,999	156,273	32,242	(4,262)	(120,389)	-	(280)	294,583
Other	6,491	967	(2,798)	(296)	(230)	-	8	4,142
Construction in progress	169,762	476,645	(84,669)	-	-	-	(1,053)	560,685
	<u>₩ 2,211,638</u>	<u>₩ 693,586</u>	<u>₩ 80,787</u>	<u>₩ (6,176)</u>	<u>₩ (194,201)</u>	<u>₩ (6,713)</u>	<u>₩ (5,052)</u>	<u>₩ 2,773,869</u>

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

**2015**

<i>(in millions of Korean won)</i>	Opening net book amount	Acquisition	Reclassification <sup>1</sup>	Disposal	Depreciation	Exchange differences	Closing net book amount
Land	₩ 800,744	₩ 52	₩ 49,411	₩ (314)	₩ -	₩ (69)	₩ 849,824
Buildings	610,524	969	68,508	(5,954)	(19,999)	384	654,432
Structures	38,181	1,826	1,727	(821)	(2,794)	32	38,151
Machinery	237,128	12,382	20,765	(2,751)	(30,677)	21	236,868
Vehicles	1,508	161	99	(91)	(380)	(40)	1,257
Tools	19,944	16,739	405	(3)	(13,234)	3	23,854
Fixtures and furniture	213,263	108,150	14,795	(4,158)	(100,962)	(89)	230,999
Other	5,333	1,937	474	-	(1,398)	145	6,491
Construction in progress	143,166	164,141	(137,393)	-	-	(152)	169,762
	<u>₩ 2,069,791</u>	<u>₩ 306,357</u>	<u>₩ 18,791</u>	<u>₩ (14,092)</u>	<u>₩ (169,444)</u>	<u>₩ 235</u>	<u>₩ 2,211,638</u>

<sup>1</sup> The portion of land and construction in progress, which were related to the construction of new building in Yongsan-gu, Seoul were reclassified into investment property by applying planned future rent ratio (Note 14).

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Selling and administrative expenses <sup>1</sup>	₩	112,839		94,700
Cost of sales		81,362		74,744
	₩	<u>194,201</u>		<u>169,444</u>

<sup>1</sup> Depreciation expense is included in research and development expenses.

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

<b>2016</b>					
<i>(in millions of Korean won)</i>	<b>Carrying amount</b>	<b>Secured amount</b>	<b>Related line item</b>	<b>Related amount</b>	<b>Secured party</b>
Land and buildings	₩ 18,282	₩ 341	Deposits received	₩ 262	Samsung Life Insurance Co., Ltd.
Land and buildings		1,249	Deposits received	961	National Pension Service
Land and buildings		73	Deposits received	56	Hanwha General Insurance Co., Ltd.
Land and buildings	21,028	303	Deposits received	253	Lotte Card Co., Ltd.
Land and buildings		74	Deposits received	57	Samsung Life Insurance Co., Ltd.
Land and buildings		151	Deposits received	116	National Human Rights Commission of Korea
Buildings	17,824	3,594	Deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	370	100	Deposits received	100	Social Welfare Plan Corporate Chungkwang

<b>2015</b>					
<i>(in millions of Korean won)</i>	<b>Carrying amount</b>	<b>Secured amount</b>	<b>Related line item</b>	<b>Related amount</b>	<b>Secured party</b>
Land and buildings	18,556	341	Deposits received	262	Samsung Life Insurance Co., Ltd.
Land and buildings		1,249	Deposits received	961	National Pension Service
Land and buildings		73	Deposits received	56	Hanwha General Insurance Co., Ltd.
Land and buildings	20,824	303	Deposits received	253	Lotte Card Co., Ltd.
Land and buildings		74	Deposits received	57	Samsung Life Service Claim Adjustment Co., Ltd.
Land and buildings		151	Deposits received	116	National Human Rights Commission of Korea
Buildings	18,374	3,423	Deposits received	3,423	Korea Workers' Compensation & Welfare Service
Buildings	382	100	Deposits received	100	Social Welfare Plan Corporate Chungkwang

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Details of finance lease as at December 31, 2016 and 2015, are as follows:

One of the subsidiaries, AMOREPACIFIC EUROPE S.A.S leases land and buildings under non-cancellable finance lease agreements. The lease term is up to 2018 and after termination of the lease term, the ownership is transferred to AMOREPACIFIC EUROPE S.A.S.

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

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

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

<i>(in millions of Korean won)</i>	2016	2015
<b>Total minimum lease payments</b>		
Within one year	₩ 1,569	₩ 1,586
Later than one year but not later than five years	1,570	3,170
	<u>3,139</u>	<u>4,756</u>
<b>Unearned finance cost</b>	(103)	(241)
<b>Net minimum lease payments</b>		
Within one year	1,489	1,448
Later than one year but not later than five years	1,547	3,067
Total of finance lease liabilities (Note19)	₩ <u>3,036</u>	₩ <u>4,515</u>

The Group leases head office, warehouse, and computer equipment under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years. The lease payment recognized as expense for the periods ended December 31, 2016, is ₩331,479 million (2015: ₩239,099 million).

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

<i>(in millions of Korean won)</i>	2016	2015
Within one year	₩ 172,004	₩ 123,615
Later than one year but not later than five years	198,937	172,134
Later than five years	9,091	-
	₩ <u>380,032</u>	₩ <u>295,749</u>

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**12. Intangible Assets**

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

<i>(in millions of Korean won)</i>	<b>2016</b>				
	<b>Goodwill</b>	<b>Industrial property</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩ 527,521	₩ 17,621	₩ 103,471	₩ 82,249	₩ 730,862
Acquisition	-	762	9,435	35,881	46,078
Reclassification	-	1,087	35,798	(36,570)	315
Disposal	-	-	(144)	(651)	(795)
Amortization	-	(2,148)	(23,778)	(486)	(26,412)
Impairment loss	-	-	-	(552)	(552)
Exchange differences	200	(23)	(79)	(502)	(404)
Ending balance	<u>₩ 527,721</u>	<u>₩ 17,299</u>	<u>₩ 124,703</u>	<u>₩ 79,369</u>	<u>₩ 749,092</u>

  

<i>(in millions of Korean won)</i>	<b>2015</b>				
	<b>Goodwill</b>	<b>Industrial property</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩ 532,396	₩ 18,077	₩ 40,390	₩ 102,897	₩ 693,760
Acquisition	-	554	6,813	61,844	69,211
Reclassification	-	1,051	72,990	(79,811)	(5,770)
Disposal	-	-	(25)	(1,458)	(1,483)
Amortization	-	(1,961)	(16,393)	(683)	(19,037)
Impairment loss	(4,889)	-	-	(86)	(4,975)
Exchange differences	14	(100)	(304)	(454)	(844)
Ending balance	<u>₩ 527,521</u>	<u>₩ 17,621</u>	<u>₩ 103,471</u>	<u>₩ 82,249</u>	<u>₩ 730,862</u>

Amortization of intangible assets is charged to the following accounts:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Selling and administrative expenses <sup>1</sup>	₩ 24,445	₩ 17,334
Cost of sales	1,967	1,703
	<u>₩ 26,412</u>	<u>₩ 19,037</u>

<sup>1</sup> Amortization expense is included in research and development expenses.

