

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

Consolidated Financial Statements

December 31, 2018

Lotte Confectionery Co., Ltd. and Subsidiaries
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December 31, 2018 and 2017

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Independent Auditor's Report
(English Translation of a Report Originally Issued in Korean)

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

Opinion

We have audited the accompanying consolidated financial statements of Lotte Confectionery Co., Ltd. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lotte Confectionery Co., Ltd. and its subsidiaries as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

The consolidated financial statements of the Group for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on March 15, 2018.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jong-Jin, Oh, Certified Public Accountant.

Seoul, Korea

March 20, 2019

This report is effective as of March 20, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	2018		2017	
Assets					
Current assets					
Cash and cash equivalents	4,5,7,8	₩	198,591	₩	66,069
Trade and other receivables	4,5,7,11		234,071		260,832
Available-for-sale financial assets	4,5,7		-		634
Financial assets at fair value through other comprehensive income	4,5,7,9		119		-
Other current financial assets	4,5,7,12		729		30,111
Inventories	13		237,136		162,689
Other current assets	12		33,520		12,017
			<u>704,166</u>		<u>532,351</u>
Non-current assets					
Investments in associates	14		43,471		8,596
Available-for-sale financial assets	4,5,7		-		119
Other non-current financial assets	4,5,7,12		36,386		27,172
Property, plant and equipment	15		1,289,501		1,121,113
Intangible assets	16		370,033		197,838
Investment property	18		90,524		18,406
Deferred tax assets	22		5,400		792
Other non-current assets	12		3,193		656
			<u>1,838,508</u>		<u>1,374,692</u>
Total assets		₩	<u>2,542,674</u>	₩	<u>1,907,044</u>
Liabilities					
Current liabilities					
Trade and other payables	4,5,7,19	₩	171,657	₩	152,520
Borrowings	4,5,7,20		175,694		153,063
Debentures	4,5,7,20		-		149,927
Other current financial liabilities	4,5,7,12		48,527		35,555
Income taxes payable	22		4,127		-
Deferred revenue			1,601		17
Provisions	23		26,497		26,592
Other current liabilities	12		21,178		18,089
			<u>449,280</u>		<u>535,762</u>
Non-current liabilities					
Borrowings	4,5,7,20		69,307		2,206
Debentures	4,5,7,20		547,236		379,329
Other non-current financial liabilities	4,5,7,12		17,197		10,863
Net defined benefit liabilities	21		12,235		17
Provisions			596		-
Deferred tax liabilities	22		177,866		142,154
Deferred revenue			3,175		1,173
Other non-current liabilities			7,872		8,334
			<u>835,484</u>		<u>544,076</u>
Total liabilities			<u>1,284,764</u>		<u>1,079,838</u>
Equity					
Share capital	24		3,208		2,105
Capital surplus	24		1,178,514		819,823
Other components of equity			1,149		1,149
Accumulated other comprehensive income	25		(17,544)		(1,381)
Retained earnings	26		9,474		3,048
Equity attributable to owners of the Parent Company			<u>1,174,802</u>		<u>824,744</u>
Non-controlling interest			<u>83,108</u>		<u>2,462</u>
Total equity			<u>1,257,910</u>		<u>827,206</u>
Total liabilities and equity		₩	<u>2,542,674</u>	₩	<u>1,907,044</u>

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

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
Year Ended December 31, 2018 and Three-month Period Ended December 31, 2017

<i>(in millions of Korean won)</i>	Notes	2018		2017	
Revenue	6	₩	1,694,513	₩	404,787
Cost of sales	13,28		<u>1,087,930</u>		<u>245,548</u>
Gross profit			606,583		159,239
Selling and administrative expenses	27,28		542,207		150,827
Impairment loss of trade receivables			<u>683</u>		<u>2,082</u>
Operating profit	6		64,376		8,413
Other income	29		11,310		2,423
Other expenses	30		40,864		4,887
Impairment loss of other receivables			7,156		41
Finance income	31		10,610		645
Interest income			2,883		639
Finance costs	32		24,696		3,409
Share of profit of associates	14		<u>57</u>		<u>86</u>
Profit before income tax			20,793		3,270
Income tax expense	22		12,374		1,322
Profit for the year		₩	<u>8,419</u>	₩	<u>1,948</u>
Attributable to:					
Owners of the Parent Company		₩	9,362	₩	2,027
Non-controlling interests			(944)		(79)
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liability	21		(2,322)		1,347
Income tax effect			563		(326)
<i>Items that may be subsequently reclassified to profit or loss</i>					
Gain (loss) on valuation of debt instruments at fair value through other comprehensive income (relating to instruments held by the Group)	9		(1)		13
Gain (loss) on valuation of debt instruments at fair value through other comprehensive income (reclassification of profit or loss)			(65)		-
Cash flow hedges			(4,280)		-
Exchange differences on translating foreign operations			(12,967)		(1,436)
Share of other comprehensive income of associates	14		107		(292)
Income tax effect			<u>1,052</u>		<u>(3)</u>
Other comprehensive income for the year, net of tax			<u>(17,915)</u>		<u>(696)</u>
Total comprehensive income for the year		₩	<u>(9,496)</u>	₩	<u>1,251</u>
Attributable to:					
Owners of the Parent Company		₩	(8,560)	₩	1,464
Non-controlling interests			(937)		(212)
Earnings per share for profit					
attributable to owners of the Parent Company (in Korean won)					
Basic and diluted earnings per share	33	₩	2,192	₩	482

The above consolidated statements of profit or loss should be read in conjunction with the accompanying notes.

