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# Lotte Confectionery Co., Ltd. and Subsidiaries

## Independent Auditor's Report for the Consolidated Financial Statements

### Period 1

From 10/1/2017

To 12/31/2017

Hanul LLC

# **Independent Auditor's Report**

## **(English Translation of a Report Originally Issued in Korean)**

To the Board of Directors and Shareholders of  
Lotte Confectionery Co., Ltd.

March 15, 2018

We have audited the accompanying consolidated financial statements of Lotte Confectionery Co., Ltd. and subsidiaries. This Financial Statements is composed of the financial statement as of Dec. 31, 2017, consolidated statements of comprehensive income and profit or loss for 3-month reporting period that ends on the same date, consolidated statements of changes in equity, consolidated statement of cash flows and summary of significant accounting policy and other explanatory information.

### **Responsibility of Management for Consolidated Financial Statements**

Management has the responsibility to fairly record and prepare this Consolidated Financial Statements pursuant to the Korean International Financial Reporting Standards and has the responsibility for internal control determined as necessary to prepare a Consolidated financial statement without significant distortion due to errors or dishonesty.

### **Responsibility of Auditor**

Our responsibility is to express an opinion on the pertinent Consolidated Financial Statements based on the audit we perform. We conducted our audits in accordance with Korean Standards on Auditing. This standard demands us to plan and perform an audit to obtain reasonable confidence on whether there are significant distortions on the Consolidated Financial Statements and to comply with ethical requirements.

An audit includes the performance of the procedure to obtain audit evidence on the disclosures and amounts of the Consolidated Financial Statements. The selection of procedure differs depending on the judgment of the auditor, such as evaluation over the risk of significant distortion of the Consolidated Financial Statements due to errors or dishonesty. The auditor considers internal control relating to fair recording and preparation of the Consolidated Financial Statements of a company to design an audit procedure suitable to the circumstances when evaluating such risks. However, this is not to express an opinion on the effectiveness of 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 obtained are sufficient and suitable as the grounds for the audit opinion.

### **Audit Opinion**

Our opinion is that the Consolidated Financial Statements of the company fairly records the financial condition as of Dec. 31, 2017 and the financial performance and cash flow of both report periods closing on the same dates of Lotte Confectionery Co., Ltd. and subsidiaries from the perspective of importance pursuant to the Korean International Financial Reporting Standards.

### **Special Note**

The users need to pay attention to note 1 of the consolidated financial statements, as a matter that does not affect the opinion of the auditor. As described in note 1 of the consolidated financial statements, the parent corporation was newly established for the purpose of manufacturing and selling confectionery and frozen desserts by split of business division from Lotte Corp. (former Lotte Confectionery Co., Ltd.) on Oct. 1, 2017 and listed its share on KOSPI market of Korea Exchange on Oct. 30, 2017.

14 Teheran-ro 88-gil, Gangnam-gu, Seoul

Hanul LLC

Representative

director Nam, Gibong

This auditor's report is effective as of the audit report date (Mar. 15, 2018) Thus, incidents or circumstances that may have a significant effect on the attached financial statements of the company may occur after the report date but before reading this report, and this Independent Auditor's Report may be modified due to such occurrence.

# **(Attachment) Consolidated Financial Statements**

## **Lotte Confectionery Co., Ltd. and Subsidiaries**

### **Period 1**

From 10/1/2017

To 12/31/2017

This company prepared the attached Consolidated Financial Statements. Lotte Confectionery Co., Ltd. Representative director Min, Myeonggi

Location of Headquarters: (street name based address) 10, Yangpyeong-ro 21-gil, Yeongdeungpo-gu, Seoul (Telephone) +82-2-2670-6114

Consolidated Statements of Financial Condition

Period 1: As of Dec. 31, 2017

Lotte Confectionery Co., Ltd. and subsidiaries

(Unit: KRW)

Subject	Notes	End-of-term 1 (Current)	
Assets			
I. Current assets			532,351,457,092
Cash and cash equivalents	4,5,8	66,068,624,642	
Trade receivables and other receivables	4,5,8,10	260,831,652,687	
Available-for-sale financial assets	4,5,7,9	634,382,856	
Other current financial asset	4,5,7,11	30,110,682,574	
Inventories	12	162,689,339,531	
Other current assets		12,016,774,802	
II. Non-current assets			1,374,692,279,858
Investment in associates	13	8,595,523,902	
Available-for-sale financial assets	4,5,7,9	119,284,911	
Other non-current financial assets	4,5,7	27,172,399,939	
Property, plant and equipment	14	1,121,113,288,676	
intangible assets	15	197,837,513,340	
Investment property	17	18,406,145,679	
Deferred tax assets	21	792,000,159	
Other non-current assets		656,123,252	
Total assets			1,907,043,736,950
Liabilities			
I. Current liabilities			535,761,907,499
Trade and other payables	4,5,8	152,519,891,999	
Borrowings	19	153,062,672,296	
Debentures	19	149,927,124,766	
Other current financial liabilities	4,5,7,11	35,554,749,855	
Deferred Revenue		16,556,617	
Provisions	22	26,591,708,257	
Other current liabilities		18,089,203,709	
II. Non-current liabilities			544,075,693,187
Borrowings	19	2,206,144,917	
Debentures	19	379,328,871,583	
Other non-current financial liabilities	4,5,7,11	10,863,153,535	
Net defined benefit liabilities	20	16,831,429	
Deferred tax liabilities	21	142,154,029,243	

Deferred revenue		1,172,932,429	
Other non-current liabilities		8,333,730,051	
Total liabilities			1,079,837,600,686
Equity			
I. Equity attributable to owners of the Parent Company			824,744,494,433
Capital stock	23	2,104,551,000	
Capital surplus	23	819,823,453,028	
Other components of equity	23	1,148,853,348	
Accumulated other comprehensive income	24	(1,380,855,248)	
Retained earnings	25	3,048,492,305	
II. Non-controlling interests			2,461,641,831
Total equity			827,206,136,264
Total liabilities and equity			1,907,043,736,950

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

Consolidated Statements of Comprehensive Income

Period 1: From 10/1/2017 to 12/31/2017

Lotte Confectionery Co., Ltd. and subsidiaries

(Unit: KRW)

Subject	Notes	Period 1 (Current period)
I. Revenue	6	404,787,472,483
II. Cost of sales	12,27	245,548,196,342
III. Gross profit		159,239,276,141
IV. Selling and administrative expenses	26,27	150,826,755,578
V. Operating profit	6	8,412,520,563
Other income	28	2,423,412,569
Other expenses	29	4,887,361,330
Finance income	30	644,641,458
Finance costs	31	3,408,598,799
Share of profit(loss) of associates	13	85,717,146
VI. Profit before income tax		3,270,331,607
VII. Income tax expenses	21,32	1,322,339,311
VIII. Profit for the period		1,947,992,296
Equity attributable to owners of the Parent Company	32	2,027,136,414
Non-controlling interests		(79,144,118)
IX. Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Remeasurements of net defined benefit liabilities	20	1,347,435,213
Income tax effect		(326,079,322)
Items that may be subsequently reclassified to profit or loss		
Changes in value of available-for-sale financial assets	9	13,395,874
Exchange differences on translating foreign operations		(1,435,976,774)
Share of other comprehensive income (loss) of associates	13	(292,032,100)
Income tax effect relating to components of other comprehensive income		(3,241,803)
X. Total comprehensive income (loss) for the period		1,251,493,384
Equity attributable to owners of the Parent Company		1,463,860,052
Non-controlling interests		(212,366,668)
XI. Earnings (loss) per share for profit attributable to owners of the Parent Company		
Basic and diluted earnings (loss) per share	32	KRW 482

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

## Consolidated Statements of Changes in Capital

Period 1: From 10/1/2017 to 12/31/2017

Lotte Confectionery Co., Ltd. and subsidiaries

(Unit: KRW)

Subject	Notes	Equity attributable to owners of the Parent Company					Non-controlling Interests	Total	
		Capital stock	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings			Total
Start of the current period (2017.10.1) (split off)		2,104,551,000	819,823,453,028	2,018,991,711	203,777,005	-	824,150,772,744	2,674,008,499	826,824,781,243
Comprehensive income (loss):									
Profit for the period		-	-	-	-	2,027,136,414	2,027,136,414	(79,144,118)	1,947,992,296
Remeasurements of net defined benefit liabilities		-	-	-	-	1,021,355,891	1,021,355,891	-	1,021,355,891
Changes in value of available-for-sale financial assets	9	-	-	-	10,154,071	-	10,154,071	-	10,154,071
Exchange differences on translating foreign operations		-	-	-	(1,302,754,224)	-	(1,302,754,224)	(133,222,550)	(1,435,976,774)
Other comprehensive income share of associates	13	-	-	-	(292,032,100)	-	(292,032,100)	-	(292,032,100)
Total comprehensive income (loss) for the period		-	-	-	(1,584,632,253)	3,048,492,305	1,463,860,052	(212,366,668)	1,251,493,384
Transactions with owners									
Acquisition of treasury stock		-	-	(870,138,363)	-	-	(870,138,363)	-	(870,138,363)
Subtotal of transactions with owners		-	-	(870,138,363)	-	-	(870,138,363)	-	(870,138,363)
End of the current period (2017.12. 31)		2,104,551,000	819,823,453,028	1,148,853,348	(1,380,855,248)	3,048,492,305	824,744,494,433	2,461,641,831	827,206,136,264

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

Consolidated Statement of Cash Flows  
Period 1: From 10/1/2017 to 12/31/2017

Lotte Confectionery Co., Ltd. and subsidiaries

(Unit: KRW)

Subject	Notes	Period 1 (Current period)	
I. Cash flows from operating activities			30,970,983,829
Profit for the period		1,947,992,296	
Income tax expenses		1,322,339,311	
Depreciation	6,14,17	18,516,587,030	
Amortization of intangible assets	15	214,524,148	
Severance benefits	20	4,871,171,951	
Donations		(426,084,253)	
Interest expenses		3,300,969,663	
Interest income		(639,099,481)	
Gain on disposal of available for sale financial assets		(70,749)	
Equity method gain of associates	13	(85,717,146)	
Bad debt expenses		2,123,116,493	
Gain on disposal of property, plant and equipment		(465,060,646)	
Loss on disposal of property, plant and equipment		1,843,871	
Foreign exchange loss (gain)		510,918,168	
Other expenses (income)		32,614,807	
Inventories		(7,878,689,720)	
Trade receivables		44,826,281,247	
Other receivables		890,695,727	
Other current assets		1,453,616,888	
Other non-current assets		(8,710,738)	
Trade payables		(9,361,270,099)	
Other payables		694,350,148	
Defined benefit obligations		(32,563,557,443)	
Other current financial liabilities		1,421,800,109	
Other current liabilities		2,013,827,013	
Other non-current financial liabilities		(2,936,592,618)	
Other non-current liabilities		(200,000)	
Deferred revenue		(28,686,168)	
Provisions		1,222,074,020	
II. Cash flows from investment activities			(140,539,189,767)
1. Net cash inflow from investment activities		73,972,950,692	
Decrease in short-term investment assets		460,749	
Decrease in other current financial assets		70,000,000,000	
Decrease in other non-current financial assets		910,362,000	