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Cosmetics CGU	₩	500,279	₩	500,279
Annick Goutal CGU		5,737		5,796
Hong Kong CGU		8,662		8,405
China CGU		4,213		4,340
Vietnam CGU		3,858		3,792
Singapore CGU		3,413		3,387
Thailand CGU		537		519
Indonesia CGU		348		329
Others		674		674
	₩	527,721	₩	527,521

The recoverable amounts of all CGUs have been determined based on value-in-use calculations, and the key assumptions used for value-in-use calculations in 2016 are as follows:

<i>(in percentage, %)</i>	<b>Cosmetics CGU</b>	<b>Annick Goutal CGU</b>	<b>AMOREPAC IFIC Hong Kong CGU</b>	<b>China CGU</b>	<b>Vietnam CGU</b>	<b>Singapore Etude House CGU</b>
Gross margin rate	72.32	71.01	74.82	61.01	63.77	71.94
Growth rate <sup>1</sup>	18.09	9.41	8.00	30.10	18.27	13.14
Pre-tax discount rate	8.89	5.69	7.25	14.35	11.06	6.07

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

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

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**13. Investment Property**

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

<i>(in millions of Korean won)</i>	2016			2015		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 205,016	₩ -	₩ 205,016	₩ 307,302	₩ -	₩ 307,302
Buildings	17,904	(7,574)	10,330	17,904	(7,152)	10,752
Structures	115	(77)	38	115	(75)	40
Construction in progress	72,743	-	72,743	51,811	-	51,811
	<u>₩ 295,778</u>	<u>₩ (7,651)</u>	<u>₩ 288,127</u>	<u>₩ 377,132</u>	<u>₩ (7,227)</u>	<u>₩ 369,905</u>

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

<i>(in millions of Korean won)</i>	2016				
	Land	Buildings	Structures	Construction in progress	Total
Beginning balance	₩ 307,302	₩ 10,752	₩ 40	₩ 51,811	₩ 369,905
Acquisition	-	-	-	-	-
Reclassification <sup>1</sup>	(102,286)	-	-	20,932	(81,354)
Depreciation	-	(422)	(2)	-	(424)
Disposal	-	-	-	-	-
Ending balance	<u>₩ 205,016</u>	<u>₩ 10,330</u>	<u>₩ 38</u>	<u>₩ 72,743</u>	<u>₩ 288,127</u>

<i>(in millions of Korean won)</i>	2015				
	Land	Buildings	Structures	Construction in progress	Total
Beginning balance	₩ 329,307	₩ 11,152	₩ 44	₩ 42,828	₩ 383,331
Acquisition	-	20	-	-	20
Reclassification <sup>1</sup>	(22,005)	-	-	8,983	(13,022)
Depreciation	-	(420)	(4)	-	(424)
Disposal	-	-	-	-	-
Ending balance	<u>₩ 307,302</u>	<u>₩ 10,752</u>	<u>₩ 40</u>	<u>₩ 51,811</u>	<u>₩ 369,905</u>

<sup>1</sup> Land located in Yongsan-gu, Seoul, and construction in progress with respect to the construction of a new building, which will be leased in the future, were reclassified from property, plant and equipment, as the planned future rent ratio changed.

Fair value of investment property as of December 31, 2016, is ₩333,055 million (2015: ₩429,611 million).

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Details of investment property provided as collaterals as at December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	2016				
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land	₩ 47,166	₩ 2,842	Deposits received	₩ 1,968	Wooribank
Buildings	6,391				

Rental income related to investment property for the period ended December 31, 2016, is ₩2,615 million (2015: ₩2,378 million) and operating expenses during the period are ₩217 million (2015: ₩317 million).

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

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

<i>(in millions of Korean won)</i>	2016			2015		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land <sup>1,2</sup>	₩ 192,585	₩ -	₩ 192,585	₩ 192,585	₩ -	₩ 192,585
Buildings <sup>2</sup>	31,294	(21,728)	9,566	31,294	(21,728)	9,566
Structures <sup>2</sup>	5,255	(3,952)	1,303	5,255	(3,952)	1,303
	<u>₩ 229,134</u>	<u>₩ (25,680)</u>	<u>₩ 203,454</u>	<u>₩ 229,134</u>	<u>₩ (25,680)</u>	<u>₩ 203,454</u>

<sup>1</sup> The Group had an agreement to sell land, which are located in Yongin, Gyeonggi Province, but the ownership was not transferred because the license relating to the sale was not received.

<sup>2</sup> The Group has changed the due date of disposal to September 2017 due to the government approval process for changing the purpose of use of prospective buyer has not been completed regarding the sales of the land and buildings of the plant located in Yongin-si, Gyeonggi Province. The Group received ₩145,067 million (2015: ₩40,000 million) from the prospective buyer for the sales of the above assets.

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

<i>(in millions of Korean won)</i>	2016			
	Land	Buildings	Structures	Total
Beginning balance	₩ 192,585	₩ 9,566	₩ 1,303	₩ 203,454
Disposal	-	-	-	-
Ending balance	<u>₩ 192,585</u>	<u>₩ 9,566</u>	<u>₩ 1,303</u>	<u>₩ 203,454</u>

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<i>(in millions of Korean won)</i>	<b>2015</b>			
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Total</b>
Beginning balance	₩ 192,585	₩ 9,566	₩ 1,303	₩ 203,454
Disposal	-	-	-	-
Ending balance	<u>₩ 192,585</u>	<u>₩ 9,566</u>	<u>₩ 1,303</u>	<u>₩ 203,454</u>

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

**15. Other Assets**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Accrued revenues	₩ 18,568	₩ -	₩ 15,902	₩ -
Advance payments	28,775	-	20,392	-
Prepaid expenses	35,278	225	27,449	134
Prepaid value added tax	5,673	-	450	-
Others	677	10	355	823
	<u>₩ 88,971</u>	<u>₩ 235</u>	<u>₩ 64,548</u>	<u>₩ 957</u>

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**16. Borrowings**

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

<i>(in millions of Korean won)</i>	Creditor	Interest rate(%), December 31, 2016	2016	2015
<b>Short-term borrowings</b>				
Bank overdrafts of EUR 5,141,885 (2015: EUR 6,934,346)	KEB Hana Bank Paris Branch	1.50	₩ 6,518	₩ 8,880
Bank overdrafts of EUR 792,420 (2015: EUR 781,332)	KEB Hana Bank Paris Branch	1.80	1,004	1,000
Loans for working capital of EUR 7,000,000 (2015: EUR 7,000,000)	Citibank N.A France	1.20	8,873	8,964
Loans for working capital of JPY 400,000,000 (2015: JPY 600,000,000)	SBJ BANK Yokohama Branch	0.95	4,147	5,832
Loans for working capital of HKD 220,000,000	CITI N.A HONG KONG	1.00	34,283	-
Facility loans	Kookmin Bank	2.03	7,000	7,000
Facility loans	Kookmin Bank	2.22 ~ 2.55	14,000	9,000
Facility loans	Korea Development Bank	1.72 ~ 2.01	40,000	-
Loans for working capital	Woori Bank	-	-	5,500
			115,825	46,176
<b>Current portion of long-term borrowings</b>				
Loans for working capital of USD 35,000,000 (2015: USD 65,000,000)	Citibank (China) Co. Ltd.	0.91	41,551	75,549
Loans for working capital of USD 40,000,000	CITI N.A HONG KONG and others	1.01	48,309	-
			89,860	75,549
<b>Long-term borrowings</b>				
Loans for working capital (2015: USD 40,000,000)	CITI N.A HONG KONG and others	-	-	46,877
			-	46,877
			₩ 205,685	₩ 168,602

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**17. Provisions**

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

		2016									
		Current						Non-current			
<i>(in millions of Korean won)</i>		Provision for sales return	Compensation for sale <sup>1</sup>	Profit-sharing and bonuses	Accrual for accumulated paid leave	Others	Total	Long-term employee benefits	Provision for restoration	Total	
<b>Beginning balance</b>	₩	7,215	-	1,158	3,260	-	11,633	2,536	-	₩ 2,536	
<b>Increase</b>		-	38,312	86,519	6,348	1,569	132,748	1,013	744	1,757	
<b>Decrease</b>		(570)	(34,312)	(82,949)	(3,960)	-	(121,791)	-	-	-	
<b>Exchange differences</b>		53	-	(33)	(13)	(21)	(14)	-	(6)	(6)	
<b>Ending balance</b>	₩	6,698	4,000	4,695	5,635	1,548	22,576	3,549	738	₩ 4,287	