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Year Ended December 31, 2018 and Three-month Period Ended December 31, 2017

(in millions of Korean won)

	Notes	Attributable to owners of the Parent Company						Total	Non-controlling interest	Total equity
		Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings				
Balance at October 1, 2017 (spin-off)		₩ 2,105	₩ 819,823	₩ 2,019	₩ 204	₩ -	₩ 824,151	₩ 2,674	₩ 826,825	
Total comprehensive income										
Profit (loss) for the year		-	-	-	-	2,027	2,027	(79)	1,948	
Remeasurements of net defined benefit liability		-	-	-	-	1,021	1,021	-	1,021	
Changes in the fair value of available-for-sale financial assets	25	-	-	-	10	-	10	-	10	
Exchange differences on translating foreign operations	25	-	-	-	(1,303)	-	(1,303)	(133)	(1,436)	
Share of other comprehensive income of associates	14	-	-	-	(292)	-	(292)	-	(292)	
Total other comprehensive income		-	-	-	(1,585)	3,048	1,463	(212)	1,251	
Transactions with owners										
Acquisition of treasury shares		-	-	(870)	-	-	(870)	-	(870)	
Total transactions with owners		-	-	(870)	-	-	(870)	-	(870)	
Balance at December 31, 2017		₩ 2,105	₩ 819,823	₩ 1,149	₩ (1,381)	₩ 3,048	₩ 824,744	₩ 2,462	₩ 827,206	
Balance at January 1, 2018		₩ 2,105	₩ 819,823	₩ 1,149	₩ (1,381)	₩ 3,048	₩ 824,744	₩ 2,462	₩ 827,206	
Total comprehensive income										
Profit (loss) for the year		-	-	-	-	9,362	9,362	(944)	8,419	
Remeasurements of net defined benefit liability		-	-	-	-	(1,759)	(1,759)	-	(1,759)	
Loss on valuation of debt instruments at fair value through other comprehensive income	25	-	-	-	(1)	-	(1)	-	(1)	
Loss on disposal of debt instruments at fair value through other comprehensive income	25	-	-	-	(50)	-	(50)	-	(50)	
Cash flow hedges	25	-	-	-	(3,245)	-	(3,245)	-	(3,245)	
Exchange differences on translating foreign operations	25	-	-	-	(12,974)	-	(12,974)	7	(12,967)	
Share of other comprehensive income of associates	14	-	-	-	107	-	107	-	107	
Total other comprehensive income		-	-	-	(16,163)	7,603	(8,560)	(937)	(9,496)	
Transactions with owners										
Dividends	34	-	-	-	-	(1,177)	(1,177)	-	(1,177)	
Capital increase		1,104	358,691	-	-	-	359,794	81,583	441,377	
Total transactions with owners		1,104	358,691	-	-	(1,177)	358,617	81,583	440,200	
Balance at December 31, 2018		₩ 3,209	₩ 1,178,514	₩ 1,149	₩ (17,544)	₩ 9,474	₩ 1,174,802	₩ 83,108	₩ 1,257,910	

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

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Year Ended December 31, 2018 and Three-month Period Ended December 31, 2017

<i>(in millions of Korean won)</i>	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		₩ 8,419	₩ 1,948
Income tax expenses	22	12,374	1,322
Depreciation	15,18	79,049	18,517
Amortization	16	5,504	215
Severance benefits	21	18,874	4,871
Donations		987	(426)
Interest expenses		17,308	3,301
Interest income		(2,883)	(639)
Gain on disposal of debt instruments at fair value through other comprehensive income	9	(67)	-
Gain on disposal of available-for-sale financial assets		-	-
Loss on disposal of investments in associates		1,239	-
Share of profit of associates		(57)	(86)
Gain on valuation of hedging derivative		(7,290)	-
Payment guarantees income		(121)	-
Impairment loss		7,822	2,123
Gain on disposal of property, plant and equipment		(2,682)	(465)
Loss on disposal of property, plant and equipment		3,545	2
Gain on disposal of intangible assets		(4)	-
Loss on disposal of intangible assets		1	-
Impairment loss on property, plant and equipment		1,676	-
Foreign exchange loss		11,373	511
Other expenses(income)		26	33
Decrease (increase) in inventories		3,636	(7,879)
Decrease in trade receivables		57,240	44,826
Decrease (increase) in other receivables		(145)	891
Decrease in other current assets		1,390	1,454
Decrease (increase) in other non-current assets		86	(9)
Decrease in trade payables		(2,657)	(9,361)
Increase (decrease) in other payables		(6,546)	694
Decrease in post-employment benefit obligation		(10,319)	(32,564)
Increase in other current financial liabilities		4,088	1,422
Increase (decrease) in other current liabilities		(4,715)	2,014
Increase (decrease) in other non-current financial liabilities		2,826	(2,937)
Decrease in other non-current liabilities		(1,570)	-
Increase (decrease) in deferred revenue		135	(29)
Increase (decrease) in provisions		(3,982)	1,222
Income taxes paid		(9,837)	-
Net cash inflow from operating activities		<u>184,725</u>	<u>30,971</u>
Cash flows from investing activities			
Decrease in short-term investments		643	-
Decrease in other current financial assets		120,228	70,000
Decrease in other non-current financial assets		5,001	910
Proceeds from disposal of investments in associates		7,496	-
Proceeds from disposal of property, plant and equipment		12,120	2,357
Proceeds from disposal of intangible assets		9	-
Interest received		2,344	705
Cash inflow due to business combination		73,744	-
Decrease in cash due to changes in scope of consolidation		(435)	(167,057)
Increase in other current financial assets		(90,080)	(30,000)
Increase in other non-current financial assets		(3,711)	(539)
Acquisition of investments in associates		(44,941)	-
Cash outflow due to business combination		(25,506)	-
Acquisition of property, plant and equipment and investment property		(89,138)	(16,867)
Acquisition of intangible assets		(564)	(50)
Net cash outflow from investing activities		<u>(32,789)</u>	<u>(140,539)</u>

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

Lotte Confectionery Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Year Ended December 31, 2018 and Three-month Period Ended December 31, 2017

<i>(in millions of Korean won)</i>	Notes	2018	2017
Cash flows from financing activities			
Proceeds from borrowings		157,645	150,139
Proceeds from issuance of debentures		160,421	-
Repayments of borrowings		(168,675)	(50,054)
Repayments of debentures		(150,000)	-
Interest paid		(16,503)	(3,208)
Cost of stock issuing		(47)	-
Dividends paid		(1,177)	-
Decrease in financial lease liabilities		(18)	-
Acquisition of treasury shares		-	(870)
Net cash inflow (outflow) from financing activities		<u>(18,353)</u>	<u>96,008</u>
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		66,069	79,799
Effects of exchange rate changes on cash and cash equivalents		(1,060)	(170)
Cash and cash equivalents at the end of the year	8	<u>₩ 198,591</u>	<u>₩ 66,069</u>