Proceeds from disposal of property, plant and equipment	14	2,357,241,914	
Interest received		704,886,029	
2. Net cash outflow from investment activities		(214,512,140,459)	
Increase in other current financial assets		30,000,000,000	
Increase in other non-current financial assets		538,726,475	
Acquisition of property, plant and equipment	14	16,867,057,925	
Acquisition of intangible assets	15	49,671,021	
Decrease of cash due to change in scope for consolidation		167,056,685,038	
III. Cash flows from financing activities			96,007,709,933
1. Net cash inflow from financing activities		150,139,211,576	
Increase in borrowings		150,139,211,576	
2. Net cash outflow from financing activities		(54,131,501,643)	
Repayments of borrowings		50,053,750,624	
Interest paid		3,207,612,656	
Acquisition of treasury stock		870,138,363	
IV. Net increase in cash and cash equivalents			(13,560,496,005)
V. Cash and cash equivalents at the beginning of the period			79,799,152,986
VII. Exchange gains (losses) on cash and cash equivalents			(170,032,339)
VIII. Cash and cash equivalent assets at the end of the period	8		66,068,624,642

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

## Notes

Period 1: As of 12/31/2017

Lotte Confectionery Co., Ltd. and subsidiaries

### 1. General Information

General information of Lotte Confectionery Co., Ltd (‘the Parent Corporation’) and subsidiaries (collectively ‘the Consolidated Entity’) is as follows.

#### 1.1 Description of the Parent Corporation

The parent corporation is a newly established company established through spin off of investment and business division of Lotte Corp. (former Lotte Confectionery Co., Ltd), and it has its main business of manufacture and selling confectionery and frozen desserts in Seoul HQ, and plants in Yangsan, Pyeongtaek and Daejeon. The parent corporation listed its shares on the Korea Exchange as of Oct. 30, 2017, and its equity capital as of Dec. 31, 2017 is 2,105 mil KRW.

As of Dec. 31, 2017, the status of major shareholders of the parent corporation is as follows.

Name of the Shareholder	Number of Shares (Shares)	Share Ratio (%)
Lotte Aluminum Co., Ltd.	643,381	15.29
Lotte Japan co., Ltd	416,338	9.89
Dong-bin Shin	381,608	9.07
Lotte Scholarship Foundation	365,937	8.69
Lotte Corp.	346,469	8.23
Kyuk-ho Shin	287,408	6.83
Daehong Communications Inc.	137,585	3.27
Hotel Lotte Co., Ltd.	135,239	3.21
Young-ja Shin	106,228	2.52
Treasury stock	4,578	0.11
Others	1,384,331	32.89
Total	4,209,102	100.00

#### 1.2 Status of Subsidiaries

As of the end of current period, the status of the parent corporation’s consolidated subsidiaries are as follows.

Classification	Located country	Share Ratio (%)	Settlement Month
		End of Current Period	
Lotte Qingdao Foods Co., Ltd.	China	90.00	Dec.
Lotte Confectionery (S.E.A) Pte., Ltd.	Singapore	100.00	Dec.
HAVMOR ICE CREAM LIMITED (*1)	India	100.00	Mar.

(\*1) The parent corporation acquired 100% shares of HAVMOR ICE CREAM LIMITED at 167,157 mil. KRW during the current period.

### 1.3 Summarized Financial Information of Major Subsidiaries

As of the end of the current period, summarized financial status of significant consolidated subsidiaries are as follows (unit: mil. KRW).

Subsidiaries	Assets	Liabilities	Equity	Sales	Net profits or losses for the current period	Total comprehensive income (loss)
Lotte Qingdao Foods Co., Ltd.	26,992	2,410	24,582	1,960	(826)	(826)
Lotte Confectionery (S.E.A) Pte., Ltd.	3,604	1,925	1,679	3,441	(364)	(364)
HAVMOR ICE CREAM LIMITED (*1)	30,360	16,761	13,599	15,784	(223)	(223)

(\*1) When preparing this consolidated financial statement, the parent corporation considered this business combination to be occurred on Dec. 31, 2017. Therefore revenues and current period profit and loss of HAVMOR ICE CREAM LIMITED are not included in the consolidated statements of comprehensive profit and loss.

### 1.4 Changes in Scope for Consolidation

The parent corporation acquired 100% shares of HAVMOR ICE CREAM LIMITED during the current period and included it in the consolidation.

## 2. Significant Accounting Policies

The following are significant accounting policies applied in preparation of consolidated financial statements. These policies are continuously applied during all fiscal period presented, unless otherwise mentioned.

### 2.1 Preparation Standard of Financial Statements

The consolidated financial statements of the consolidated entity are prepared according to International Financial Reporting Standards as adopted by the Republic of Korea (hereinafter “K-IFRS”).

K-IFRS refers to policies adopted by Korea among the standards and interpretations published by the International Accounting Standards Board (“IASB”).

K-IFRS allows use of important accounting estimates for preparation of K-IFRS, and requires management to exercise judgment in the process of applying the 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.

#### (1) New and amended standards adopted by the consolidated entity

The consolidated entity newly applied below amended and enacted reference standard and interpretations from the fiscal period starting from Oct. 1, 2017, and there are no significant affect on financial statements from such applications.

– Amendment to K-IFRS No. 1007 ‘Statement of Cash Flows’

Amendment to K-IFRS No. 1007 requires the changes in liabilities arising from financial activities to be disclosed separately as changes due to cash flows and non-cash transaction.

– Amendment to K-IFRS No. 1012 ‘Income Tax’

Amendment to K-IFRS No. 1012 clarified there are temporary difference for unrealized profit and loss if fair value of the debt instrument valued by fair value is less than tax base.

– Amendment to K-IFRS No. 1112 ‘Disclosure of Interests in Investment Entity’

Amendment to K-IFRS No. 1112 clarified that disclosure of items other than summarized consolidated financial information specified in K-IFRS No. 1112 are required, even if share for other equities are classified into held-for-sale or discontinued operations.

(2) New and amended standards and interpretations not adopted by the consolidated entity

New and amended standards and interpretations that are established or disclosed, but are yet to be implemented on the fiscal year starting after Oct. 1, 2017 and was not adopted early by the consolidated entity are as follows.

– Amendment to K-IFRS No. 1028 ‘Investments in Associates and Joint Ventures’

When investment share on associates and joint ventures held by venture capital investment organization and mutual funds are valued by fair values other than equity method, it can be selectively applied by each share. This amendment is retroactively applied from fiscal year starting after Jan. 1, 2018, and is available for early application. The consolidated entity is not classified as venture capital investment organization and such, and does not apply above exemption regulation. Therefore there are no significant effect on consolidated financial statements due to the revision.

– Amendment to K-IFRS No. 1040 ‘Investment Property’

Amendment to K-IFRS No. 1040 clarified the principle of replacing an investment property from another account or replacing with another account from investment property only when 1) the definition of investment property changes and 2) change of purpose is backed by an evidence. This amendment is applied from fiscal year starting after Jan. 1, 2018, and is available for early application. The consolidated entity expects no significant effect on consolidated financial statements due to the amendment.

– Amendment to K-IFRS No. 1102 ‘Share-based Payment’

Amendment to K-IFRS No. 1102 clarified that the fair value measurement method for change of accounting conditions and cash-settled share-based payment transactions is the same as the equity-settled share-based payment transactions. This amendment is applied from fiscal year starting after Jan. 1, 2018 and is available for early application. The consolidated entity expects no significant effect on consolidated financial statements due to the amendment.

– Enacted interpretation of K-IFRS No. 2122 ‘Foreign Exchange Transactions, Advance Payments, and Advance Received’

According to the new interpretation, the transaction date to determine exchange rate to apply to initial recognition of relevant assets, cost, income (or partial income) is the day when non-monetary assets or liabilities are received or paid in advance and therefore initially recognized. If these transactions are progressed in multiple times, transaction date is individually determined due to advance received and advanced payment of the cost. The interpretation is retroactively applied from fiscal year starting after Jan. 1, 2018 and is available for early application. The consolidated entity expects no significant effect on consolidated financial statements due to the new interpretation.

– K-IFRS No. 1109 ‘Financial Instruments’

K-IFRS No. 1109 enacted on Sep. 25, 2015, ‘Financial Instruments’ may be applied for early adaptation, while the adaptation begins from the start of the fiscal year after Jan. 1, 2018. The standard is going to replace with the current K-IFRS No.1039 ‘Financial Instrument: Recognition and Measurement’. The consolidated entity will adapt K-IFRS No. 1109 from the start of the fiscal year after Jan. 1, 2018.

New K-IFRS No. 1109 should be retroactively applied as a principle, however, it has partial exception provisions such as classification of financial instruments, exempting comparison information re-preparation in the case of damage, etc. and in the case of hedge accounting, it adapts all progressively excluding the exceptions partially such as time value accounting of the option, and so on.

Major features of the K-IFRS No. 1109 are business model for management of financial assets, classification and measurement of the financial assets based on cash flows characteristics under the contract of the financial assets, damage model of the financial instruments on a basis of expected credit loss, hedge target item being sufficient for application conditions of the hedge accounting and expansion of the hedge accounting tool, or changes on evaluation method of hedge accounting effect, etc.

For available-for-sale financial assets in financial instruments, the consolidated entity will recognize valuation related items as other comprehensive income and items related to disposal and impairment as current period profit and loss. From 2018 or after, the consolidated entity will recognize all of them as other comprehensive income. As of the end of the current period, the consolidated entity holds 754 mil. KRW of available-for-sale financial assets.

– K-IFRS No. 1115 ‘Revenue Generated from Contracts with Customers’

K-IFRS No. 1115 enacted on Nov. 6, 2015, Revenue from contracts with customers may be applied for early adaptation, while the adaptation begins from the start of the fiscal year after Jan. 1, 2018.