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

		2015				
		Current			Non-current	
<i>(in millions of Korean won)</i>		Provision for sales return	Profit-sharing and bonuses	Accrual for accumulated paid leave	Total	Long-term Employee benefits
<b>Beginning balance</b>	₩	7,880	1,769	-	9,649	-
<b>Increase</b>		1,229	132,884	3,260	137,373	2,536
<b>Decrease</b>		(1,918)	(133,569)	-	(135,487)	-
<b>Exchange differences</b>		24	74	-	98	-
<b>Ending balance</b>	₩	7,215	1,158	3,260	11,633	2,536

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**18. Other Liabilities**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Withholdings	₩ 20,108	₩ -	₩ 22,174	₩ -
Value added tax withheld	34,258	-	48,612	-
Advances from customers	195,403	3,002	57,199	3,002
Deposits received	-	9,322	-	9,193
Accrued expenses	83,239	2,467	60,267	2,337
Finance lease liabilities	-	3,036	-	4,515
Dividends payable	365	-	325	-
Other financial liabilities	-	-	17,748	-
Others	6,458	315	8,812	801
	<u>₩ 339,831</u>	<u>₩ 18,142</u>	<u>₩ 215,137</u>	<u>₩ 19,848</u>

**19. Post-employment Benefits**

**19.1 Defined Benefit Plan**

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Present value of funded defined benefit obligations	₩ 336,196	₩ 291,338
Present value of unfunded defined benefit obligations	2,886	2,185
Total	339,082	293,523
Fair value of plan assets <sup>1</sup>	(333,736)	(257,388)
Net defined benefit liabilities	<u>₩ 5,346</u>	<u>₩ 36,135</u>

<sup>1</sup> The contributions to the National Pension Fund of ₩207 million (2015: ₩243 million) are included in the fair value of plan assets as at December 31, 2016.

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Beginning balance	₩ 293,523	₩ 231,541
Current service cost	41,320	32,143
Interest expense	9,952	8,297
Remeasurements:		
Actuarial loss from change in demographic assumptions	117	5,504
Actuarial loss from change in financial assumptions	1,150	14,924
Actuarial loss from experience adjustments	12,028	21,585
Exchange differences	(25)	(445)
Payments from plans:		
Benefit payments	(19,464)	(20,478)
Others	481	452
Ending balance	<u>₩ 339,082</u>	<u>₩ 293,523</u>

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Beginning balance	₩ 257,388	₩ 187,922
Interest income	8,820	6,965
Remeasurements:		
Return on plan assets	(5,690)	(2,263)
Contributions:		
Employers	92,000	84,000
Payments from plans:		
Benefit payments	(19,368)	(19,688)
Others	586	452
Ending balance	<u>₩ 333,736</u>	<u>₩ 257,388</u>

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

	<b>2016</b>	<b>2015</b>
Discount rate	3.30 ~ 3.70(%)	3.10 ~ 3.90(%)
Salary growth rate	6.19(%)	5.59 ~ 5.76(%)

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

	<b>Impact on defined benefit obligation</b>		
	<b>Changes in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	1.00%	8.90% decrease	10.41% increase
Salary growth rate	1.00%	10.04% increase	8.77% decrease

The defined benefit liabilities are exposed to a significant risk on changes in the corporate bond yields rate.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
	<b>Unquoted price</b>	<b>Composition</b>	<b>Unquoted price</b>	<b>Composition</b>
Deposits	₩ 333,529	99.9	₩ 257,145	99.9
National Pension Fund	207	0.1	243	0.1
	<u>₩ 333,736</u>	<u>100.0</u>	<u>₩ 257,388</u>	<u>100.0</u>

The weighted average maturity of the defined benefit obligation is 9.74 years and expected maturity analysis of undiscounted pension benefits for the next 10 years as at December 31, 2016, is as follows:

<i>(in millions of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Between 5 and 10 years</b>	<b>Total</b>
Pension benefits	₩ 18,808	₩ 24,089	₩ 81,289	₩ 195,860	₩ 320,046

The Group reviews the funding level on an annual basis and has a policy to contribute in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2017 are ₩51,785 million.

**19. 2 Defined Contribution Plan**

The expense recognized in the current period in relation to defined contribution plan was ₩366 million (2015: ₩342 million).

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**20. Other Components of Equity**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Treasury shares <sup>1</sup>	₩	(139,664)	₩	(139,646)
Capital adjustments		(6,300)		(6,531)
	₩	<u>(145,964)</u>	₩	<u>(146,177)</u>

<sup>1</sup> Represents 5,549,733 ordinary shares and 62,452 preferred shares of treasury shares. The Group intends to dispose of the remaining treasury shares depending on the market conditions within the range of not incurring or minimizing loss on disposal of treasury shares as possible.

**21. Accumulated Other Comprehensive Income**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Changes in the value of available-for-sale financial assets	₩	(4,418)	₩	(3,568)
Exchange differences on transaction of foreign operations		(6,704)		(4,879)
Share of other comprehensive income of associates		(755)		(793)
	₩	<u>(11,877)</u>	₩	<u>(9,240)</u>

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

<i>(in millions of Korean won)</i>	<b>2016</b>				
	<b>Beginning balance</b>	<b>Increase (decrease)</b>	<b>Reclassification to profit or loss</b>	<b>Transfer to non-controlling interest</b>	<b>Ending balance</b>
Changes in the value of available-for-sale financial assets	₩ (3,568)	₩ 6,023	₩ (5,303)	₩ (1,570)	₩ (4,418)
Exchange differences on transaction of foreign operations	(4,879)	(5,507)	-	3,682	(6,704)
Share of other comprehensive income of associates	(793)	128	-	(90)	(755)
	₩ (9,240)	₩ 644	₩ (5,303)	₩ 2,022	₩ (11,877)

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<i>(in millions of Korean won)</i>	2015				
	Beginning balance	Increase (decrease)	Reclassification to profit or loss	Transfer to non-controlling interest	Ending balance
Changes in the value of available-for-sale financial assets	₩ 1,128	₩ 1,077	₩ (6,381)	₩ 608	₩ (3,568)
Exchange differences on transaction of foreign operations	(4,690)	(168)	-	(21)	(4,879)
Share of other comprehensive income of associates	(808)	53	-	(38)	(793)
	₩ (4,370)	₩ 962	₩ (6,381)	₩ 549	₩ (9,240)

**22. Retained Earnings**

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

<i>(in millions of Korean won)</i>	2016	2015
Legal reserves <sup>1</sup>	₩ 37,187	₩ 37,123
Discretionary reserves	814,146	807,299
Retained earnings before appropriation	1,399,688	1,103,652
	₩ 2,251,021	₩ 1,948,074

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Patent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

**23. Dividends**

The dividends paid in 2016 and 2015, are as follows:

	2016			2015		
	Ordinary shares	Preferred shares	Convertible preferred shares	Ordinary shares	Preferred shares	Convertible preferred shares
Dividends paid	₩ 28,954 million	₩ 2,521 million	₩ 1,040 million	₩ 24,128 million	₩ 2,016 million	₩ 866 million
Dividends per share (in Korea won)	390	395	390	325	330	325

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Dividends in respect of the year ended December 31, 2016, of ₩460 per ordinary share and ₩465 per preferred share, amounting to a total dividend of ₩35,378 million on ordinary shares and ₩2,967 million on preferred shares are to be proposed at the annual general shareholders' meeting on March 17, 2017. These financial statements do not reflect these dividend payables.