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

Lotte Confectionery Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

1. General Information

General information of Lotte Confectionery Co., Ltd. (the Parent Company) and its subsidiaries (collectively referred to as “the Group”) is as follows:

1.1 Description of the Parent Company

The Parent Company is newly established corporation which are established by a spin-off of investment division and business division of Lotte Corporation (formerly, Lotte Confectionery Co., Ltd.). The Parent Company engages in manufacturing and selling confectionery goods and ice cream at headquarter in Seoul and factories in Yangsan, Pyeongtaek, Deajeon and others. The Parent Company listed its shares on the Korea Exchange on October 30, 2017. As at December 31, 2018, share capital amounts to ₩ 3,208 million.

The Shareholders of the Parent Company and their ownership as at December 31, 2018, are as follows:

	Number of shares	Percentage of ownership (%)
Lotte Corporation Co., Ltd	3,106,984	48.42
Lotte Aluminum Co., Ltd.	643,381	10.03
Lotte Holdings Co., Ltd.	416,338	6.49
The Lotte Scholarship Foundation	365,937	5.70
Shin Kyuk Ho	287,408	4.48
Hotel Lotte Co., Ltd.	135,239	2.11
Shin Young Ja	106,228	1.66
Treasury shares	4,578	0.07
Others	1,350,624	21.04
	<u>6,416,717</u>	<u>100.00</u>

1.2 Consolidated Subsidiaries

The Parent Company’s consolidated subsidiaries as at December 31, 2018 and 2017, are as follows:

Subsidiaries	Location	Percentage of ownership (%)		Closing month
		2018	2017	
Lotte Qingdao Foods Co., Ltd.	China	90.00	90.00	December
Lotte Confectionery (S.E.A) Pte., Ltd.	Singapore	100.00	100.00	December
HAVMOR ICECREAM LIMITED	India	100.00	100.00	March

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Sweet With Co., Ltd. ¹	South Korea	100.00	-	December
Lotte Confectionery RUS LLC ²	Russia	100.00	-	December
Lotte Kolson(Private)Limited ³	Pakistan	96.50	-	December
Rakhat JSC ⁴	Kazakhstan	92.44	-	December
Rakhat-Shymkent LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Shymkent Trading House LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Astana LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Aktobe LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Aktau LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Oral LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Karaganda LLP ⁴	Kazakhstan	100.00	-	December
Rakhat-Taldykorgan LLP ⁴	Kazakhstan	100.00	-	December
Almaty Sweets LLC ⁴	Kyrgyzstan	100.00	-	December
Rakhat TR LLP ⁴	Kazakhstan	99.90	-	December
Rakhat Trading House LLP ⁴	Kazakhstan	100.00	-	December
Confectionery Holdings B.V. ⁵	Netherlands	51.00	-	December
Chocolaterie Guylian N.V. ⁵	Belgium	99.97	-	December
Chocolaterie Guylian Deutschland ⁵	Germany	100.00	-	December
Aimee BVBA ⁵	Belgium	99.00	-	December
Guylian Asia ⁵	Hong Kong	100.00	-	December
Guylian Iberia, LDA ⁵	Portugal	99.31	-	December
Guylian UK ⁵	United Kingdom	100.00	-	December
Guylian USA ⁵	USA	100.00	-	December

¹The Parent Company acquired 100% of shares of Sweet With Co., Ltd. amounting to ₩ 313 million during the year ended December 31, 2018.

²The Parent Company acquired 100% of shares of Lotte Confectionery RUS Limited amounting to ₩ 121 million during the year ended December 31, 2018. Since then, the Parent Company additionally invested ₩ 22,494 million for capital increase.

³The Group acquired 75,190,647 shares of Lotte Kolson(private)Limited for ₩ 42,845 million during the year ended December 31, 2018. The differences between acquisition cost and net asset value are based on identifiable intangible assets; and goodwill on the basis of customer-oriented in Pakistan.

⁴The Group acquired 3,327,987 shares of Rakhat JSC for ₩ 209,167 million in 2018. The differences

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between acquisition cost and net asset value are based on identifiable intangible assets; and goodwill on the basis of customer-oriented in Pakistan. Rakhat JSC holds 100% of shares of 10 subsidiaries, including shares of Shymkent LLP, and holds 99.9% of shares of Rakhat TR LLP.

⁵The Group acquired 56,100,000 shares of Confectionery Holdings B.V. for ₩ 107,829 million during the year ended December 31, 2018. The differences between acquisition cost and net asset value are based on identifiable intangible assets; and goodwill on the basis of customer-oriented in Europe. Chocolaterie Guylian N.V. held shares of Chocolaterie Guylian Deutschland, Aimee BVBA, Guylian Asia, Guylian Iberia, LDA, Guylian UK and Guylian USA in the range of 99.31% - 100%.

1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at December 31, 2018 and 2017 and for the year ended December 31, 2018 and the three-month period ended December 31, 2017, is as follows:

*(in millions of
Korean won)*

Subsidiary	2018						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)	
Lotte Qingdao Foods Co., Ltd.	₩ 19,546	₩ 4,306	₩ 15,240	₩ 10,499	₩ (9,415)	₩ (9,415)	
Lotte Confectionery (S.E.A) Pte., Ltd.	4,007	1,652	2,355	12,449	637	637	
HAVMOR ICECREAM LIMITED	38,810	18,129	20,681	90,730	7,723	7,723	
Sweet With Co., Ltd.	1,176	853	323	1,085	(26)	(26)	
Lotte Confectionery RUS LLC ¹	57,870	55,702	2,168	39,002	(7,819)	(7,819)	
Lotte Kolson(Private)Limited ²	99,433	60,271	39,162	103,704	1,474	1,474	
Rakhat JSC ²	134,637	18,237	116,400	189,310	23,129	23,129	
Confectionery Holdings B.V. ²	185,005	26,294	158,711	111,464	6,485	6,485	

¹The consolidated financial statements have been prepared by the Parent Company as if business combination occurred as at June 30, 2018. Lotte Confectionery RUS LLC's revenue and profit or loss which occurred after business combination are included in the consolidated statements of comprehensive income for the year ended December 31, 2018.