This standard is going to replace the current K-IFRS No. 1018 ‘Revenue; No. 1011 ‘Construction Contract’, Interpretation of K-IFRS No. 2113 ‘Customer Loyalty System’, No. 2115 ‘Real Estate Construction Agreement’, No. 2118 ‘Transfer of Assets from the Customer’.

The consolidated entity will apply K-IFRS No. 1115 from fiscal year starting after Jan. 1, 2018 and retroactively apply the standard on past reporting period that is compared and presented in accordance with K-IFRS No. 1008 ‘Accounting Policies, Changes in Accounting Estimates and Errors’. It will also apply shortcut method of not preparing consolidated financial statements again for contracts that are completed as of Oct. 1, 2017.

The current K-IFRS No. 1018 provides revenue awareness standards for different types of transactions such as sales of goods, provision of services, interest income, royalty income, dividend income, and construction contracts. However, according to the new K-IFRS No. 1115, 5-stage revenue awareness model(① identification of contract → ② identification of fulfillment duty → ③ calculation of transaction price → ④ allocation of transaction price to fulfillment of obligation → ⑤ revenue awareness upon fulfillment of obligation), shall be applied to revenue awareness for all types of contracts.

As of Dec. 31, 2017, financial impact on consolidated financial statements according to the K-IFRS No. 1115 is as follows (unit: mil. KRW).

<Consolidated Statements of Financial Condition>

<b>Classification</b>	<b>Amount according to current accounting standards (A)</b>	<b>Amount according to K-IFRS No. 1115 (B)</b>	<b>Amount after applying K-IFRS No. 1115 (A+B)</b>
Assets	1,907,044	(19,382)	1,887,662
Liabilities	1,079,838	(19,382)	1,060,456
Retained Earnings	3,048	-	3,048

<Consolidated Statements of Comprehensive Income>

<b>Classification</b>	<b>Amount according to current accounting standards (A)</b>	<b>Amount according to K-IFRS No. 1115 (B)</b>	<b>Amount after applying K-IFRS No. 1115 (A+B)</b>
Revenue	404,787	(19,382)	385,405
Cost of sales	245,548	-	245,548
Gross profit	159,239	(19,382)	139,857
Selling and administrative expenses	150,827	(19,382)	131,445
Operating income	8,413	-	8,413
Non-operating profit and loss	(5,228)	-	(5,228)

## 2.2 Accounting policies

Significant accounting policies and calculation method applied to preparing consolidated financial statements are continuously applied during presented fiscal period except for changes due to application of amended and enacted standards disclosed in note 2.1(1) and below paragraphs.

## 2.3 Consolidation

The consolidated entity prepares its consolidated financial statements according to K-IFRS No. 1110 'Consolidated Financial Statements'.

### (1) Subsidiaries

Subsidiaries are all entities over which the parent corporation has control. The consolidated entity controls the corresponding investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The subsidiary is included in the consolidated financial statements from the date the parent corporation obtains controls of a subsidiary and excluded when the parent corporation loses control of the subsidiary.

The consolidated entity applies the acquisition method to account for business combinations. The price transferred is valued by the fair value at the acquisition date, and recognizable assets, liabilities and contingent liabilities acquired through business combination are initially valued by the fair value at the acquisition date. The consolidated entity recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net

assets. Other non-controlling interest are valued by fair value unless other requirements are applied by other standards. Acquisition cost is recognized as current period expense when incurred.

Goodwill is recognized as the excess of the aggregate of the price transferred, the amount of any non-controlling interest in the acquiree, and the sum of acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this amount is less than fair value of net assets of the acquired subsidiary, the difference is recognized as current period profit and loss.

Balances of receivables and payables, income and expenses and unrealized gains on transaction between the companies within the consolidated entity are eliminated. Also, accounting policies of subsidiaries are adjusted to ensure consistency in applying accounting policies adopted by the consolidated entity.

## (2) Associates

Associates are all entities over which the consolidated entity has significant influence, and investment in associates is initially recognized as acquisition cost and equity method is applied. Unrealized gains on transaction between the consolidated entity and associates are eliminated to the extent of the consolidated entity's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the consolidated entity recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

## (3) Joint Arrangements

A joint arrangement, of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator holds rights to the assets, and obligation for the liabilities relating to the joint operations and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

## 2.4 Operating Segment

Information of each operating segment is reported in a manner consistent with internal reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

## 2.5 Foreign Currency Translation

### (1) Functional and Presentation Currency

The consolidated entity measures items included in the financial statements of each of the entities within the consolidated entity using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the parent corporation is Korean won, and the consolidated financial statements are presented in Korean won.

### (2) Translations of foreign transactions and at the end of the reporting period

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in current period profit and loss.

Foreign exchange differences resulting from non-monetary financial assets and liabilities are considered as part of the fair value profit and loss, and available for sale equity instrument are recognized in current period profit and loss and available-for-sale equity instruments are included in other comprehensive income.

## 2.6 Cash and Cash Equivalents

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

## 2.7 Financial Assets

### (1) Classification and Measurement

The consolidated entity classifies its financial assets in the following categories: financial assets recognized as profit and loss for the current period, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on the date of trade.

Financial assets are measured by fair value at the time of initial recognition. For the transaction costs, financial assets except for financial assets recognized as profit and loss for the current period are added to the fair value and financial assets recognized as profit and loss are recognized as current period expense. Available-for-sale financial assets and financial assets recognized as profit and loss for the current period are measured by fair value subsequently after initial recognition. Loans and receivables and held-to-maturity investment are measured as amortized cost after applying effective interest rate method.

Change in fair value of financial assets recognized as profit and loss for the current period is recognized as current period profit and loss, and change in fair value of available-for-sale financial assets is recognized in other comprehensive income and reclassified as current period profit and loss when the asset is disposed or recognized as impaired.

### (2) Impairment

The consolidated entity assesses at the end of each reporting period whether there is objective evidence that a financial asset or a company of financial assets is impaired. Impairment losses are recognized only if there is an objective evidence of impairment and such impairment has affected estimated future cash flows of the financial asset or a company of financial assets that can reliably estimate.

Impairment of loans and receivables is presented as a deduction in bad debt provisions, and impairment of other financial assets is directly deducted from their book value. The consolidated entity writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A significant or prolonged decline in its fair value of an available-for-sale equity instrument below its

cost is objective evidence of impairment.

### (3) Derecognition

If the consolidated entity retains most of the risks and rewards of ownership of the financial assets transferred by the debtor in the event of default, the consolidated entity continues to recognize the transferred asset in its entirety and recognizes the received amount as a financial liability even if such financial assets are transferred. The related financial liability is classified as “borrowings” in the statement of financial position (Note 19)

### (4) Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the 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 and bankruptcy.

## 2.8 Derivatives

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-valued at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within ‘other income (expenses)’ or ‘financial income (costs)’ according to the nature of transactions.

The consolidated entity applies cash flow hedge accounting for hedging interest rate risk and foreign exchange risk in borrowings denominated in foreign currency. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and the ineffective portion is recognized in ‘financial income (costs)’.

## 2.9 Inventories

Inventories are presented at the lower of cost and net realizable value. Cost of inventories is determined using the moving-weighted average method, except for the cost of inventories in-transit that is valued using the specific identification method.

## 2.10 Property, plant and equipment

Property, plant and equipment are presented by subtracting accumulated depreciation and accumulated impairment from historical cost. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

Assets other than land are depreciated using the straight-line method to allocate the difference between their cost and their residual values over their estimated service lives as follows.

Subject	Estimated service life
Buildings	10 to 50 years
Structures	5 to 40 years
Machinery	1 to 20 years
Tools and equipment	2 to 10 years
Vehicles	1 to 10 years
Others	1 to 10 years

The depreciation method, residual value and economical service lives of property, plant and equipment are reviewed again at the end of each fiscal year, and accounted for as changes in accounting estimates if appropriate.

### 2.11 Borrowing Costs

Borrowing costs incurred in acquiring or constructing a qualifying asset are capitalized during the period of preparing the asset for its intended use and the investment income from the temporary operation of the specified purpose borrowing to acquire qualifying assets is capitalized is deducted from borrowing cost during the fiscal term that can be capitalized. Other borrowing costs are recognized as an expense during the period in which they are incurred.

### 2.12 intangible assets

#### (1) Goodwill

Goodwill is valued as explained in note 2.3(1), and goodwill occurring from acquisition of subsidiaries and business are included in intangible assets. Goodwill is annually tested for impairment, and is presented at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the book value of goodwill relating to the sold entity.

Impairment test are conducted yearly, or more frequently if change in circumstances or events indicate a potential impairment. The book value of cash-generating unit or cash-generating unit group to which goodwill has been allocated is compared to the recoverable amount (higher amount between value in use and the net fair value). Impairment losses are immediately recognized as cost, and not subsequently reversed.

#### (2) Industrial Property Rights

Acquired industrial properties are presented in historical cost. Industrial property rights have a finite service life, and are presented in cost less accumulated depreciation. Industrial property rights are depreciated according to straight-line method to allocate the cost during its estimated service life (5 to 10 years).

#### (3) Other intangible assets

Other intangible assets include premium of lease, software that meet the definition of an intangible asset and they are depreciated according to straight-line method during its estimated service life (4 to 10 years) when the asset is available for use. Membership rights are regarded as intangible assets with indefinite useful life and not depreciated because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

## 2.13 Investment Property

Property held to earn rentals or investment profit is classified as investment property. Investment property is valued at its cost at the time of its recognition, and presented in amount of accumulated depreciation and accumulated impairment subtracted from cost. Investment property other than land is depreciated according to straight-line method during its estimated economic service life of 15 to 40 years.

## 2.14 Impairment of Non-Financial Assets

For intangible assets with indefinite goodwill or service life, impairment test is conducted when changes in circumstances indicate impairment. An impairment loss is recognized to the extent that it is greater than the recoverable amount (the higher of the fair value less costs to use or disposal amount) and the impairment loss on non-financial assets other than goodwill is reviewed for possible recovery at the end of each reporting period.

## 2.15 Financial Liabilities

### (1) Classification and Measurement

Financial liabilities recognized as profit and loss for the current period are financial instruments held for trading. Financial liabilities with a purpose of repurchase within a short period of time is classified in this category. Derivatives that are not designated as hedges of bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

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

### (2) Derecognition

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, canceled or expired or when the terms of an existing financial liability are substantially modified.