**24. Tax Expense and Deferred Tax**

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Current tax	₩ 295,500	₩ 256,452
Deferred tax	(18,759)	(8,796)
Income tax expense	<u>₩ 276,741</u>	<u>₩ 247,656</u>

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Profit before income tax expense	<u>₩ 1,088,270</u>	<u>₩ 921,602</u>
Tax at domestic tax rates applicable to profits in the respective countries	₩ 269,068	₩ 225,642
Tax effects of:		
Income not subject to tax	(2,504)	(5,223)
Expenses not deductible for tax purposes	3,223	5,680
Tax losses for which no deferred income tax asset was recognized	3,581	11,290
Utilization of previously unrecognized tax losses	(3,148)	(1,123)
Tax credits	(3,922)	(3,738)
Adjustment in respect of prior years	1,674	9,423
Effects of the tax refund	6,427	4,700
Others	2,342	1,005
Income tax expense	<u>₩ 276,741</u>	<u>₩ 247,656</u>

The weighted average applicable tax rate of the Group was 25.43% (2015: 26.87%).

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

<i>(in millions of Korean won)</i>	2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain(loss) on valuation of available-for-sale financial assets	₩ 1,022	₩ (301)	₩ 721	₩ (6,715)	₩ 1,411	₩ (5,304)
Remeasurements	(18,896)	4,487	(14,409)	(44,227)	10,508	(33,719)
Share of other comprehensive income of associates	128	-	128	53	-	53
Exchange differences on transaction of foreign operations	(5,507)	-	(5,507)	(168)	-	(168)
	<u>₩ (23,253)</u>	<u>₩ 4,186</u>	<u>₩ (19,067)</u>	<u>₩ (51,057)</u>	<u>₩ 11,919</u>	<u>₩ (39,138)</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 88,357	80,093
Deferred tax asset to be recovered within 12 months	74,822	52,383
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(266,563)	(267,211)
Deferred tax liability to be recovered within 12 months	(13,239)	(3,980)
Deferred tax liabilities, net	<u>₩ (116,623)</u>	<u>(138,715)</u>

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

<i>(in millions of Korean won)</i>	2016				
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Ending balance
<b>Deferred tax assets</b>					
Trade receivables	₩ 12,683	₩ 3,380	₩ -	₩ -	₩ 16,063
Provision for impairment	253	547	-	3	803
Other receivables	3,432	165	-	-	3,597
Inventories	3,609	2,908	-	(14)	6,503
Property, plant and equipment	9,649	4,360	-	(89)	13,920
Intangible assets	120	(29)	-	-	91
Government grants	406	50	-	-	456
Available-for-sale financial assets	2,295	(133)	(475)	-	1,687
Investments in subsidiaries	2,085	4	-	-	2,089
Deferred revenue	16,288	961	-	(60)	17,189
Provision for sales return	1,544	669	-	-	2,213
Accrual for accumulated paid leave	753	316	-	29	1,098
Post-employment benefit obligations	61,031	24	4,358	(6)	65,407
Long-term employee benefits	614	245	-	-	859
Accrued expenses	13,002	13,483	-	(469)	26,016
Other current liabilities	2,572	380	-	-	2,952
Tax loss carryforwards	1,484	241	-	21	1,746
Others	656	198	-	(364)	490
	<u>132,476</u>	<u>27,769</u>	<u>3,883</u>	<u>(949)</u>	<u>163,179</u>
<b>Deferred tax liabilities</b>					
Accrued revenue	(679)	(632)	-	-	(1,311)
Other receivables	(791)	(164)	-	-	(955)
Inventories	(2,380)	(620)	-	-	(3,000)
Property, plant and equipment	(113,697)	42	-	-	(113,655)
Intangible assets	(4,880)	(60)	-	96	(4,844)
Available-for-sale financial assets	(354)	-	174	-	(180)
Investments in subsidiaries	(24,943)	(1,976)	-	-	(26,919)
Plan assets	(62,540)	(14,440)	129	-	(76,851)
Reserve for technology development	(27,301)	14,512	-	-	(12,789)
Advanced depreciation provision	(10,320)	2,061	-	-	(8,259)
Treasury shares	(22,927)	-	-	-	(22,927)
Other current liabilities	(379)	(7,733)	-	-	(8,112)
	<u>(271,191)</u>	<u>(9,010)</u>	<u>303</u>	<u>96</u>	<u>(279,802)</u>
	<u>₩ (138,715)</u>	<u>₩ 18,759</u>	<u>₩ 4,186</u>	<u>₩ (853)</u>	<u>₩ (116,623)</u>

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<i>(in millions of Korean won)</i>	2015				
	Beginning balance	Statement of profit or loss	Other comprehensive income	Exchange differences	Ending balance
Deferred tax assets					
Trade receivables	₩ 8,690	₩ 3,993	₩ -	₩ -	₩ 12,683
Provision for impairment	46	63	-	144	253
Other receivables	2,189	1,243	-	-	3,432
Inventories	2,395	1,206	-	8	3,609
Property, plant and equipment	11,146	2,227	-	(3,724)	9,649
Intangible assets	146	(26)	-	-	120
Government grants	657	(251)	-	-	406
Available-for-sale financial assets	692	398	1,205	-	2,295
Investments in subsidiaries	2,073	12	-	-	2,085
Deferred revenue	14,531	1,327	-	430	16,288
Provision for sales return	1,679	(135)	-	-	1,544
Accrual for accumulated paid leave	-	753	-	-	753
Post-employment benefit obligations	46,400	4,184	10,471	(24)	61,031
Long-term employee benefits	-	614	-	-	614
Accrued expenses	4,149	4,164	-	4,689	13,002
Other current liabilities	2,463	109	-	-	2,572
Tax loss carryforwards	11,345	(9,246)	-	(615)	1,484
Others	851	(222)	-	27	656
	<u>109,452</u>	<u>10,413</u>	<u>11,676</u>	<u>935</u>	<u>132,476</u>
Deferred tax liabilities					
Accrued revenue	(1,187)	508	-	-	(679)
Other receivables	(944)	153	-	-	(791)
Inventories	(1,589)	(791)	-	-	(2,380)
Property, plant and equipment	(113,812)	115	-	-	(113,697)
Intangible assets	(4,850)	(64)	-	34	(4,880)
Available-for-sale financial assets	(735)	175	206	-	(354)
Investments in subsidiaries	(22,055)	(2,888)	-	-	(24,943)
Plan assets	(44,639)	(17,938)	37	-	(62,540)
Reserve for technology development	(44,510)	17,209	-	-	(27,301)
Advanced depreciation provision	(12,381)	2,061	-	-	(10,320)
Treasury shares	(22,927)	-	-	-	(22,927)
Other current liabilities	(141)	(238)	-	-	(379)
Others	(81)	81	-	-	-
	<u>(269,851)</u>	<u>(1,617)</u>	<u>243</u>	<u>34</u>	<u>(271,191)</u>
	<u>₩ (160,399)</u>	<u>₩ 8,796</u>	<u>₩ 11,919</u>	<u>₩ 969</u>	<u>₩ (138,715)</u>

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets of ₩70,294 million in respect of losses amounting to ₩201,492 million and deferred tax assets of ₩580 million in respect of tax credit amounting to ₩580 million that can be carried forward against future taxable income.