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²The consolidated financial statements have been prepared by the Parent Company as if business combination occurred as at December 31, 2018. Revenue and profit or loss of Lotte Kolson(Private)Limited, Rakhat JSC and Confectionery Holdings B.V. are not included in the consolidated statements of comprehensive income for the year ended December 31, 2018.

(in millions of
Korean won)

Subsidiary	2017						Total comprehensive income (loss)
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year		
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)	

¹The consolidated financial statements have been prepared by the Parent Company as if business combination occurred as at December 31, 2017. Revenue and profit or loss of HAVMOR ICE CREAM LIMITED are not included in the consolidated statements of comprehensive income for the three-month period ended December 31, 2017.

1.4 Changes in Scope for Consolidation

Subsidiary	Reason
Sweet With Co., Ltd.	Acquisition of control through business combination
Lotte Confectionery RUS LLC	Acquisition of control through business combination
Lotte Kolson(Private)Limited	Acquisition of control through business combination
Rakhat JSC	Acquisition of control through business combination
Rakhat-Shymkent LLP	
Rakhat-Shymkent Trading House LLP	
Rakhat-Astana LLP	
Rakhat-Aktobe LLP	
Rakhat-Aktau LLP	
Rakhat-Oral LLP	
Rakhat-Karaganda LLP	

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Rakhat-Taldykorgan LLP	
Almaty Sweets LLC	
Rakhat TR LLP	
Rakhat Trading House LLP	
Confectionery Holdings B.V.	Acquisition of control through business combination
Chocolaterie Guylian N.V.	
Chocolaterie Deutschland	Guylian
Aimee BVBA	
Guylian Asia	
Guylian Iberia, LDA	
Guylian UK	
Guylian USA	

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

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

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2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018. The adoption of these amendments did not have any material impact on the financial statements.

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

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

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

The amendment to Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

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

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

*- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration**

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

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The enactment is effective for annual periods beginning on or after January 1, 2018. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and there are no differences between previous book amounts and book amounts at the date of initial application. See Note 39 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has applied to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The enactment is effective for annual periods beginning on or after January 1, 2018. See Note 39 for further details on the impact of the application of the standard.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

- Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*. The Group will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Group is analyzing the effects on the financial statements based on available information as at January 1, 2019 to identify effects on 2019 financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

- Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a

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modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after 1 January 2019.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings at the date of initial application.

- Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

· Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. These amendments will be applied to business combinations for which the acquisition date

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is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

- Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. These amendments will be applied to transactions in which an entity obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early adoption permitted.

- Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. These amendments will be applied for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

2.3 Consolidation

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

(a) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling

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interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

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

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

(b) Associates

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

(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Segment Reporting

Segmental disclosures are disclosed in the consolidated financial statements in accordance with Korean IFRS 1108 *Operating Segment*.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional

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currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

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

Foreign exchange differences resulting from non-monetary financial assets (financial liabilities) are considered to be part of the fair value gain or loss. Therefore, Foreign exchange differences resulting from equity instruments which are measured at fair value through profit or loss, are recognized in profit or loss, and Foreign exchange differences resulting from available-for-sale equity instruments are recognized in other comprehensive income.

2.6 Financial Assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at fair value (changes in fair value are recognized in other comprehensive income or, profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to

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the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'interest income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

B. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue

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to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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

(e) 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 or bankruptcy of the Group or the counterparty.

2.7 Derivative Instruments

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

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The Group applies cash flow hedge accounting to hedge 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 'finance income (expenses)'.

2.8 Inventories

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

2.9 Non-current Assets Held for sale

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

2.10 Property, Plant and Equipment

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

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

	Useful lives
Buildings	10 – 50 years
Structures	10 - 40
Machinery	3 - 20
Vehicles	3 – 10
Others	1 - 10

The assets' depreciation method, residual values and useful lives are reviewed at the end of each reporting period, and the change, if appropriate, are treated as changes in accounting estimates.

2.11 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete

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and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.12 Intangible Assets

(a) Goodwill

Goodwill is measured as explained in Note 2.3(a) and goodwill arises on the acquisition of subsidiaries, associates and business is included in intangible assets. Goodwill is tested annually for impairment and carried at its cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives of five to twenty five years.

(c) Other intangible assets

Other intangible assets such as trademarks that meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of four to twenty years from the date the assets are available for use. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

2.13 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 15 ~ 40 years.

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2.14 Impairment of Non-financial Assets

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

2.15 Financial Liabilities

(a) Classification and measurement

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

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

(b) Derecognition

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

2.16 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following and recognized in the statement of financial position within 'other financial liabilities'.

- the amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*
- the amount initially recognized less cumulative amortization in accordance with Korean IFRS1018 *Revenue*

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2.17 Provisions

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

2.18 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

2.19 Employee Benefits

(a) Post-employment benefits

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

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

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

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

(b) Internal labor welfare fund

The Group operate internal labor welfare fund. The Group recognizes assets up to the level, that the net asset value of internal labor welfare fund can reduce payment of future related salaries

(c) Other long-term employee benefits

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

2.20 Revenue Recognition

From January 1, 2018, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers*. Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized

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

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

The major effects in applying this standard on the Group's financial statements are as follows;

i) Variable consideration

The Group engages in manufacturing and selling confectionery goods and ice cream. The amount estimated to pay or payable to customers (including customers of the customer) in supplying the confectionery goods and ice cream may result in changes in variable consideration. In applying Korean IFRS 1115, the Group recognize revenue by deducting the amount payable to customers or customers' customers from revenue.

ii) Consideration payable to a customer

Based on the contracts, if the Group provides products and receives identifiable good or service from the customers, profits that corresponds to the fair value, like transactions with independent third parties, are recognized as expenses or assets. If not, deducted from consideration receivable.