## 2.16 Financial Guarantee Contracts

Financial guarantee contracts provided by the consolidated entity are valued at fair value at the time of initial recognition, and subsequently recognized as 'other financial liabilities' at the higher of the amounts below:

- (1) The amount determined in accordance with K-IFRS No. 1037 'Provisions, Contingent Liabilities and Contingent Assets'
- (2) The initial amount, less accumulated depreciation recognized in accordance with K-IFRS No. 1018 'Revenue'.

## 2.17 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

## 2.18 Current and Deferred Income Tax

The income tax expense consists of current and deferred tax. The income tax is recognized in the current period profit and loss, except to the extent that it relates to items recognized in other comprehensive incomes or directly in equity. The income tax expense is measured based on tax laws enacted or substantively enacted as of the end of the reporting period.

On circumstances where applicable tax regulation is subject to interpretation, the management periodically reviews tax policies that are applied in tax returns. The consolidated entity recognizes current period income tax based on the amount expected to be paid to the tax authorities.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their book value as expected tax consequences at the recovery or settlement of the book value of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

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

For temporary differences to add on the investments in subsidiaries, associates and joint ventures, the consolidated entity recognizes deferred tax liabilities except to the extent that the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

## 2.19 Employee Benefits

### (1) Post-employment benefits

The consolidated entity has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the consolidated entity pays fixed contributions into a separate fund, and contributions are recognized as expense when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, with a defined benefit plan, an amount of pension benefit is defined based on factors such as age, years of service and level of compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plan 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 annually

calculated by independent actuaries according to the projected unit credit method, and the current value of defined benefit obligation is calculated by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that has the similar maturity date. Remeasurement factor related to defined benefit liability is recognized as other comprehensive income.

If any plan amendments, curtailments or settlements occur, past service costs or any gains or losses on settlement are recognized as current period profit and loss.

## (2) Employee Welfare Fund

The consolidated entity operates an employee welfare fund. The consolidated entity accounts for the amounts up to the level where the net asset value of the in-house labor welfare fund can reduce the payment of future employee benefits.

## (3) Other Long-Term Employee Benefits

The consolidated entity provides long-term employee benefits to its long-time employees. Generally, rights to receive such benefits are given only to employees with service period for ten years and above. Other long-term employee benefits are measured using the same accounting method as the defined benefit pension plans. Service cost, net interest on other long-term employee benefits and remeasurements are recognized as current period profit and loss. Such liabilities are valued by independent and suitable actuaries every year.

## 2.20 Revenue Recognition

Revenue is consisted of fair values that have been or to be received for sale of goods and rendering of services arising from the normal activities of the consolidated entity. Revenue is presented as net value with value added taxes, returns, rebates and discounts deducted.

The consolidated entity recognizes revenue when it can be reliably measured, when there is a high probability that future economic benefits may inflow into the company and when satisfying requirements per activity of the company described as follows. Estimation is based on previous data such as the type of customers, type of transaction and individual transaction condition.

### (1) Sale of Goods

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

### (2) Interest Income

Interest income is recognized based on the effective interest rate method pursuant to the passage of time. In the event of loan and receivable impairment, the consolidated entity reduces the book value to its recoverable amount and recognizes partial amount that increases over time as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

### (3) Dividend Income

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

## 2.21 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the consolidated entity are classified as operating leases, and lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where all the risks and rewards of ownership are transferred to the consolidated entity are classified as financial leases. The smaller amount of fair value of lease asset and current value of minimum lease payment is recognized as lease assets and lease liabilities, respectively, on the starting date of lease term.

A lease is classified as a financial lease if it transfers substantial part of risks and rewards incidental to ownership at the inception of the lease, and a lease other than financial lease are 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 book value of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

## 2.22 Approval of Financial Statements

The financial statements of the consolidated entity was approved by the Board of Directors on Jan. 25, 2018, and is subject to change with the approval of the shareholders at their annual shareholder's meeting.

## 3. Critical Accounting Estimates and Assumptions

The consolidated entity makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with considerations to future events reasonably predictable based on previous experiences and current circumstances. Such accounting assumptions may be different from the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the book value of assets and liabilities within the next fiscal year are as follows.

### (1) Impairment of Goodwill

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 16).

### (2) Income Taxes

The income tax on the taxable income of the consolidated entity is determined by applying the tax laws and interpretations of tax authorities in numerous jurisdictions. There is uncertainty in estimating the ultimate tax effect (Note 21).

### (3) Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques as a principle. The consolidated entity uses its judgment to select a variety of methods and make assumptions that are mainly based on significant market conditions existing at the end of each reporting period (Note 5)

### (4) Net Defined Benefit Liabilities

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).

#### (5) Provisions

The consolidated entity recognizes provisions for the estimated amount of returns as of the end of the reporting period. These provisions are determined based on past experience. Also, the consolidated entity recognizes provisions by reflecting judgment on the lost lawsuits among pending cases.

### 4. Financial Risk Management

#### 4.1 Financial Risk Factors

Due to its various activities, the consolidated entity is exposed to a variety of financial risks: market risk, credit risk and liquidity risk. Overall risk management of the consolidated entity is focused on minimizing potentially disadvantageous effect on financial performance of the company. The consolidated entity utilizes derivatives in order to hedge certain risks.

Risk management is conducted in accordance with policies approved by the board of directors. The board of directors reviews and approves documented policies on overall risk management and on specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivatives and non-derivative financial instruments, and investments in excess of liquidity.

#### (1) Market Risk

##### a. Foreign Exchange Risk

The consolidated entity is exposed to foreign exchange risk due to its international business activity. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

Management of the consolidated entity has set up a policy to require the consolidated entity to manage their foreign exchange risk against their functional currency. The consolidated entity manages their foreign exchange risks arising from future commercial transactions and recognized assets and liabilities in cooperation with the company's financial department. Foreign exchange risk occurs when future commercial transactions and recognized assets and liabilities are denominated in a currency other than the entity's functional currency.

The consolidated entity manages the maximum foreign exchange loss to be within the acceptable range under management model for foreign exchange risk.

As of the end of the reporting period, the book value of monetary assets and liabilities denominated in foreign currency other than functional currency possessed by the company are as follows (unit: mil. KRW)

Classification	End of current period	
	Assets	Liabilities
USD	18,278	8,949
JPY	995	97
EUR	-	1,618

against USD, JPY and EUR with all other variables held constant on the profit before income tax are as follows (unit: mil. KRW).

Classification	End of current period	
	10% increase	10% Decrease
USD	933	(933)
JPY	90	(90)
EUR	(162)	162

The above sensitivity analysis has been performed over monetary assets and liabilities marked in foreign currency other than functional currency as of the end of the reporting period the changes in exchange rate can have an effect on the sales prices and gross margin ratio of the consolidated entity in the future.

#### b. Cash Flow Interest Rate Risk

Interest rate risk of the consolidated entity arises from debentures and others. The company is exposed to cash flow interest rate risk due to short-term borrowings issued under floating interest rate, and part of the risk of same interest rate is balanced through contracted derivatives.

The consolidated entity is implementing multilateral analysis on exposures to interest rate. This includes simulating various scenarios considering refinance, renewal of existing borrowings, alternative financing, hedging and etc. Based on these scenarios, the consolidated entity calculates profit and loss effect according to the defined interest rate fluctuation. On each simulation, the same interest rate fluctuation is applied for every currency. These scenarios are only applied to liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the effect of interest rate fluctuation by 1% on financial liabilities at variable interest rates are 18 mil. KRW increase or decrease, respectively.

#### (2) Credit Risk

Credit risk is managed on a consolidated entity level. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers including outstanding receivables and committed transactions. The consolidated entity transacts with accounts with certain level of credit rating in order to manage credit risk, and regularly values credit rating of accounts, reviews their maximum credit and adjusts level of security.

No credit limits were exceeded during the current period and management does not expect any losses from nonperformance by above accounts.

The maximum exposure for credit risk is as follows (unit: mil. KRW).

Classification	End of current period
	Book Value at the End of current period (Maximum Exposure Amount)
Cash and Cash Equivalents (*1)	65,997
Trade and other receivables	260,832
Available-for-Sale Financial Assets	754
Other current financial asset	30,111
Other non-current financial assets	27,172

(\*1) The amounts of cash and cash equivalents exclude cash on hand.

### (3) Liquidity risk

Forecast of cash flows is conducted by each subsidiary within the consolidated entity and collected by finance department of the consolidated entity. The finance department of consolidated entity maintains an appropriate level of unused borrowing limits and reviews its liquidity estimation in order to meet business fund, to avoid violations of borrowing limits or arrangements. When estimating liquidity, if there are external regulatory or legal requirements such as the consolidated entity's financing plan, compliance with the arrangement, internal financing ratio goal of the company and limit on currency, such requirements are considered.

The finance department invests surplus funds by selecting financial instruments, such as money market deposits, fixed deposits, and interest-bearing checking accounts providing sufficient liquidity or adequate maturity to procure sufficient liquidity as determined through the prediction mentioned above. As of the end of the reporting period, the consolidated entity held cash and cash equivalents of 66,069 mil. KRW and short-term financial instruments of 30,000 mil. KRW.

As of the end of the current period, the details of the consolidated entity's liquidity risk analysis are as follows. Cash flows in the table above represent undiscounted amounts (unit: mil. KRW).

Classification	Up to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Borrowings (*1)	153,063	-	2,206	-
Debentures (*1)	161,427	8,535	346,136	53,974
Trade and other payables	152,520	-	-	-
Other Financial Liabilities	35,555	10,863	-	-
Total	502,565	19,398	348,342	53,974

(\*1) Borrowings arising from discounts on accounts receivable that do not meet the condition for derecognition of financial asset repayment of the principal and interest expense and financial assets to maturity. it is presented as nominal value without discount.

## 4.2 Capital Risk Management

The capital risk management of consolidated entity aims to maximize profit of shareholders by keeping sound financial structure. The consolidated entity progresses adequate fixing methods of financial structure by monitoring financial ratio every month such as debt-to-equity ratio and net borrowing ratio to achieve the best financial structure.

The consolidated entity manages its capital based on gearing ratio, like any other company in its industry. The gearing ratio is calculated by dividing the net liabilities by the total capital. Net liabilities are total borrowing less cash and cash and cash equivalent assets, and sum of total liabilities and capital is the amount adding net liabilities on 'Equity' item of the financial statement.

As of the end of reporting period, gearing ratio and debt-to-equity ratio are as follows (Unit: mil. KRW).