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The maturity of unused tax losses and tax credits are as follows:

<i>(in millions of Korean won)</i>	<b>Tax losses</b>		<b>Tax credits</b>	
2017 ~ 2020	₩	20,736	₩	580
2020 ~ 2035		80,554		-
No limit		100,202		-
	₩	201,492	₩	580

The temporary differences from the subsidiaries whose disposal is not in the foreseeable future were not recognized because of the uncertainty in realizability of the deferred tax assets(liabilities), and the amount as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Taxable temporary differences	₩	(283,504)	₩	(302,205)
Deductible temporary differences		21,271		51,153
	₩	(262,233)	₩	(251,052)

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**25. Revenue**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Sales of goods	₩	6,684,715	₩	5,648,178
Rendering of services		7,954		6,960
Others				
Rental income		1,900		2,821
Royalty income		161		413
Others		2,831		2,834
		<u>4,892</u>		<u>6,068</u>
	₩	<u>6,697,561</u>	₩	<u>5,661,206</u>

**26. Breakdown of Expenses by Nature**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Changes in inventories	₩	(84,962)	₩	(26,802)
Purchase of raw materials and merchandise		1,734,597		1,512,025
Employee benefit expense		865,993		766,983
Depreciation and amortization		220,613		188,481
Advertising expense and promotional expense		667,168		631,262
Service fees		529,674		413,694
Distribution commission		1,208,965		960,227
Other expenses		472,701		301,695
Total <sup>1</sup>	₩	<u>5,614,749</u>	₩	<u>4,747,565</u>

<sup>1</sup> Sum of cost of sales, and selling and administrative expenses in the statements of comprehensive income.

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**27. Selling and Administrative Expenses**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Salaries and post-employment benefits	₩	623,126	₩	545,157
Employee benefits		95,182		82,414
Advertising expense and promotional expense		667,168		631,262
Depreciation		137,284		112,034
Service fees		431,111		376,596
Distribution commission		1,208,966		960,227
Freight expense		127,407		117,745
Taxes and dues		49,358		41,623
Research and development		100,130		78,719
Other		534,129		386,828
	₩	<u>3,973,861</u>	₩	<u>3,332,605</u>

**28. Finance Income and Costs**

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Finance income				
Interest income on loans and receivables	₩	25,612	₩	23,047
Interest income on available-for-sale financial assets		2,653		4,661
Gain on valuation of derivative instruments		619		1,005
Gain on valuation of financial liabilities carried at amortized cost		-		8,923
	₩	<u>28,884</u>	₩	<u>37,636</u>
Finance costs				
Interest expense on financial liabilities carried at amortized cost	₩	(4,499)	₩	(3,401)
Loss on valuation of financial liabilities carried at amortized cost		(2,035)		-
	₩	<u>(6,534)</u>	₩	<u>(3,401)</u>

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**29. Other Non-operating Gains/ (Losses)**

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Other non-operating income		
Gain on foreign currency transactions	₩ 25,467	₩ 11,017
Gain on foreign currency translation	18,633	4,938
Gain on disposal of property, plant and equipment	357	3,117
Gain on disposal of intangible assets	6	16
Gain on disposal of available-for-sale financial assets	7,819	9,797
Dividend income	332	-
Others	22,304	31,029
	<u>74,918</u>	<u>59,914</u>
Other non-operating expenses		
Loss on foreign currency transactions	(32,969)	(8,643)
Loss on foreign currency translation	(11,792)	(10,362)
Loss on disposal of property, plant and equipment	(4,780)	(10,802)
Loss on disposal of intangible assets	(469)	(277)
Impairment loss on property, plant and equipment	(6,713)	-
Impairment loss on intangible assets	(552)	(4,974)
Loss on disposal of available-for-sale financial assets	(1,628)	(1,688)
Impairment loss on available-for-sale financial assets	(1,083)	-
Donations	(15,123)	(13,836)
Others	(18,305)	(37,006)
	<u>(93,414)</u>	<u>(87,588)</u>
	<u>₩ (18,496)</u>	<u>₩ (27,675)</u>

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**30. Earnings per Share**

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

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

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Profit attributable to owners of the Parent Company	₩	342,394	₩	260,437
Profit attributable to ordinary shares		315,300		238,996
Weighted average number of ordinary shares outstanding (unit: shares)		74,357,846		74,241,261
Basic earnings per ordinary share (in Korean won)		4,240		3,219

Basic earnings per preferred share<sup>1</sup> for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Profit attributable to owners of the Parent Company	₩	342,394	₩	260,437
Profit attributable to preferred shares		27,094		20,575
Weighted average number of preferred shares outstanding (unit: shares)		6,381,320		6,381,339
Basic earnings per preferred share (in Korean won)		4,246		3,224

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

Profit attributable to ordinary shares and preferred shares for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Profit attributable to owners of the Parent Company (A)	₩	342,394	₩	260,437
Dividends of convertible preferred shares (B)		-		866
Adjusted profit attributable to owners of the Parent Company (C=A-B)	₩	342,394	₩	259,571
Profit attributable to ordinary shares	₩	315,300	₩	238,996
Profit attributable to preferred shares		27,094		20,575

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Diluted profit attributable to ordinary shares	₩ 315,300	₩ 240,454
Weighted average number of ordinary shares outstanding (unit: shares)	74,357,846	76,908,461
Diluted earnings per ordinary share (in Korean won)	4,240	3,126

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Diluted profit attributable to preferred shares	₩ 27,094	₩ 19,983
Weighted average number of preferred shares outstanding (unit: shares)	6,381,320	6,381,339
Diluted earnings per preferred share (in Korean won)	4,246	3,131

Diluted profit attributable to ordinary shares and preferred shares for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Adjusted profit attributable to owners of the Parent Company (A)	₩ 342,394	₩ 259,571
Dividends of convertible preferred shares (B)	-	866
Adjusted diluted profit attributable to owners of the Parent Company (C=A+B)	₩ 342,394	₩ 260,437
Diluted profit attributable to ordinary shares	₩ 315,300	₩ 240,454
Diluted profit attributable to preferred shares	27,094	19,983

As at December 31, 2016, basic earnings per share is identical to diluted earnings per share as preferred shares are transferred to ordinary shares.

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**31. Cash Generated from Operations**

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Profit for the period	₩ 811,529	₩ 673,945
Adjustments for:		
Finance income, net	(22,350)	(34,235)
Loss(gain) on foreign currency translation, net	(6,841)	2,770
Depreciation and amortization	221,037	188,904
Loss on disposal of property, plant and equipment and intangible assets	4,887	7,946
Impairment loss on property, plant and equipment and intangible assets	7,265	4,974
Gain on disposal of available-for-sale financial assets	(6,191)	(8,109)
Impairment loss on available-for-sale financial assets	1,083	-
Income tax expense	276,741	247,656
Share of profit of associates	(1,604)	(1,400)
Post-employment benefits	42,452	33,476
Others	9,861	(8,878)
Changes in assets and liabilities from operating activities		
Increase in trade receivables	(12,364)	(69,419)
Increase in other receivables	(6,243)	(16,037)
Increase in inventories	(91,518)	(21,014)
Decrease(increase) in other assets	(25,768)	14,736
Increase(decrease) in trade payables	110	(20,200)
Increase(decrease) in other payables	4,418	(23,268)
Increase in provisions	11,117	1,985
Increase(decrease) in other liabilities	(95)	44,436
Benefits payment	(19,464)	(20,026)
Increase in plan assets, net	(72,833)	(64,765)
Cash generated from operations	<u>₩ 1,125,229</u>	<u>₩ 933,477</u>

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Reclassification of construction in-progress to property, plant and equipment	₩ 63,737	₩ 155,199
Reclassification of property, plant and equipment to investment property	(81,354)	(13,022)
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets	75,958	33,189
Non-trade receivables related to the disposal of available-for-sale financial assets	454	-
Reclassification of current portion of long-term borrowings	46,877	74,928