2.21 Lease

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

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

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

2.22 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.23 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2018 financial statements of the Group was approved by the Board of Directors on March 5, 2019, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

3. Critical Accounting Estimates and Assumptions

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

(a) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 22).

(b) Fair value of financial instruments

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

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(c) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 21).

(d) Provisions

The Group recognizes provision for the estimated amount of returns as at the end of the reporting date. These provisions are determined on the basis of estimation based on past experience.

(e) Estimated goodwill impairment

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

4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on minimizing potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group's treasury department. The Group's treasury department works closely with the Group's business units to identify, assess and avoid financial risks. The Board provides policy on overall risk management, as well as documented policies on specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivatives and non-derivative instruments, and investment above liquidity.

(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The Group's management has set up a policy to manage foreign exchange risk against its functional currency. The Group manages their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities in cooperation with the Group's finance department. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than its functional currency.

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The Group manages the maximum foreign exchange loss to be within the acceptable range of risk by applying foreign exchange risk management model.

The Group's financial instruments denominated in major currencies as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities
USD ¹	₩ 26,472	₩ 27,321	₩ 18,278	₩ 8,949
JPY	415	264	995	97
EUR	-	2,551	-	1,618
Others	5,093	243	-	-

¹Debentures denominated in USD (USD 150,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives.

The impact of weakened/strengthened Korean won by 10% against foreign currencies with all other variables held constant on the profit before income tax for the year ended December 31, 2018 and the three-month period ended December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	10% increase	10% decrease	10% increase	10% decrease
USD ¹	₩ (85)	₩ 85	₩ 933	₩ (933)
JPY	15	(15)	90	(90)
EUR	(255)	255	(162)	162

¹Debentures denominated in USD (USD 150,000 thousand) were excluded because they were hedged against foreign currency risk as derivatives.

The above sensitivity analysis was performed for assets and liabilities that are denominated in a currency other than its functional currency. The changes in exchange rate can have an effect on the sales prices and gross margin ratio of the Group in the future.

ii) Cash flow interest rate risk

The Group's cash flow interest rate risk arises from debentures and others. Short-term borrowings and others that are issued at variable rates expose the Group to the cash flow interest rate risk which is partially offset by derivative contracts.

The Group performs multilateral analytics on its exposure to interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact of change in defined interest rate on profit and loss. For each simulation, the same change in interest rate is applied for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

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(b) Credit Risk

i) Maximum Exposure of Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. The Group trades with business parties whose credit is upper standard to manage credit risks. The Group reviews the credit limits and adjusts collateral levels through re-evaluating credit rating of the business parties periodically.

No credit limits were exceeded during the reporting period and management does not expect any losses from nonperformance by the business parties.

The maximum exposure to credit risk, as at December 31, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Cash and cash equivalents ¹	₩	197,324	₩	65,997
Trade and other receivables		234,071		260,832
Available-for-sale financial assets		-		754
Financial assets at fair value through other comprehensive income		119		-
Other current financial assets		729		30,111
Other non-current financial assets		36,386		27,172

¹The amount differs from the amount on the statement of financial position because cash on hand is excluded.

ii) Trade receivables

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has, therefore, concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates.

On that basis, the loss allowance was determined as follows for trade receivables:

<i>(in millions of Korean won)</i>	Receivables under 3 months	Receivables under 6 months	Receivables under 9 months	Receivables under 12 months	Receivables over 12 months	Total
Expected loss Good receivables	0.02%	2.24%	11.45%	49.66%	84.10%	-

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rate	Bad receivables	33.14%	80.68%	91.37%	96.18%	100%	-
	Good receivables	₩ 220,564	₩ 6,569	₩ 3,346	₩ 145	₩ 2,252	₩ 232,876
Trade receivables	Bad receivables	848	383	475	523	6,588	8,817
	Excluded receivables	118	79	18	51	305	571
Loss allowance provision	Good receivables	46	147	383	72	1,894	2,542
	Bad receivables	281	309	434	503	6,588	8,115

(c) Liquidity Risk

Cash flow forecasting is performed by each subsidiary within the Group and gathered by the Group's finance department. The Group's finance department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal financial ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

The Group's finance department invests surplus cash in interest bearing current accounts, time deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held cash and cash equivalents of ₩198,591 million and short-term financial instruments of ₩101 million that are expected to readily generate cash inflows for managing liquidity risk.

Details of the Group's liquidity risk analysis as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings ¹	₩ 179,303	₩ 19,249	₩ 62,163	₩ -
Debentures ¹	12,371	172,402	340,427	52,529
Trade and other payables	171,657	-	-	-
Other financial liabilities	48,527	17,197	-	-
	<u>₩ 411,858</u>	<u>₩ 208,848</u>	<u>₩ 402,590</u>	<u>₩ 52,529</u>

Cash flows in the table above represent undiscounted amounts.

¹The undiscounted nominal amounts of borrowings incurred by discounts on trade receivables which

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were unsatisfied to meet the derecognition requirements of financial assets, principal and interest expenses to be paid until maturities.

<i>(in millions of Korean won)</i>	2017			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
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	-	-
	<u>₩ 502,565</u>	<u>₩ 19,398</u>	<u>₩ 348,342</u>	<u>₩ 53,974</u>

Cash flows in the table above represent undiscounted amounts.

¹The undiscounted nominal amounts of borrowings incurred by discounts on trade receivables which were unsatisfied to meet the derecognition requirements of financial assets, principal and interest expenses to be paid until maturities.

4.2 Capital Risk Management

The Group's objectives when managing capital are to maximize profit of shareholders by keeping sound capital structure. The Group performs adequate capital structure improvement program by monitoring financial ratio every months such as debt ratio and net borrowing ratio to achieve the optimal capital structure.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios and debt-to-equity ratios as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Total borrowings (a)	₩	792,238	₩	684,525
Less: cash and cash equivalents (b)		<u>198,591</u>		<u>66,069</u>
Net debt ((c)=(a)-(b))		593,647		618,456
Total liabilities (d)		1,284,764		1,079,838
Total equity(e)		<u>1,257,910</u>		<u>827,206</u>
Total capital ((f)=(d)+(e))	₩	<u>2,542,674</u>	₩	<u>1,907,044</u>
Gearing ratio ((c/f))		23.3%		32.4%

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Debt-to-equity ratio ((d/e))	102.1%	130.5%
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5. Fair Value of Financial Instruments

There is no changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities in 2018.