Classification	End of current period
Total Borrowings (a)	684,525
Less: Cash and cash equivalent assets (b)	66,069
Net debt (c)=(a)-(b)	618,456
Total liabilities(d)	1,079,838
Total equity (e)	827,206
Total capital (f)=(d)+(e)	1,907,044
Gearing ratio (%)((c)/(f))	32.4%
Debt-to-equity ratio (%)((d)/(e))	130.5%

## 5. Fair Value of Financial Instrument

During current period, there is no significant change in business and economic environment that may have affect on fair value of financial assets and liabilities of the consolidated entity.

### 5.1 Fair Value of Financial Instrument per Type

Book value and fair value of financial instrument per type is as follows (unit: mil. KRW).

Classification	End of current period	
	Book Value	Fair value (*2)
Financial assets		
Cash and cash equivalents	66,069	66,069
Trade and other receivables	260,832	260,832
Available-for-Sale financial assets	754	754
Other current financial assets	30,111	30,111
Other non-current financial assets	27,172	27,172
Subtotal	384,938	384,938
Financial Liabilities		
Trade and other payables	152,520	152,520
Borrowings	155,269	155,269
Debentures (*1)	529,256	526,368
Other Current Financial Liabilities	35,555	35,555
Other Non-Current Financial Liabilities	10,863	10,863
Subtotal	883,463	880,575

(\*1) Fair value of the debentures is calculated by discounting the cash flows using corporate bond yields based on the consolidated entity's credit rating (AA+).

(\*2) For non-current financial assets and liabilities except available-for-sale financial assets that are evaluated by fair value and debentures that disclose fair value separately, book value is used as an approximation of fair value. Fair value of current financial assets and liabilities are same as book value.

## 5.2 Level of Fair Value of Financial Instruments

As of end of the current period, financial instruments that are evaluated by fair value or disclose fair value are classified according to the level of fair value. Level system is defined as below (Unit: mil. KRW).

Level 1 - Declared price (not adjusted) in the tight market regarding the same assets or liabilities.

Level 2 - Input variables regarding assets or liabilities that are directly (e.g. price) or indirectly (e.g. deducted from price) observable. However, the declared price included in level 1 shall be excluded.

Level 3 - Input variables regarding assets or liabilities that are not based on observable market data (unobservable input variables)

Classification	Level 1	Level 2	Level 3	Total
Available-for-Sale Financial Assets	-	754	-	754

## 6. Operating Segment

Reporting segment of the consolidated entity is classified as follows.

Segment	Products or services	Major customers
Dried confectionery	Snacks, gums and others	e-mart, Lotte mart, Homeplus and others
Frozen confectionery	Frozen confectionery	e-mart, Lotte mart, Homeplus and others
Others	Health food, leasing and others	Lotte mart, Lotte Logistics Co., Ltd. And others

(1) Information on current period cost of sales and operating income by division are as follows (Unit: mil. KRW).

Classification	Dried confectionery	Frozen confectionery	Others	Total
Total segment revenue	300,454	45,570	58,763	404,787
Inter segment revenue	-	-	-	-
Revenue from external customers	300,454	45,570	58,763	404,787
Operating profit and loss	9,837	(2,285)	861	8,413
Depreciation and amortization	13,874	2,257	2,600	18,731

(2) Consolidated entity's cost of sales per region are as follows (unit: mil. KRW).

Region	Current period
Korea	401,082
China	264
Others	3,441
Total	404,787

## 7. Financial Instruments by Category

(1) As of the end of the current period, financial assets and liabilities classified by category are as follows (unit: mil. KRW).

Financial Assets	Loans and receivables	Available-for-Sale Financial Assets	Total
Cash and Cash Equivalents	66,069	-	66,069
Trade and other receivables	260,832	-	260,832
Available-for-Sale Financial Assets	-	754	754
Other Current Financial Asset	30,111	-	30,111
Other Non-Current Financial Assets	27,172	-	27,172
Total	384,184	754	384,938

Financial Liabilities	Other financial liabilities measured with amortized cost	Total
Trade and other payables	152,520	152,520
Borrowings	155,269	155,269
Debentures	529,256	529,256
Other Current Financial Liabilities	35,555	35,555
Other Non-Current Financial Liabilities	10,863	10,863
Total	883,463	883,463

(2) Profit and loss classified by category of financial instruments are as follows (unit: mil. KRW).

Classification	Current period
Available-For-Sale Financial Assets	
Valuation Profit and Loss (Other comprehensive income)	13
Loans and receivables	
Interest income	639
Profit from foreign currency translation	107
Loss on foreign currency translation	(756)
Gain on foreign currency transactions	348
Loss on foreign currency transactions	(579)
Bad dept expenses	(2,123)
Financial liabilities measured with amortized cost	
Interest expense	(3,301)
Profit from foreign currency translation	143
Loss on foreign currency translation	(5)
Gain on foreign currency transactions	113
Loss on foreign currency transactions	(188)

## 8. Cash and Cash Equivalents

(1) Details of cash and cash equivalent assets are as follows (unit: mil. KRW).

Classification	End of current period
Cash on hand	72
Ordinary deposits and others	55,997
Fixed deposit	10,000
Total	66,069

## 9. Available-for-Sale Financial Assets

(1) Details of change in available-for-sale financial assets are as follows (unit: mil. KRW).

Classification	Current period
Beginning balance	741
Increase(decrease) due to valuation	13
Ending balance	754
Less: Non-current Items	(120)
Current Items	634

(2) Details of available-for-sale financial assets are as follows (unit: mil. KRW).

Classification	End of current period
Current available-for-sale financial assets	
Debt security	634
Sub-total	634
Non-current available-for-sale financial assets	
Debt Security	120
Sub-total	120
Total	754

## 10. Trade Receivables and Other Receivables

(1) Details of trade receivables and other receivables are as follows (unit: mil. KRW).

Classification	End of current period
Trade receivables	262,180
Loan loss provisions	(11,310)
Sub-total	250,870
Other receivables	9,962
Total	260,832

(2) The aging analysis of the trade receivables are as follows (unit: mil. KRW).

Classification	End of current period
Receivables not past due	189,262
Sub-total	189,262
Past due but not individually impaired receivables (*1)	
Up to 3 months	48,535
3 to 6 months	2,953
Over 6 months	12,751
Sub-total	64,239
Individually impaired receivables (*2)	
Up to 3 months	1,742
3 to 6 months	723
Over 6 months	6,214
Sub-total	8,679
Total	262,180

(\*1) Receivables overdue but not individually impaired are associated with a number of independent consumers who do not have recent bankruptcy records.

(\*2) Provisions for individually impaired receivables amount to 7,637 mil. KRW as of Dec. 31, 2017. Individually impaired receivables are primarily those related to customers that are experiencing unforeseen economic difficulties, and part of is expected to be hard to recover.

(3) As of the end of the reporting period, the maximum exposure to credit risk is the same as the book value of the trade receivable.

(4) Details of change in provisions for impairment of trade receivables are as follows (unit: mil. KRW).

Classification	Current period
Beginning balance	9,894
Bad debt expenses	2,082
Write-off	(838)
Recovery of removed receivables	46
Changes due to business combination	126
Ending balance	11,310

## 11. Details of other financial assets and liabilities

(1) Details of other financial assets are as follows (unit: mil. KRW).

Classification		End of current period
Current	Short-term financial instruments	30,000
	Accrued income	111
	Subtotal	30,111
Non-current	Long-term financial instruments	11,172
	Loan	16
	Deposit	15,984
	Subtotal	27,172
Total		57,283

(2) Details of other financial liabilities are as follows (unit: mil. KRW).

Classification		End of current period
Current	Unpaid expenses	35,520
	Current guarantee deposit withholdings	35
	Subtotal	35,555
Non-current	Guarantee Deposit Withholdings	10,863
	Subtotal	10,863
Total		46,418

## 12. Inventories

(1) Details of inventories are as follows (unit: mil. KRW).

Classification	End of current period
Goods	24,250
Manufactured products	59,968
Work in progress	9,785
Raw materials	49,947
Supplies	750
Goods to arrive	18,421
Sub-total	163,121
Allowance on gains from valuation loss	(432)
Total	162,689

The cost of inventories recognized as expense and included in 'cost of sales', excluding 'cost of other goods sold' amounts to 239,659 mil. KRW and the returned amount of loss on valuation of inventories due to net realizable value of inventories amounts to 208 mil. KRW.

(2) Details of cost of sales are as follows (unit: mil. KRW).

Classification	Current period
Cost of goods sold	45,308
Cost of products sold	194,351
Other cost of sales	5,889
Total	245,548

### 13. Investment in associates

(1) As of the end of the current period, the status of associates are as follows.

Corporate name	Share ratio (%)	Location	Date of financial statements
	End of current period		
Lotte Taiwan Co., Ltd.	50.00	Taiwan	Dec. 31

(2) Details of equity method validation on associates during current period are as follows (unit: mil. KRW).

Corporate name	2017.10.1	Acquisition (disposal)	Equity method validation					2017.12.31
			Equity method profit and loss	Equity method capital adjustment	Actuarial profit and loss	Dividends	Foreign currency translations	
Lotte Taiwan Co., Ltd.	8,802	-	86	(292)	-	-	-	8,596

(3) Summary of financial information of major associates and dividends received from associates are as follows (unit: mil. KRW).

Corporate name	Summarized financial information of associates								Dividends received from associates
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit and loss from continuing operations	Net profits or losses for the current period	Comprehensive income (loss)	
Lotte Taiwan Co., Ltd.	17,672	92	6,092	-	6,423	202	267	267	-

Corporate name	2017.12.31 Net assets (a)	The share ratio of the consolidated entity (%) (b)	Net share ratio amounts (a x b)	The goodwill	Internal transactions	Book value
Lotte Taiwan Co., Ltd.	11,672	50%	5,836	2,964	(204)	8,596

#### 14. Property, plant and equipment

(1) Changes in tangible asset during current period are as follows (unit: mil. KRW).

Classification	Land	Buildings	Structures	Machinery	Delivery equipment or vehicles	Other property, plant and equipment	Assets under construction	Total
Beginning Book Value	645,634	219,851	3,884	193,195	1,045	29,541	7,711	1,100,861
Acquisition	-	-	-	-	-	274	20,536	20,810
Replacement	3,209	4,020	58	3,577	443	3,271	(14,607)	(29)
Disposal	(33)	(1,441)	(10)	(335)	(75)	-	-	(1,894)
Depreciation	-	(2,099)	(80)	(12,287)	(118)	(3,904)	-	(18,488)
Changes due to business combination	-	3,829	-	8,364	1,203	7,046	304	20,746
Foreign Currency Translations	-	(324)	(3)	(327)	(27)	(154)	(58)	(893)
Ending Book Value	648,810	223,836	3,849	192,187	2,471	36,074	13,886	1,121,113
Acquisition cost	650,063	401,468	13,897	855,229	8,119	225,389	13,886	2,168,051
Accumulated depreciation	-	(177,632)	(10,048)	(663,042)	(5,648)	(189,315)	-	(1,045,685)
Accumulated impairment	(1,253)	-	-	-	-	-	-	(1,253)

14,441 mil. KRW of depreciation cost is included in the cost of sales and 4,047 mil. KRW is included in the selling and administrative expenses.