**32. Commitments and Contingencies**

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

<i>(in millions of Korean won and thousands of USD, EUR, HKD and JPY)</i>			<b>2016</b>		<b>2015</b>	
<b>Financial institution</b>	<b>Commitment</b>	<b>Limit</b>	<b>Outstanding balance</b>	<b>Limit</b>	<b>Outstanding balance</b>	
AMOREPACIFIC CORPORATION	Electronic loan agreement	₩ 35,000	₩ 2,318	₩ 40,000	₩ 4,958	
	Overdraft	-	-	8,000	-	
	Letter of credit	USD 4,000	USD 160	USD 4,000	USD 180	
Innisfree Corporation	Electronic loan agreement	3,000	134	5,000	101	
	Overdraft	-	-	1,000	-	
	Electronic loan agreement	3,000	105	5,000	100	
Etude Corporation	Overdraft	-	-	1,000	-	
	Operating fund loan agreement	-	-	10,000	5,500	
AMOS Professional Corporation	Electronic loan agreement	3,000	29	4,000	397	
	Overdraft	-	-	1,000	-	
Espoir Corporation	Electronic loan agreement	-	-	1,000	-	
	Overdraft	-	-	1,000	-	
AESTURA Corporation	Electronic loan agreement	20,000	1,209	20,000	741	
	Overdraft	-	-	5,000	-	
	Operating fund loan agreement	10,000	-	10,000	-	

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		Electronic loan agreement	1,000	52	3,000	15
	Woori Bank	Overdraft	3,000	-	3,000	-
PACIFICGLAS Inc.		Letter of credit	-	-	EUR 4,000	-
		Operating fund	5,000	5,000	4,000	4,000
	Kookmin Bank	loan agreement				
		Facility	9,000	9,000	5,000	5,000
		loan agreement				
		Electronic loan agreement	2,000	-	3,000	-
PACIFIC PACKAGE Corporation	Woori Bank	Overdraft	1,000	-	1,000	-
		Letter of credit	USD 2,000	-	USD 2,000	USD 615
		Facility				
	Kookmin Bank	loan agreement	7,000	7,000	7,000	7,000
Osulloc Farm Co., Ltd.	Woori Bank	Overdraft	-	-	1,000	-
		Facility				
	Korea Development Bank	loan agreement	60,000	40,000	-	-
COSVISION CO., LTD.	Woori Bank	Electronic loan agreement	-	-	2,000	-
		Overdraft	-	-	1,000	-
	CITY N.A					
	HONG KONG	Syndicated loan	USD 40,000	USD 40,000	USD 40,000	USD 40,000
Amorepacific Global Operations Limited.	and two others					
	CITI N.A	Short-term borrowings	HKD 220,000	HKD 220,000	-	-
	HONG KONG					
	CITY N.A	Overdraft	USD 10,000	HKD 1,829	USD 10,000	-
AMORE Cosmetics (shanghai) Co., Ltd.	HONG KONG					
	Citibank (China) Co., Ltd	Short-term borrowing	USD 35,000	USD 35,000	USD 65,000	USD 65,000
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 15,000	-	HKD 15,000	-
AMOREPACIFIC Japan CO., LTD	SBJ BANK Yokohama Branch	Short-term borrowings	JPY 1,000,000	JPY 400,000	JPY 1,000,000	JPY 600,000
	Sogebali S.A.	Lease finance	EUR 4,184	EUR 2,476	EUR 4,184	EUR 3,714
AMOREPACIFIC EUROPE S.A.S	Citibank N.A France	Short-term borrowings	EUR 7,000	EUR 7,000	EUR 7,000	EUR 7,000
	KEB Hana Bank Paris Branch	Overdraft	EUR 500	EUR 473	EUR 500	EUR 467
PACIFIC CREATION S.A.S <sup>1</sup>	KEB Hana Bank Paris Branch	Overdraft	EUR 12,500	EUR 4,669	EUR 12,500	EUR 6,466
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Overdraft	EUR 3,000	EUR 792	EUR 3,000	EUR 781

<sup>1</sup> Subsidiary of AMOREPACIFIC EUROPE S.A.S.

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Details of payment guarantees provided to the Company at the end of reporting period are as follows:

<i>(in millions of Korean won)</i>	<b>Guaranteed by</b>	<b>Remark</b>	<b>2016</b>		<b>2015</b>	
AMOREPACIFIC Corporation	Seoul Guarantee Insurance	Performance guarantees	₩	9,840	₩	4,322
Innisfree Corporation	Seoul Guarantee Insurance	Performance guarantees		105		120
Etude Corporation	Seoul Guarantee Insurance	Performance guarantees		45		133
Espoir Corporation	Seoul Guarantee Insurance	Performance guarantees		21		9
AESTURA Corporation	Seoul Guarantee Insurance	Performance guarantees		42		83
PACIFICGLAS Inc.	Seoul Guarantee Insurance	Performance guarantees		10		10
PACIFIC PACKAGE Corporation	Seoul Guarantee Insurance	Performance guarantees		78		-
Osulloc Fam Co., Ltd.	Seoul Guarantee Insurance	Performance guarantees		127		16
COSVISION CO., LTD.	Seoul Guarantee Insurance	Performance guarantees		416		-

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

<i>(in millions of Korean won, thousands of RMB and HKD)</i>	<b>Remark</b>	<b>2016</b>		<b>2015</b>	
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩	111,500	₩	40,000
Current financial deposits	Agreement of shared growth and cooperation		14,000		4,000
Non-current financial deposits	Deposit for checking account		35		32
Non-current financial deposits	Permission of door-to-door sales in China	RMB	20,000	RMB	20,000
Available-for-sale financial assets	Overdraft agreement and bank payment guarantee of leased stores	HKD	14,615	HKD	14,615

PACIFIC PACKAGE Corporation and Taeshin Inpack Corporation, the surviving company, have joint guarantee obligation to outstanding payables (including contingent liabilities incurred before the spin-off date).

Innisfree Corporation, a subsidiary, planned to donate ₩10,000 million to Innisfreemoeum foundation over 5 years by the approval of Board of Directors. The amount of contribution amounting to ₩2,000 million (2015: ₩2,000 million) for the period ended December 31, 2016 is included in other non-operating income(expenses) (Note 30).

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

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

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

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**33. Related Party Transactions**

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

<b>Classification</b>	<b>Name</b>
Ultimate parent	Kyung- Bae Suh
Ultimate parent company in the preparation of consolidated financial statements for disclosure	AMOREPACIFIC Group, Inc.
Subsidiaries	AMOREPACIFIC Corporation Innisfree Corporation Etude Corporation AMOS Professional Corporation Espoir Corporation <sup>1</sup> AESTURA Corporation PACIFICGLAS, Inc. PACIFICPACKAGE Corporation Osuloc Farm Co., Ltd (formerly, Jangwon Co., Ltd.) COSVISION CO.,LTD. AMOREPACIFIC Global Operations Limited. AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD. AMORE Cosmetics (Shanghai) Co.,Ltd. AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD. <sup>1</sup> AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd. We-Dream Co., Ltd. AESTURA (Shanghai) TRADING Co., Ltd <sup>2</sup> AMOREPACIFIC Trading Co.Ltd. AMOREPACIFIC Hong Kong Co., Limited AMOREPACIFIC Taiwan Co., Ltd AMOREPACIFIC SINGAPORE PTE Co Ltd. AMOREPACIFIC MALAYSIA SDN. BHD. AMOREPACIFIC (Thailand) LIMITED PT. LANEIGE INDONESIA PACIFIC Innisfree Cosmetics India Private Limited AMOREPACIFIC Japan Co., Ltd AMOREPACIFIC US, INC. AMOREPACIFIC CANADA INC. <sup>3</sup> AMOREPACIFIC EUROPE S.A.S Annick Goutal S.A.S AMOREPACIFIC ME FZ-LLC <sup>3</sup> AMOREPACIFIC VIETNAM LTD.
Associates	BBDO Korea Inc. Taiwan AMORE Co.,Ltd. Anhui Pacific Tea Co., Ltd.
Other related parties	Taeshin Inpack Corporation

<sup>1</sup> Newly established by AMOREPACIFIC Corporation and AMOREPACIFIC Global Operation Limited., a subsidiary, with the contribution of 99.99% and 0.01%, respectively.

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<sup>2</sup> Newly established by AESTURA Corporation, a subsidiary, with the contribution of 100%

<sup>3</sup> Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%.