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Carrying amount	Fair value²	Carrying amount	Fair value²
Financial assets				
Cash and cash equivalents	₩ 198,591	₩ 198,591	₩ 66,069	₩ 66,069
Trade and other receivables	234,071	234,071	260,832	260,832
Available-for-sale financial assets	-	-	754	754
Financial assets at fair value through other comprehensive income	119	119	-	-
Other current financial assets	729	729	30,111	30,111
Other non-current financial assets	36,386	36,386	27,172	27,172
	<u>₩ 469,896</u>	<u>₩ 469,896</u>	<u>₩ 384,938</u>	<u>₩ 384,938</u>
Financial liabilities				
Trade and other payables	₩ 171,657	₩ 171,657	₩ 152,520	₩ 152,520
Borrowings ¹	245,001	245,149	155,269	155,269
Debentures ¹	547,236	544,689	529,256	526,368
Other current financial liabilities	48,527	48,527	35,555	35,555
Other non-current financial liabilities	17,197	17,197	10,863	10,863
	<u>₩ 1,029,618</u>	<u>₩ 1,027,219</u>	<u>₩ 883,463</u>	<u>₩ 880,575</u>

¹As at December 31, 2018, fair value of the borrowings and the debentures is calculated by discounting the cash flows using corporate bond yields determined based on the Group's credit rating (AA+).

²Carrying amount of non-current financial assets and financial liabilities, other than debt instruments

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measured at fair value, borrowings whose carrying amount is separately disclosed, and debentures (refer to Note 20), is approximation of fair value. Fair value of current financial assets and financial liabilities is identical to these carrying amount.

5.2 Fair Value Hierarchy

Financial instruments measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	₩ -	₩ 119	₩ -	₩ 119
Non-current derivative financial assets	-	6,285	-	6,285

<i>(in millions of Korean won)</i>	2017			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ -	₩ 754	₩ -	₩ 754

5.3 Valuation Techniques and the Inputs

Valuation techniques and inputs used in the recurring and non-recurring fair value measurements categorized within Level 2 of the fair value hierarchy as at December 31, 2018 and 2017, are as follows:

	2018		
	Level	Valuation techniques	Inputs
Financial instruments at fair value through	2	Discounted cash flow method	Market interest rate

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other comprehensive income			
Non-current derivative financial assets	2	Discounted cash flow method	Forward rate, market interest rate, exchange rate

2017			
	Level	Valuation techniques	Inputs
Available-for-sale financial assets	2	Discounted cash flow method	Market interest rate

6. Operating Segment Information

The Group's reportable segments and details are as follows:

Segment	Products or services	Major customers
Dry confectionery	Snacks, Gums, Health food, Bread and others	E-mart, Lotte Mart, Home plus and others
Frozen confectionery	Ice cream	E-mart, Lotte Mart, Home plus and others

The segment information on revenue and operating profit as at December 31, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018					
	Dry confectionery		Frozen confectionery		Total	
Total segment revenue	₩	1,272,731	₩	421,782	₩	1,694,513
Inter-segment revenue		-		-		-
Revenue from external customers		1,272,731		421,782		1,694,513
Operating profit		41,487		22,889		64,376
Depreciation and amortization		63,334		21,219		84,553

<i>(in millions of Korean won)</i>	2017					
	Dry confectionery		Frozen confectionery		Total	
Total segment revenue	₩	359,217	₩	45,570	₩	404,787
Inter-segment revenue		-		-		-

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Revenue from external customers	359,217	45,570	404,787
Operating profit (loss)	10,698	(2,285)	8,413
Depreciation and amortization	16,474	2,257	18,731

Financial information by location is as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Korea	₩	1,571,206	₩	401,082
China		673		264
India		90,730		-
Europe		19,455		-
Others		12,449		3,441
	₩	<u>1,694,513</u>	₩	<u>404,787</u>

7. Financial Instruments by Category

Categorizations of financial assets and liabilities as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Financial instruments at fair value through other comprehensive income			Total
	Financial assets at amortized cost	Financial instruments at fair value through other comprehensive income	Derivative financial assets	
Cash and cash equivalents	₩ 198,591	₩ -	₩ -	₩ 198,591
Trade and other receivables	234,071	-	-	234,071
Financial instruments at fair value through other comprehensive income	-	119	-	119
Other current financial assets	729	-	-	729
Other non-current financial assets	30,101	-	6,285	36,386
	<u>₩ 463,492</u>	<u>₩ 119</u>	<u>₩ 6,285</u>	<u>₩ 469,896</u>

<i>(in millions of Korean won)</i>	2018	
	Liabilities measured at amortized cost	Total

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Trade and other payables	₩	171,657	₩	171,657
Borrowings		245,001		245,001
Debentures		547,236		547,236
Other current financial liabilities		48,527		48,527
Other non-current financial liabilities		17,197		17,197
	₩	<u>1,029,618</u>	₩	<u>1,029,618</u>

(in millions of Korean won)

	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 assets		30,111		-	30,111
Other non-current financial assets		27,172		-	27,172
	₩	<u>384,184</u>	₩	<u>754</u>	₩ <u>384,938</u>

(in millions of Korean won)

	2017	
	Liabilities measured at 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
	₩ <u>883,463</u>	₩ <u>883,463</u>

Net gains or net losses on each category of financial instruments for the year ended December 31, 2018 and the three-month period ended 2017, are as follows:

(in millions of Korean won)

	2018	2017
Loans and receivables		
Interest income	₩ -	₩ 639
Gain on foreign currency translations	-	107