#### (2) Operating lease

a. Operating lease expense recognized by the consolidated entity for the current period are as follows (unit: mil. KRW).

Classification	Current period
Lease expenses	1,418

b. As of end of the current period, minimum lease expenses to be paid by the consolidated entity are as follows (unit: mil. KRW).

Classification	End of current period
Up to 1 year	4,377
1 to 5 years	5,897
Total	10,274

## 15. intangible assets

(1) The details of the change of intangible assets during the current period are as follows.

Classification	Industrial property rights	Memberships	Others	Goodwill	Total
Beginning balance	4,821	4,413	957	1,595	11,786
Acquisition	35	15	-	-	50
Replacement	125	-	-	-	125
Amortization	(207)	-	(8)	-	(215)
Changes due to business combination (*1)	58,094	-	39,466	88,592	186,152
Foreign Currency Translations	-	-	(60)	-	(60)
Ending balance	62,868	4,428	40,355	90,187	197,838

(\*1) Refer to note 37 for details of changes in intangible assets due to business combination. Total cost of amortization expenses of intangible assets is included in selling and administrative expenses.

## 16. Impairment Tests for Goodwill

Goodwill is allocated for each cash-generating unit, and as of the end of the reporting period, goodwill is allocated as follows (unit: mil. KRW).

Classification	End of current period
Boulangerie Segment	1,595
HAVMOR ICE CREAM LIMITED	88,592
Total	90,187

The consolidated entity recognized goodwill of 88,592 mil. KRW by acquiring HAVMOR ICE CREAM LIMITED.

The consolidated entity annually conducts impairment test for goodwill. As a result of the impairment test, it was determined that the book value of cash generating unit does not exceed their fair value. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Sales revenue growth ratio used for the term and permanent growth rate for term exceeding this is as follows. The key assumptions used for value-in-use calculations are as follows.

Key Assumptions	Boulangerie Segment
Gross-profit ratio (*1)	36.6%
Sales Growth Rate (*2)	3.6%
Perpetual Growth Rate (*3)	0%
Pre-tax Discount Rate (*4)	5.47%

(\*1) The average gross-profit ratio for five-year period.

(\*2) Weighted-average sales growth rate in order to calculate the expected cash flows for five-year period, which is estimated based on the historical results and the expectation of the consolidated entity.

(\*3) Expected growth rate after five years.

(\*4) Pre-tax discount rate which applied to the cash flow projection.

The consolidated entity determines the sales growth rate based on its past performances and expectation on future market development. The discount rate used is the pre-tax discount rate that risks of relevant segments.

## 17. Investment Property

(1) The details of the change of investment property during the current period are as follows.

Classification	Land	Buildings	Total
Beginning Book Value	15,844	1,549	17,393
Replacement	-	29	29
Depreciation	-	(28)	(28)
Changes due to business combination	-	1,014	1,014
Foreign Currency Translations	-	(2)	(2)
Ending Book Value	15,844	2,562	18,406
Acquisition cost	15,844	7,205	23,049
Accumulated depreciation	-	(4,643)	(4,643)

As of the end of the current period, the fair value of investment property is 26,142 mil. KRW, and total depreciation cost of the investment property is included in the cost of sales.

Rental income from investment property during current period is 62 mil. KRW and operating expenses (including repairs and maintenance) directly related to those investment properties is 5 mil. KRW.

## 18. Trade Payables and Other Payables

(1) Details of trade payables and other payables are as follows (unit: mil. KRW).

Classification	End of current period
Trade payables	84,938
Non-trade payables	67,582
Total	152,520

## 19. Borrowings and others

(1) Details of borrowings and others are as follows (unit: mil. KRW).

a. Short-term Borrowings

Classification	Borrowed from	End of current period	
		Annual interest rate (%)	Amount
Short-term borrowings	Shinhan Bank	3.52	137
	Korea Investment & Securities Co.,Ltd	1.95	50,000
	KTB Investment & Securities Co., Ltd.	1.95	100,000
	HDFC Bank	8.50~10.65	1,847
Current Portion of Long-Term Debt	HDFC Bank	6.44	1,079
Total			153,063

b. Long-term Borrowings

Borrowed from	Details	Maturity Date	End of current period	
			Interest Ratio (%)	Amount
HDFC Bank	General Borrowing	12/31/2021	9.75~10.5	2,206
Total				2,206

c. Debentures

Classification	Borrowed from	Maturity Date	End of current period	
			Nominal Interest Rate (%)	Amount
61 <sup>th</sup> -1 Debenture in KRW	Mirae Asset Daewoo Co., Ltd.	7/3/2018	2.00	50,000
61 <sup>th</sup> -2 Debenture in KRW		7/3/2025	2.89	50,000
62 <sup>th</sup> -1 Debenture in KRW	KB Securities Co., Ltd.	11/27/2018	2.14	100,000
62 <sup>th</sup> -2 Debenture in KRW		11/27/2020	2.42	50,000
63 <sup>th</sup> -1 Debenture in KRW	Korea Investment & Securities Co.,Ltd. And others	2/22/2020	1.92	110,000
63 <sup>th</sup> -2 Debenture in KRW		2/22/2022	2.22	170,000

Sub-total	530,000
Less: Discount on debentures	(744)
Total book value of debentures	529,256
Current portions:	149,927
Current debentures	150,000
Current discounts on debentures	(73)
Total book value of non-current debentures	379,329

Above debentures will be paid on their maturity date, and interest expenses will be paid every three months.

(2) Book value and fair value of debentures are as follows (unit: mil. KRW)

Classification	End of current period	
	Book value	Fair value (*1)
Debentures	529,256	526,368

(\*1) Fair value is calculated by discounting future cash flows with corporate bonds (AA +) yields with the same credit rating as the consolidated entity.

(3) Details of change in borrowings and debentures during the current period are as follows (unit: mil. KRW).

Classification	Current period	
	Borrowings	Debentures
Beginning balance	50,054	529,184
Amortization	-	72
Repayments	(50,054)	-
Increase	150,139	-
Changes due to business combination	5,132	-
Foreign Currency Translations	(2)	-
Ending balance	155,269	529,256

## 20. Post-employment benefits

### 20.1 Defined benefit plans

(1) Details of net defined benefit liabilities are as follows (unit: mil. KRW).

Classification	End of current period
Current value of defined benefit liabilities	113,171
Fair value of plan assets (Footnote 1)	(113,154)
Liabilities on financial position	17

(\*1) Fair value of plan assets of end of the current period includes 48 mil. KRW of current national pension fund.

(2) Changes in present value of defined benefit liabilities are as follows (unit: mil. KRW).

Classification	Current period
Beginning balance	121,839
Current period service cost	4,649
Interest expense	687
Actuarial profit and loss remeasurement factor:	
- Actuarial profit and loss due to changes in demographic assumptions	324
- Actuarial profit and loss due to changes in financial assumptions	(125)
- Actuarial profit and loss due to changes in empirical assumptions	(1,504)
Payment from plans:	
- Benefit payments	(13,291)
Transfer amount from affiliated company	56
Liabilities acquired by business combination	536
Ending balance	113,171

(3) Changes in fair value of plan assets are as follows (unit: mil. KRW).

Classification	Current period
Beginning balance	92,824
Interest income	466
Remeasurement factor	
- Revenue of plan assets (excluding the amount included in the interest income)	42
Contributions:	
- Employers	30,448
Payment from plans:	
- Benefit payments	(11,013)
Management commissions	(163)
Transfer amount from affiliated company	56
Assets acquired by business combination	494
Ending balance	113,154

(4) Plan assets consists of: (unit: mil. KRW)

Classification	End of current period	
	Amount	Proportion (%)
Insurance instrument	113,107	99.96
Funds changed into national pension	48	0.04
Total	113,154	100.00

(5) The principal actuarial assumptions are as follows.

Classification	End of current period (%)
Discount rate	2.94
Salary growth rate	2.15
Future salary increase rate	2.68

(6) The sensitivity of the defined obligations to changes in principal assumptions are as follows.

Classification	Effect on the defined obligations (%)		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00	(4.81)	5.39
Salary growth rate	1.00	5.39	(4.90)
Future salary increase rate	1.00	5.35	(4.85)

The decline in the yield of good bonds, which is a discount rate, is offset by the increase in the value of the debt securities held by the plan, but it is exposed to the most significant risk through the increase in defined benefit liabilities

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, various assumptions are correlated and changes accordingly. 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.

(7) Effect of defined benefit plans on future cash flows.

The consolidated entity reviews the funding level on an annual basis and has a policy to eliminate deficit in the fund.

Expected contributions to post-employment benefit plans for the fiscal year that ends on Dec. 31, 2018 are 18.615 mil. KRW.

As of the end of the current period, expected maturity analysis of discounted pension benefits is as follows (unit: mil. KRW).

	Under 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Wage payment	19,298	175	16,609	77,089	113,171

The weighted average duration of the defined benefit obligations is 6.24 years.

## 20.2 Defined contribution plan

Recognized expense related to the defined contribution plan for the current period is 203 mil. KRW.

## 21. Income Tax Expenses and Deferred Income Tax

(1) Income tax expenses consists of: (unit: mil. KRW)

Classification	Current period
Deferred income tax	
Increase/decrease of temporary differences	1,322
Total deferred income tax	1,322
Income tax expenses	1,322

(2) The difference between the income tax expense for the income before income tax expense and the amount theoretically calculated using the weighted average tax rate applicable to the consolidated entity's profits is as follows (Unit: KRW million).

Classification	Current period
Profit before income tax	3,270
Income tax according to applied tax rate	927
Income tax effect:	
- Non-deductible expenses for tax purposes	377
- Others	18
Income tax expenses	1,322

(3) Changes in income tax effect directly applied to capital during current period are as follows (unit: mil. KRW).

Classification	Current period		
	Before application	Income tax effect	After application
Changes in value of available-for-sale financial assets	13	(3)	10
Actuarial profit and loss	1,347	(326)	1,021
Total	1,360	(329)	1,031

(4) Details of deferred income tax assets and liabilities are as follows (unit: mil. KRW).