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

<i>(in millions of Korean won)</i>	2016		
	Purchases	Dividend income	Other cost
<b>Associate</b>			
BBDO Korea Inc.	₩ -	₩ 1,350	₩ 31,752
<b>Other related party</b>			
Taeshin Inpack Corporation	21,996	-	-
	<u>₩ 21,996</u>	<u>₩ 1,350</u>	<u>₩ 31,752</u>

<i>(in millions of Korean won)</i>	2015			
	Sales	Purchases	Dividend income	Other cost
<b>Associates</b>				
Taiwan AMORE Co.,Ltd.	₩ 159	₩ -	₩ -	₩ -
BBDO Korea Inc.	178	-	1,305	25,795
<b>Other related party</b>				
Taeshin Inpack Corporation	-	22,076	-	-
	<u>₩ 337</u>	<u>₩ 22,076</u>	<u>₩ 1,305</u>	<u>₩ 25,795</u>

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

<i>(in millions of Korean won)</i>	2016							
	Receivables				Payables			
	Trade receivables	Other receivables	Trade payables	Other payables	Trade receivables	Other receivables	Trade payables	Other payables
<b>Associates</b>								
Taiwan AMORE Co.,Ltd.	₩	49	₩	-	₩	-	₩	-
BBDO Korea Inc.		-		-		-		9,357
<b>Other related party</b>								
Taeshin Inpack Corporation		-		-		1,613		-
	₩	49	₩	-	₩	1,613	₩	9,357
	2015							
<i>(in millions of Korean won)</i>	Receivables				Payables			
	Trade receivables	Other receivables	Trade payables	Other payables	Trade receivables	Other receivables	Trade payables	Other payables
<b>Associates</b>								
Taiwan AMORE Co.,Ltd.	₩	49	₩	-	₩	-	₩	-
BBDO Korea Inc.		-		-		-		9,256
<b>Other related party</b>								
Taeshin Inpack Corporation		-		-		1,972		-
	₩	49	₩	-	₩	1,972	₩	9,256

The trade receivables from related parties are due two months after the date of sale. The receivables from related parties are unsecured in nature and bear no interest.

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

As at December 31, 2016, there are no collaterals and payment guarantees provided to or provided by related parties other than the Group.

The compensation paid or payable to key management for employee services for the periods ended December 31, 2016 and 2015, consists of:

<i>(in millions of Korean won)</i>	2016		2015	
Short-term employee benefits	₩	15,720	₩	14,945
Post-employment benefits		1,880		3,940
	₩	17,600	₩	18,885

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**34. Information About Non-controlling Interests**

**34.1 Changes in Accumulated Non-controlling Interests**

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the periods ended December 31, 2016 and 2015, is as follows:

		<b>2016</b>						
<i>(in millions of Korean won)</i>	<b>Non-controlling interest Rate(%)</b>	<b>Accumulated non-controlling interests at the beginning of the year</b>	<b>Profit or loss allocated to non-controlling interests</b>	<b>Dividends paid to non-controlling interests</b>	<b>Changes in non-controlling interests</b>	<b>Others</b>	<b>Accumulated non-controlling interests at the end of the year</b>	
AMOREPACIFIC Corporation	64.60%	₩ 2,298,033	₩ 440,764	₩ (63,185)	₩ (13,816)	₩(10,286)	₩ 2,651,510	
Innisfree Corporation	19.52%	10,791	4,626	-	-	(205)	15,212	
Etude Corporation	18.18%	42,432	23,843	(2,667)	-	(212)	63,396	
Others		3,831	(99)	(1,419)	-	1,205	3,518	
		<u>₩ 2,355,087</u>	<u>₩ 469,134</u>	<u>₩ (67,271)</u>	<u>₩ (13,816)</u>	<u>₩ (9,498)</u>	<u>₩ 2,733,636</u>	

  

		<b>2015</b>						
<i>(in millions of Korean won)</i>	<b>Non-controlling interest Rate(%)</b>	<b>Accumulated non-controlling interests at the beginning of the year</b>	<b>Profit or loss allocated to non-controlling interests</b>	<b>Dividends paid to non-controlling interests</b>	<b>Changes in non-controlling interests</b>	<b>Others</b>	<b>Accumulated non-controlling interests at the end of the year</b>	
AMOREPACIFIC Corporation	64.60%	₩ 1,961,197	₩ 398,274	₩ (42,706)	₩ -	₩(18,732)	₩ 2,298,033	
Innisfree Corporation	18.18%	27,748	16,631	(1,778)	-	(169)	42,432	
Etude Corporation	19.52%	16,394	(945)	-	(4,142)	(516)	10,791	
Others		189	(452)	-	4,142	(48)	3,831	
		<u>₩ 2,005,528</u>	<u>₩ 413,508</u>	<u>₩ (44,484)</u>	<u>₩ -</u>	<u>₩(19,465)</u>	<u>₩ 2,355,087</u>	

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**34.2 Summarized Financial Information on Subsidiaries**

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarized consolidated statements of financial position as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>					
	<b>AMOREPACIFIC Corporation</b>		<b>Innisfree Corporation</b>		<b>Etude Corporation</b>	
Current assets	₩	2,116,346	₩	400,558	₩	75,377
Non-current assets		3,065,231		66,349		44,928
Current liabilities		1,171,219		93,790		41,152
Non-current liabilities		113,726		3,374		24
Equity		3,896,632		369,743		79,129

<i>(in millions of Korean won)</i>	<b>2015</b>					
	<b>AMOREPACIFIC Corporation</b>		<b>Innisfree Corporation</b>		<b>Etude Corporation</b>	
Current assets	₩	1,833,178	₩	258,203	₩	54,557
Non-current assets		2,609,923		60,780		39,603
Current liabilities		871,901		81,035		37,520
Non-current liabilities		198,870		928		561
Equity		3,372,330		237,020		56,079

Summarized consolidated statements of comprehensive income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>					
	<b>AMOREPACIFIC Corporation</b>		<b>Innisfree Corporation</b>		<b>Etude Corporation</b>	
Revenue	₩	5,645,440	₩	767,882	₩	316,635
Profit for the period		645,729		148,545		24,100
Other comprehensive income(loss)		(13,301)		(1,155)		(1,050)
Total comprehensive income	₩	632,428	₩	147,390	₩	23,050

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<i>(in millions of Korean won)</i>	<b>2015</b>		
	<b>AMOREPACIFIC Corporation</b>	<b>Innisfree Corporation</b>	<b>Etude Corporation</b>
Revenue	₩ 4,766,627	₩ 592,060	₩ 257,782
Profit(loss) for the period	584,796	94,497	(4,592)
Other comprehensive income(loss)	(29,098)	(961)	(2,647)
Total comprehensive income(loss)	₩ 555,698	₩ 93,536	₩ (7,239)

Summarized consolidated statements of cash flows for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		
	<b>AMOREPACIFIC Corporation</b>	<b>Innisfree Corporation</b>	<b>Etude Corporation</b>
Cash flows from operating activities	₩ 676,952	₩ 138,342	₩ 35,680
Cash flows from investing activities	(609,625)	(78,339)	(8,163)
Cash flows from financing activities	(132,976)	(14,667)	(5,500)
Effects of exchange rate changes on cash and cash equivalents	2,185	-	-
Net increase (decrease) in cash and cash equivalents	(63,464)	45,336	22,017
Cash and cash equivalents at the beginning of the year	687,168	126,577	13,790
Cash and cash equivalents at the end of the year	₩ 623,704	₩ 171,913	₩ 35,807

<i>(in millions of Korean won)</i>	<b>2015</b>		
	<b>AMOREPACIFIC Corporation</b>	<b>Innisfree Corporation</b>	<b>Etude Corporation</b>
Cash flows from operating activities	₩ 627,503	₩ 84,352	₩ 6,986
Cash flows from investing activities	(216,949)	38,776	(16,952)
Cash flows from financing activities	(69,419)	(9,778)	5,500
Effects of exchange rate changes on cash and cash equivalents	3,474	-	2
Net increase (decrease) in cash and cash equivalents	344,609	113,350	(4,464)
Cash and cash equivalents at the beginning of the year	342,559	13,227	18,254
Cash and cash equivalents at the end of the year	₩ 687,168	₩ 126,577	₩ 13,790

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**34.3 Transactions with Non-controlling Interests**

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

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

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

<i>(in millions of Korean won)</i>	<b>AMOREPACIFIC Hong Kong Co. Limited.</b>		<b>AMOREPACIFIC Vietnam LTD.</b>	
Carrying amount of non-controlling interests acquired	₩	15,543	₩	763
Consideration paid to non-controlling interests		(34,626)		(1,193)
Offsetting of financial liabilities <sup>1</sup>		20,666		-
Reclassification of non-controlling interest		(1,078)		292
Excess of consideration paid recognized in the transactions with non-controlling interests reserve within equity	₩	505	₩	(138)

<sup>1</sup> Financial liabilities, recognized in relation to the obligation to purchase remaining interests under the arrangement among shareholders at the initial business combination.