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Loss on foreign currency translations	-	(756)
Gain on foreign currency transactions	-	348
Loss on foreign currency transactions	-	(579)
Impairment loss	-	(2,123)
Financial assets at amortized cost		
Interest income	2,883	-
Gain on foreign currency translations	373	-
Loss on foreign currency translations	(265)	-
Gain on foreign currency transactions	1,000	-
Loss on foreign currency transactions	(230)	-
Gain on payment guarantees	156	-
Impairment loss	(7,822)	-
Debt instruments at fair value through other comprehensive income		
Gain (loss) on valuation (other comprehensive income) (relating to instruments held by the Group)	₩ (1)	₩ 13
Gain (loss) on valuation (other comprehensive income) (reclassification of profit or loss)	(65)	-
Gain on disposal of debt instruments at fair value through other comprehensive income	67	-
Derivative instruments used for hedging purpose		
Gain on valuation of derivatives	7,290	-
Loss on valuation of derivatives (other comprehensive income)	(4,280)	-
Liabilities measured at amortized cost		
Interest expenses	(17,308)	(3,301)
Gain on foreign currency translations	2,810	143
Loss on foreign currency translations	(14,291)	(5)
Gain on foreign currency transactions	788	113
Loss on foreign currency transactions	(1,023)	(188)

8. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Cash on hand	₩	1,267	₩	72
Ordinary deposits and others		84,912		55,997
Time deposits		112,412		10,000
	₩	<u>198,591</u>	₩	<u>66,069</u>

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9. Financial Assets at Fair Value through Other Comprehensive Income

Changes in debt instruments at fair value through other comprehensive income for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	-	₩	741
Transfer ¹		754		-
Disposal		(568)		-
Increase (decrease) due to evaluation		(1)		13
Net loss reclassified from equity		(66)		-
Ending balance		<u>119</u>		<u>754</u>
Less: non-current portion		-		(120)
Current portion	<u>₩</u>	<u>119</u>	<u>₩</u>	<u>634</u>

¹ Available-for-sale financial assets in the prior financial period were reclassified to debt instruments at fair value through other comprehensive income due to the adoption of Korean IFRS 1109.

Details of debt instruments as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017¹	
Current				
Debt securities	₩	119	₩	634
		<u>119</u>		<u>634</u>
Non-current				
Debt securities		-		120
		<u>-</u>		<u>120</u>
	<u>₩</u>	<u>119</u>	<u>₩</u>	<u>754</u>

¹ Available-for-sale financial assets in the prior financial period were reclassified to debt instruments at fair value through other comprehensive income due to the adoption of Korean IFRS 1109.

10. Derivative Financial Instruments

Details of derivative financial instruments as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities

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Interest rate and currency swaps - cash flow hedges	₩	6,285	₩	-	₩	-	₩	-
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11. Trade and Other Receivables

Trade and other receivables as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Trade receivables	₩	242,264	₩	262,180
Less: Provision for impairment		(10,657)		(11,310)
		<u>231,607</u>		<u>250,870</u>
Other receivables ¹		2,464		9,962
	₩	<u>234,071</u>	₩	<u>260,832</u>

¹Other receivables consist of short-term loans and non-trade receivables.

Movements on provisions for impairment of trade receivables for the periods ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	11,310	₩	9,894
Impairment loss		667		2,082
Receivables written-off		(4,421)		(838)
Collection of receivables written-off		286		46
Changes due to business combination		2,700		126
Exchange differences		115		-
Ending balance	₩	<u>10,657</u>	₩	<u>11,310</u>

12. Other Financial Assets and Liabilities, Other Assets and Liabilities

Details of other financial assets as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018		2017	
Current	Short-term financial instruments	₩	101	₩	30,000
	Accrued income		170		111
	Current deposits provided		458		-
			<u>729</u>		<u>30,111</u>

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Non-current	Long-term financial instruments ¹	11,036	11,172	
	Loans	13	16	
	Deposits provided	19,052	15,984	
	Derivative financial assets	6,285	-	
		<u>36,386</u>	<u>27,172</u>	
	₩	37,115	₩	57,283

¹As at December 31, 2018, all of long-term financial instruments are restricted to use.

Details of other financial liabilities as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

		2018		2017	
Current	Accrued expenses	₩	42,293	₩	35,520
	Financial lease liabilities		601		-
	Current deposits received		5,633		35
			<u>48,527</u>		<u>35,555</u>
Non-current	Financial lease liabilities		4,340		-
	Deposits received		12,732		10,863
	Other non-current financial liabilities		125		-
			<u>17,197</u>		<u>10,863</u>
		₩	65,724	₩	46,418

Details of other assets as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

		2018		2017	
Current	Advanced payment	₩	10,017	₩	2,436
	Prepaid expenses		8,008		8,916
	Prepaid income Tax		8,758		586
	Value added tax refundable		6,645		79
	Other current assets		92		-
			<u>33,520</u>		<u>12,017</u>
Non-current	Long-term prepaid expenses		2,782		330
	Other non-current assets		411		326
			<u>3,193</u>		<u>656</u>
		₩	36,713	₩	12,673

Details of other liabilities as at December 31, 2018 and 2017, are as follows:

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<i>(in millions of Korean won)</i>		2018		2017	
Current	Deposit received	₩	5,018	₩	5,322
	value added tax payable		12,873		11,845
	advance received		3,208		900
	Other current liabilities		79		22
			<u>21,178</u>		<u>18,089</u>
Non-current	Other non-current liabilities		7,872		8,334
			<u>7,872</u>		<u>8,334</u>
		₩	<u>29,050</u>	₩	<u>26,423</u>

13. Inventories

Inventories as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018		2017	
Merchandise		₩	26,701	₩	24,250
Finished goods			75,436		59,968
Work-in-process			15,798		9,785
Raw materials			90,318		49,947
Supplies			1,636		750
Raw materials in transit			28,334		18,421
			<u>238,223</u>		<u>163,121</u>
Provision for valuation of inventories			(1,087)		(432)
		₩	<u>237,136</u>	₩	<u>162,689</u>

The cost of inventories recognized as expense and included in 'cost of sales', excluding 'cost of other goods sold' and 'cost of rental', amounts to ₩1,065,112 million. Loss on valuation of inventories to net realizable value amounted to ₩655 million.