Classification	End of current period
Deferred tax assets	
Deferred tax assets to be settled after 12 months	25,908
Deferred tax assets to be settled within 12 months	17,572
Deferred tax liabilities	
Deferred tax liabilities to be settled after 12 months	(184,817)
Deferred tax liabilities to be settled within 12 months	(26)
Deferred corporate tax assets (liabilities) – net amount	(141,363)

(5) Changes in deferred tax assets and liabilities before offsetting are as follows (unit: mil. KRW).

Classification	2017.10.1	Income statement	Other Comprehensive Income	Retained Earnings	Acquisition of Subsidiary	Foreign currency translation differences	2017.12.31
Deferred tax liabilities							
Gain on valuation of available-for-sale securities	(16)	-	(3)	-	-	-	(19)
Land net revaluation gains	(83,936)	4	-	-	-	-	(83,932)
Advanced depreciation provision	(18,129)	1	-	-	-	-	(18,128)
Amortization of property, plant and equipment	(21,973)	912	-	-	(1,497)	-	(22,558)
Retirement insurance deposit	(22,464)	(1,443)	-	-	-	-	(23,907)
Reserve for research and human resource development	(1,109)	303	-	-	-	-	(806)
Others	(1,139)	29	-	-	(34,383)	-	(35,493)
Sub-total	(148,766)	(194)	(3)	-	(35,880)	-	(184,843)
Deferred tax assets							
Post-employment benefits provisions	20,889	(1,370)	-	-	-	-	19,519
Return provision	6,033	210	-	-	-	-	6,243
Bad debt expenses	4,585	84	-	-	-	-	4,669
Remeasurements of net defined benefit liabilities	4,714	-	-	(326)	-	-	4,388
Unpaid expenses	4,918	(918)	-	-	-	-	4,000
Leased assets	116	-	-	-	-	-	116
Non-deductible bad debt provisions	1,625	426	-	-	43	-	2,094
Others	1,963	440	-	-	93	(45)	2,451
Sub-total	44,843	(1,128)	-	(326)	136	(45)	43,480
Total	(103,923)	(1,322)	(3)	(326)	(35,744)	(45)	(141,363)

(6) Temporary difference to subtract that are not recognized as deferred income tax assets are as follows (unit: mil. KRW).

Classification	End of current period
Investment Assets in Subsidiaries and Associates	8,909

Temporary difference to subtract regarding tax losses and investment in subsidiaries and associates are not recognized as deferred income tax asset since it was not probable that they will be realized in the foreseeable future.

(7) Temporary difference to add that are not recognized as deferred income tax liabilities are as follows (unit: mil. KRW).

Classification	End of current period
Investment Assets in Subsidiaries and Associates	8,801

For temporary differences to add on the investments in subsidiaries and associates, the consolidated entity does not recognize deferred tax liabilities since it is likely that the entity will be able to control the timing of its disappearance and is not subject to extinguishment by dividends and that temporary differences will not disappear in the foreseeable future.

## 22. Provisions

(1) Changes in provisions are as follows (unit: mil. KRW).

Classification	Current period
Beginning-of-period	25,156
Increase/Decrease	1,436
End-of-period (*1)	26,592

(\*1) The consolidated entity estimates the amount expected to be returned in the future based on factors including previous experience, and also reflects judgments on lost cases among pending litigations in estimating provisions.

## 23. Capital Stock and Others

### (1) Capital Stock

The total number of shares to be issued by the parent corporation is 30,000,000 shares and the number of issued shares are 4,209,102 shares. Face value per share are 500 KRW.

### (2) Capital Surplus (unit: mil. KRW)

Classification	Amount
Paid-in Capital in Excess of Par Value	819,823

### (3) Other capital components

The consolidated entity acquired 4,578 shares of treasury stock for 870 mil. KRW through odd-lot buying occurred following spin off in Oct. 1, 2017.

## 24. Accumulated other comprehensive income

(1) Accumulated other comprehensive income consists of: (unit: mil. KRW).

Classification	End of current period
Changes in value of available-for-sale financial assets	60
Share of other comprehensive income of associates	(107)
Cumulative effect of foreign currency translations	(1,334)
Total	(1,381)

(2) Changes in accumulated other comprehensive income during current period are as follows (unit: mil. KRW).

Classification	2017.10.1	Increase/decrease (*1)	2017.12.31
Changes in value of available-for-sale financial assets	50	10	60
Share of other comprehensive income of associates	185	(292)	(107)
Cumulative effect of foreign currency translations	(31)	(1,303)	(1,334)
Total	204	(1,585)	(1,381)

(\*1) Above changes in accumulated other comprehensive income represents net of income tax effect amounts.

## 25. Consolidated Retained Earnings

(1) Consolidated retained earnings consist of the following (unit: mil. KRW)

Classification	End of current period
Undivided surplus	3,048

## 26. Selling and Administrative Expenses

(1) Details of selling and administrative expenses are as follows (unit: mil. KRW).

Classification	Current period
Salary	32,291
Post-employment benefits	3,171
Welfare expenses	5,787
Training expenses	630
Travel and transportation expenses	376
Vehicle maintenance expenses	1,849
Insurance payment	375
Taxes and dues	464
Entertainment expenses	259
Consumable expenses	922
Books printing expenses	73
Communications expenses	451
Water and heating expenses	1,049
Repairs and maintenance	1,065
accrued rent	5,760
Depreciation cost	4,047
amortization expenses on intangible assets	215
Commission fee	56,488
Advertising cost	10,162
Samples expense	212
Sales commission	9,368
Sales promotion cost	12,779
Bad debt expenses	2,082
Others	952
Total	150,827

## 27. Expenses by Nature

(1) Expenses by nature of cost of sales, and selling and administrative expenses are as follows (unit: mil. KRW).

Classification	Current period
Changes in inventories of finished goods, merchandises and work-in-progress	(11,243)
Raw materials and consumables used	133,438
Purchase of merchandises	58,624
Employee benefits	62,443
Advertising cost	10,162
accrued rent	6,112
Commission fee	77,115
Depreciation cost	18,517
amortization expenses on intangible assets	215
Sales commission	9,368
Sales promotion cost	12,779
Other expenses	18,845
Total	396,375

## 28. Other income

(1) Details of other income are as follows (unit: mil. KRW).

Classification	Current period
Gain on foreign currency transactions	457
Profit from foreign currency translation	248
Profit on disposition of property, plant and equipment	465
Miscellaneous revenue	1,253
Total	2,423

## 29. Other expenses

(1) Details of other expenses are as follows (unit: mil. KRW).

Classification	Current period
Loss on foreign currency transactions	767
Loss on foreign currency translation	653
Loss on disposition of property, plant and equipment	2
Donations	1,955
Other bad debt expenses	41
Miscellaneous loss	1,469

Total	4,887
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### 30. Financial Income

(1) Details of financial income are as follows (unit: mil. KRW).

Classification	Current period
Interest income	639
Gain on foreign currency transactions	4
Profit from foreign currency translations	2
Total	645

### 31. Financial Costs

(1) Details of financial costs are as follows (unit: mil. KRW).

Classification	Current period
Interest expense	3,301
Loss on foreign currency translation	108
Total	3,409

### 32. Earnings per Share

(1) Basic earnings per share

Details of basic earnings per share on equity attributable to owners of the parent corporation during the current period are as follows (Unit: KRW).

Details	current period
Common stock profit for the period	2,027,136,414
Weighted average number of ordinary shares outstanding (*1) (Unit: shares)	4,206,067
Basic earnings per share	482

(\*1) Calculation of the weighted average number of ordinary shares outstanding are as follows.

Classification	Number of shares	Weighted average	Weighted number of stocks
Number of split shares	4,209,102	92	387,237,384
Treasury stocks	(4,578)	61	(279,258)
Total	4,204,524		386,958,126

Weighted average number of ordinary shares:  $386,958,126 / 92 \text{ days} = 4,206,067 \text{ shares}$

(2) Diluted earnings per share

As there are no diluted securities outstanding, diluted earnings per share is identical to basic earnings per share.

33. Dividends

No dividend is paid by the parent company in the current period.

Dividend per share and total dividend for this fiscal year are 280 KRW and 1,177 mil. KRW, respectively, and will be submitted to the general shareholder’s meeting expected to be held on Mar. 23, 2018. The consolidated financial statements of the current period does not include unpaid dividend.

34. Contingent Liabilities and Arrangements

(1) As of the end of the reporting period, the consolidated entity is a plaintiff in 88 lawsuits to recover payment for goods and others totaling 2,486 mil. KRW and is a defendant in 6 lawsuits with damage claims totaling 575 mil. KRW. Although outlook of such lawsuits is unpredictable, the consolidated entity believes that the ultimate outcome of these legal actions will not have a material effect on the consolidated financial statements.

(2) As of the end of the reporting period, credit facility commitments with financial institution are as follows (unit: mil. KRW, thousand USD)

Classification	Name of financial institution	End of current period
Overdraft	Shinhan Bank, others	26,016
General loan limit	Woori Bank, others	10,284
L/C limit	Woori Bank, others	USD 17,000
Local L/C limit	KEB Hana Bank, others	1,500
Performance guarantees	Seoul Guarantee Insurance Co., Ltd	3,564

(3) As of the end of the reporting period, the consolidated entity entered into technical assistance and supporting agreement with WILKES & ASSOCIATES (US) and others, and is receiving technical support and services paying license fee in accordance with the agreement.

Contractor	Description	Fee	Expiration date
PEPSICO	Snack (Cheetos) production	Larger amount between 3.00% of net sales and 2.00% of gross sales	Contract renewal in progress
	Snack (Doritos) production	Larger amount between 3.00% of net sales and 2.18% of gross sales	Dec. 2020
The Hershey Company	Trademark (Hershey’s ice) licensee fee	3.00% of net sales	Dec. 2019
	Trademark (Hershey’s twizzlers) licensee fee	2.00% of net sales	Jun. 2019

The consolidated entity entered into technical assistance and supporting agreement with Lotte Japan co., Ltd for 10 years starting from Apr. 1, 2004 to Mar. 31, 2014. The agreement was automatically renewed for another 5 years. Under above agreement, the consolidated entity is required to pay a flat rate for the use of patents, utility models, and trademarks, and the amount due during this period is 72 mil. KRW.

Above technology introduction agreement was transferred from the split survival company as of date of the division

(4) Joint responsibility for liabilities of the corporation before division

As of the end of the current period, the consolidated entity is jointly responsible with Lotte Corp. the split survival company for liabilities of the company before split (formerly Lotte Confectionery Co., Ltd.), in accordance with article No. 530-9, paragraph 1 of the Commercial Law.