**35. Risk Management**

**35.1 Financial Risk Management**

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

Risk management is carried out 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.

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(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar, Euro, Chinese Yuan, Hong Kong dollar 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 Company's financial instruments denominated in major foreign currencies as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		2015	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 349,918	₩ 120,586	₩ 134,204	₩ 205,394
EUR	2,681	2,375	556	1,493
JPY	1,526	9,742	47	816
	₩ 354,125	₩ 132,703	₩ 134,807	₩ 207,703

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

(in millions of Korean won)	2016		2015	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	₩ 22,933	₩ (29,333)	₩ (7,119)	₩ 7,119
EUR	31	(31)	(94)	94
JPY	(822)	822	(77)	77

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

ii) Interest rate risk

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

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At the end of the reporting period, the Group has more floating rate deposits than floating rate borrowings, and because of this, net interest expenses decrease when interest rates increase. However, the Group adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Group (internal cash sharing) to minimize external borrowings, avoiding high rate borrowings, reforming capital structure, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, monitoring a fluctuation of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, and balancing floating rate short-term borrowings with floating rate deposits.

The Group invests in fixed interest assets with maturities of one year or less, and if the market interest rate increases, there is risk of decrease in fair value. However, the risk of changes in fair value is minor as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings had been 1% higher/lower with all other variables held constant, profit before income tax for the year would have been ₩1,376 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

#### *(b) Credit Risk*

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

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

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

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

#### *(c) Liquidity Risk*

The Group holds sufficient amount of cash and cash equivalents and maintains a flexible fund capacity within credit limit by brisk business. Financial liabilities involved in sales except borrowings are basically paid within maximum three months after purchasing (average within two months), so maturity of all financial liabilities (with or without payment condition) are within three months. The Group manages liquidity by holding more cash and cash equivalents than monthly payments.

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The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These contracts are managed on a net-fair value basis rather than by maturity date.

<i>(in millions of Korean won)</i>	2016						Book amount
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total		
Trade payables	₩ 135,525	₩ -	₩ -	₩ -	₩ 135,525	₩ 135,525	
Borrowings	207,326	-	-	-	207,326	205,685	
Other payables	363,838	-	-	-	363,838	363,838	
Other liabilities	83,604	14,940	-	-	98,544	98,429	

<i>(in millions of Korean won)</i>	2015						Book amount
	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total		
Trade payables	₩ 133,943	₩ -	₩ -	₩ -	₩ 133,943	₩ 133,943	
Borrowings	122,994	47,212	-	-	170,206	168,602	
Other payables	270,419	-	-	-	270,419	270,419	
Other liabilities	80,400	16,056	-	-	96,456	94,385	

**35.2 Capital Risk Management**

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

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

<i>(in millions of Korean won)</i>	2016	2015
Liabilities (A)	₩ 1,521,517	₩ 1,260,165
Equity (B)	5,566,878	4,887,804
Cash and cash equivalents, and current financial deposits (C)	1,620,528	1,485,627
Borrowings (D)	205,685	168,602
Debt-to-equity ratio (A/B)	27.33%	25.78%
Net borrowings ratio (D-C)/B	(-)25.42%	(-)26.95%

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**36. Fair Value Estimation**

**36.1 Fair Value Hierarchy**

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

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

<i>(in millions of Korean won)</i>	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Available-for-sale financial assets	19,007	-	-	19,007
Disclosed fair value				
Investment property	-	-	333,055	333,055

<i>(in millions of Korean won)</i>	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Available-for-sale financial assets	₩ 10,015	₩ -	₩ -	₩ 10,015
Derivative liabilities	-	802	-	802
Disclosed fair value				
Investment property	-	-	429,611	429,611

**36.2 Valuation Technique**

Valuation techniques used in the recurring fair value measurements categorized as Level 2 and Level 3 of the fair value hierarchy as at December 31, 2016, are as follows:

*(a) Derivative financial instruments*

The fair value of derivative financial instruments is determined by using valuation techniques based on current market conditions. These valuation techniques maximize the use of observable market data whenever possible and rely as little as possible on entity specific estimates. The fair value of derivative financial instruments is measured at discount using forward exchange rate at the end of reporting date.

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*(b) Investment property*

The fair value of investment property is measured on a basis of a valuation by an independent appraiser who holds a recognized and relevant professional qualification or a value of land determined by the local government in Korea for property tax assessment purposes and a valuation by reflecting the similar recent transaction price which is available to use.

**36.3 Financial Instruments Measured at Cost**

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

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Available-for-sale debt securities		
Asset backed securities	₩ 200,000	₩ 60,000
Government-issued securities	4,234	2,999
Available-for-sale equity securities		
ANTERIOS, INC. <sup>1</sup>	-	4,067
Obalon Therapeutics <sup>2</sup>	-	5,378
Brickell Biotech <sup>3</sup>	-	1,083
Way Wearable Inc.	1,000	1,000
Elastagen Pty Ltd.	1,699	1,699
Eirion Therapeutics, Inc. <sup>1</sup>	28	-
ZOYI Corporation	1,500	-
GL Pharm Tech Co., Ltd. <sup>4</sup>	-	191
Welskin Co., Ltd.	48	48
The Korea Economic Daily	81	81
Biogenics Co., Ltd.	1,000	1,000
ELANDRETAIL Ltd.	3	3
Chungbuk Printing Association	1	1
	₩ 209,594	₩ 77,550

<sup>1</sup> ANTERIOS, INC. was merged into Allergan PLC for the period ended December 31, 2016, and the Group received cash and shares of Eirion Therapeutics, Inc., a newly established corporation for the disposal, under the arrangement between the two companies.

<sup>2</sup> The Group's equity securities of Obalon Therapeutics are measured at fair value based on the quoted price in an active market as Obalon Therapeutics became a public corporation for the period ended December 31, 2016

<sup>3</sup> The Group recognized the total impairment of equity securities of Brickell Biotech for the period ended December 31, 2016.

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<sup>4</sup> The Group's equity securities of GL Pharm Tech Co., Ltd are measured at fair value based on the quoted price in an active market as GL Pharm Tech Co., Ltd became a public corporation through merger with special purpose acquisition company for the period ended December 31, 2016.

The above non-marketable equity securities are measured at cost, because the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed, or the difference between their fair values and their acquisition costs is immaterial. In addition, derivative instruments requiring deliveries of unlisted equity instruments are also measured at cost because the fair value of the underlying assets cannot be reliably assessed. The Group has no intention to dispose of the aforementioned financial instruments. Available-for-sale debt securities are measured at fair values, because the difference between their fair values and the acquisition costs is immaterial.

Other financial assets and liabilities whose book amount is a reasonable approximation of fair value are excluded from the separate fair value disclosures.