35. Related Party Transactions

(1) Status of parent corporation, subsidiaries and others

- 1) As of the end of the current period, no parent corporation has control over the consolidated entity.
- 2) A corporation with a significant influence, associates and other related parties that has trade with or balance of receivables and payables with the consolidated entity.

Classification	End of current period	Remarks
A corporation with a significant influence	Lotte Corp.	
Associates	Lotte Taiwan Co., Ltd.	
Other related parties	Lotte Logistics Co., Ltd.	(*1)
	LOTTE GRS CO., LTD (Former Lotteria Co., Ltd.)	
	Lotte Foods Co., Ltd.	
	Lotte Shopping Co., Ltd.	
	Lotte Aluminum Co., Ltd.	
	Lotte Card Co., Ltd. And others	

(\*1) This company does not pertain to the special party category of No. 1024 of the Statement of Financial Accounting Standards, and is a company affiliated with the Lotte Group business groups pursuant to the Fair Trade Act.

(2) Details of sales and purchases during the current period are as follows (unit: mil. KRW).

Special relationship classification	Company Name	Sales	Purchase	Property, plant and equipment Acquisition	Other income	Other expenses
A corporation with a significant influence	Lotte Corp.	2,083	-	-	248	764
Associates	Lotte Taiwan Co., Ltd.	1,453	-	-	-	219
Others	Lotte Logistics Co., Ltd.	18,483	138	-	-	21,587
	Lotte GRS Co., Ltd.	8,694	2	-	93	62

Related Parties	(Former Lotteria Co., Ltd.)					
	Lotte Foods Co., Ltd.	1,281	14,033	-	693	1,149
	Lotte Shopping Co., Ltd.	32,755	-	-	-	2,238
	Lotte Aluminum Co., Ltd.	122	11,455	36	-	291
	Lotte Card Co., Ltd. And others	15,132	6,736	4,723	491	11,270
Total		80,003	32,364	4,759	1,525	37,580

(3) As of the end of the current period, major balance of receivables and payables of related parties are as follows (unit: mil. KRW).

Special relationship classification	Company Name	Bond		Debt	
		Trade receivables	Other receivables (*1)	Trade payables	Other payables
A corporation with a significant influence	Lotte Corp.	868	132	-	865
Associates	Lotte Taiwan Co., Ltd.	1,453	-	-	-
Other related parties	Lotte Logistics Co., Ltd.	11,431	1	235	5,906
	Lotte GRS Co., Ltd. (Former Lotteria Co., Ltd.)	6,482	440	1	48
	Lotte Foods Co., Ltd.	397	209	17,944	638
	Lotte Shopping Co., Ltd.	14,702	39	-	818
	Lotte Aluminum Co., Ltd.	64	1	17,864	318
	Lotte Card Co., Ltd. And others	19,893	8,315	2,768	20,177
Total		55,290	9,137	38,812	28,770

(\*1) It consists of outstanding amount and other intangible assets.

Trade receivables of related parties are due approximately one to two months after the date of transaction. Related parties' receivables do not have collateral by nature, and are free of interest.

(4) The consolidated entity has entered into the following trademark licensing agreements with other related parties.

Classification	Related Products	Usage	Period	Used amount
Technical support	Choco Pie	Lotte India Co., Ltd.	1/1/2010 ~ 12/31/2019	1.50% of net sales
Technical support	SPOUT	Lotte India Co., Ltd.	1/1/2005 ~ 12/31/2019	1.50% of net sales
Trademark	SPOUT	Lotte India Co., Ltd.	1/1/2005 ~ 12/31/2019	1.50% of net sales
Technical support	Choco Pie	Lotte Confectionery RUS LLC	1/1/2013 ~ 12/31/2027	1.50% of net sales
Technical support	Cacao Pie	Lotte Confectionery RUS LLC	1/1/2016 ~ 8/2/2020	1.50% of net sales

(5) Payment guarantee

The parent corporation is jointly responsible with Lotte Corp. the split survival company for payment guarantees provided by related companies (formerly Lotte Confectionery Co., Ltd.) to related parties in accordance with article No. 530-9, paragraph 1 of the Commercial Law.

(6) The consolidated entity has entered into a contract to pay royalties based on sales and advertising expenses regarding the use of Lotte CI brand with the Lotte Corp.

(7) Details of compensation for the key management are as follows (unit: mil. KRW).

Category	Current period
Short term wages	3,869
Post-employment benefits	493
Total	4,362

Key management include directors (including non-standing directors) and auditors with significant authority and responsibility for planning, operating and controlling the activities of the consolidated entity.

### 36. Cash Flow Table

(1) During the current period, significant transactions with no cash inflows or outflows are as follows (Unit: mil. KRW)

Contents	Current period
original account transfer from sales of construction in progress	14,607
Unpaid amount of acquisition of property, plant and equipment	3,934
Reclassification of a prepayment to intangible assets	125

(2) Details of change in liabilities arising from financial activities during the current period are as follows (unit: mil. KRW).

Classification	2017.10.1	Financial cash flow	Non-monetary change		2017.12.31
			Liquidity substitution	Others	
Total liabilities from financial activities					
Short-term borrowings	50,053	100,085	-	2,925	153,063
long term borrowing	-	-	-	2,206	2,206
Current debentures	49,975	-	100,000	(48)	149,927
Debentures	479,208	-	(100,000)	121	379,329
Total	579,236	100,085	-	5,204	684,525

### 37. Business combination

#### (1) HAVMOR ICE CREAM LIMITED

a. The consolidated has acquired 100% share of HAVMOR ICE CREAM LIMITED on Dec. 15, 2017 and included HAVMOR ICE CREAM LIMITED as its subsidiary.

b. The goodwill of 88,592 mil. KRW arising from the acquisition is based on the customer base of HAVMOR ICE CREAM LIMITED in India and synergy effect it has with the consolidated entity.

c. Recognized goodwill is not expected to be recognized as taxable. The amount of acquired assets and accepted liabilities are measured by fair value, and the details of the price paid to HAVMOR ICE CREAM LIMITED, assets and liabilities recognized on the date of acquisition are as follows (unit: mil. KRW).

Classification	Amounts
I. Price transferred	
Cash	167,157
II. Amount recognized as identifiable assets and liabilities	
Cash and cash equivalents	101
Trade and other receivables	1,760
Bad debt provisions	(125)
Inventories	7,412
Other current financial asset	5
Other current assets	1,218
Other non-current financial Assets	391
Other non-current assets	59
Investment property (*1)	1,012
Property, plant and equipment (*1)	20,329
intangible assets (*1)	97,547
Trade and other payables	(5,572)
Current borrowings	(2,925)
Other current financial liabilities	(14)
Provisions	(225)
Other current liabilities	(130)
Non-current borrowings	(2,206)
Other non-current financial liabilities	(4,287)
Net defined benefit liabilities	(41)
Deferred tax liabilities (*1)	(35,744)
Fair value of total net asset that are identifiable	78,565
Share Ratio	100%
Share ratio of net assets	78,565
III. Goodwill	88,592

(\*1) Among the assets acquired by the consolidated entity through business combination, increased amount due to fair value valuation 5,784 mil. KRW and recognized amount of identifiable intangible asset 93,565 mil. KRW. Among the liabilities, recognized amount of deferred tax liabilities 34,383 mil. KRW is included.

d. When preparing this consolidated financial statement, the consolidated entity considered this business combination to be occurred on Dec. 31, 2017. Therefore, revenues and current period profit and loss of HAVMOR ICE CREAM LIMITED are not included in the consolidated statements of comprehensive profit and loss.

e. Sales and net loss that would have been recognized in the consolidated statement of comprehensive profit and loss if HAVMOR ICE CREAM LIMITED was consolidated from Oct. 1, 2017 are 15,784 mil. KRW and 223 mil. KRW, respectively.

f. Since this business combination was completed near the closing date, the amount of assets and liabilities recognized in the consolidated financial statements is provisionally determined and the related amount may be subject to change in the future.

## Details of Independent Audit

The details of external audit shall be attached based on the regulations of Article 7-2 of the Act on External Audit of Stock Companies.

### 1. Subject to Audit

Name of the Company	Lotte Confectionery Co., Ltd.			
Audit of fiscal year	10/1/2017	From	12/31/2017	To

### 2. Number of People and Audit Hours per Audit Participant

(unit: people, hours)

Audit participant \ Number of people and hours	Quality control reviewer (hearing room, etc)		Accountant in charge of audit						Expert such as on electronic audit • tax • value evaluation		Expert in order-made production industry including construction contracts		Total	
			Director in charge (acting director)		Registered certified public accountant		Probationary certified public accountant							
			Current period	Previous period	Current period	Previous period	Current period	Previous period						
Number of participants	1	-	1	-	8	-	-	-	2	-	-	-	12	-
Number of hours	Quarterly, semiannually review	-	-	-	-	-	-	-	-	-	-	-	-	-
	Audit	18	-	129	-	1,594	-	-	100	-	-	-	1,841	-
	Total	18	-	129	-	1,594	-	-	100	-	-	-	1,841	-

### 3. Major audit procedures

Classification	Details							
Overall audit plan (audit launching stage)	Performance period	2017.12.4			1	Days		
	Main contents	Determine scope and time of audit based on overall understanding of the company and the industry						
Main contents of field audit	Performance period			Number of people employed		Main performance contents of audit		
				Resident	Non-resident			
	2017.12.5 - 2017.12.8	4	Days	7	Persons		1	Persons
	2018.1.18 - 2018.1.20	3	Days	7	Persons		1	Persons
	2018.1.29 - 2018.1.31	3	Days	7	Persons	1	Persons	
Inventory asset due diligence (in attendance)	Due diligence (in attendance) period	12/29/2017			1	Days		
	Due diligence (in attendance) location	Plant in Yeongdeungpo, Yangsan, Daejeon, Pyeongtaek.						
	Due diligence (in attendance) subjects	Inventories						
Financial assets due diligence (in attendance)	Due diligence (in attendance) period	12/29/2017			1	Days		
	Due diligence (in attendance) location	Headquarter						
	Due diligence (in attendance) subjects	Cash, securities, and memberships, etc.						
External inquiry	Inquiry on financial transaction	O	Inquiry on Receivables and payables		O	Attorney inquiry		
	Other inquiry	-						
Communication with controlling body	Communication frequency	2	Times					
	Performance period	2017.12.8, 2018.3.5						