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Details of cost of sales for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Cost of merchandise sold	₩	218,295	₩	45,308
Cost of finished goods sold		846,817		194,351
Cost of rental		4,624		1,110
Cost of other goods sold		18,194		4,779
	₩	<u>1,087,930</u>	₩	<u>245,548</u>

14. Investments in Associates

Details of associates of the Group as at December 31, 2018 and 2017, are as follows:

Investee	Percentage of ownership (%)		Location	Date of financial statements
	2018	2017		
Lotte Taiwan Co., Ltd. ¹	-	50.00	Taiwan	December 31
L&M Mayson Company Limited ²	45.50	-	Myanmar	December 31

¹The Group sold the entire shares of Lotte Taiwan Co., Ltd. during the year ended December 31, 2018.

²The Group acquired shares of L&M Mayson Company Limited for ₩43,471 million during the year ended December 31, 2018.

Details of valuation of investments in associates under the equity method for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018					
	Valuation of equity method					
	Beginning balance	Acquisition (disposal)	Share of profit or loss of associates	Shares of other comprehensive income of associates	Foreign currency translations	Ending balance
Lotte Taiwan Co., Ltd.	₩ 8,596	₩ (8,790)	₩ 57	₩ 122	₩ 15	₩ -
L&M Mayson Company Limited	-	43,471	-	-	-	43,471
	<u>₩ 8,596</u>	<u>₩ 34,681</u>	<u>₩ 57</u>	<u>₩ 122</u>	<u>₩ 15</u>	<u>₩ 43,471</u>

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		2017					
		Valuation of equity method					
		Beginning balance	Acquisition (disposal)	Share of profit or loss of associates	Shares of other comprehensive income of associates	Foreign currency translations	Ending balance
Lotte Taiwan Co., Ltd.	₩	8,802 ₩	- ₩	86 ₩	(292) ₩	- ₩	₩ 8,596

Summary of condensed financial information of major associates and dividends received from associates as at and for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

(in millions of Korean won)

		2018								
		Condensed financial information of associates								
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit (loss) from continuing operations	Net income (loss)	Total comprehensive income (loss)	Dividends from associates
L&M Mayson Company	₩	13,441 ₩	22,839 ₩	2,904 ₩	- ₩	- ₩	- ₩	- ₩	- ₩	- ₩

(in millions of Korean won)

		2017								
		Condensed financial information of associates								
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit from continuing operations	Net income	Total comprehensive income	Dividends from associates
L&M Mayson Company	₩	17,672 ₩	92 ₩	6,092 ₩	- ₩	6,423 ₩	202 ₩	267 ₩	267 ₩	- ₩

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Details of adjustments from financial information of major associates to the book amount of investments in associates for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018										
	Net assets at the end of reporting period (a)			Group's share in % (b)	Group's share in KRW (a*b)	Goodwill	Intergroup transactions	Book amount			
L&M Mayson Company Limited. ¹	₩	33,375	45.5	₩	15,186	₩	28,285	₩	-	₩	43,471

¹Difference between acquisition cost and net assets of controlling interest is the goodwill of L&M Mayson Company Limited before PPA (Purchase Price Allocation).

<i>(in millions of Korean won)</i>	2017										
	Net assets at the end of reporting period (a)			Group's share in % (b)	Group's share in KRW (a*b)	Goodwill	Intergroup transactions	Book amount			
Lotte Taiwan Co., Ltd.	₩	11,672	50.0	₩	5,836	₩	2,964	₩	(204)	₩	8,596

15. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018															
	Land	Building	Structures	Machinery	Vehicles	Others	Construction- in-progress	Total								
Beginning net book amount	₩	648,810	₩	223,836	₩	3,849	₩	192,187	₩	2,471	₩	36,074	₩	13,886	₩	1,121,113
Acquisition		60		7,503		86		42,836		1,378		18,957		9,337		80,157
Transfer		(30,931)		(33,927)		-		8,450		-		6,624		(13,784)		(63,568)
Disposals		(4,624)		(3,673)		(56)		(1,208)		(304)		(1,939)		-		(11,804)
Depreciation		-		(8,789)		(462)		(48,893)		(1,024)		(19,540)		-		(78,708)
Changes due to		27,011		99,287		8,112		87,263		1,028		12,832		13,737		249,270

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business combination										
Impairment loss	-	(1,372)	(304)	-	-	-	-	-	(1,676)	
Exchanges differences	(221)	(1,726)	(621)	(1,715)	(53)	(738)	(209)	(5,283)		
Ending net book amount	₩ 640,105	₩ 281,139	₩ 10,604	₩ 278,920	₩ 3,496	₩ 52,270	₩ 22,967	₩ 1,289,501		
Acquisition cost	₩ 641,663	₩ 497,045	₩ 28,045	₩ 1,055,924	₩ 11,655	₩ 277,595	₩ 22,967	₩ 2,534,894		
Accumulated depreciation	-	(203,676)	(12,982)	(777,004)	(8,159)	(225,325)	-	(1,227,146)		
Government grants ¹	-	(921)	-	-	-	-	-	(921)		
Accumulated impairment loss	(1,558)	(11,309)	(4,459)	-	-	-	-	(17,326)		

¹The Group has received government grants amounting to ₩ 1,000 million related to buildings during the period year. There are conditions for compliance with government grants, such as the duration of employment obligations, and must be maintained for seven years from the month following the first new employment obligation. If not, there is a possibility that government grants will be reimbursed.

Depreciation amounting to ₩58,214 million (2017: ₩14,441 million) was charged to 'cost of sales', and ₩ 20,494 million (2017: ₩ 4,047 million) to 'selling and administrative expenses'.

(in millions of Korean won)

	2017									
	Land	Building	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total		
Beginning net book amount	₩ 645,634	₩ 219,851	₩ 3,884	₩ 193,195	₩ 1,045	₩ 29,541	₩ 7,711	₩ 1,100,861		
Acquisition	-	-	-	-	-	274	20,536	20,810		
Transfer	3,209	4,020	58	3,577	443	3,271	(14,607)	(29)		
Disposals	(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		
Exchanges differences	-	(324)	(3)	(327)	(27)	(154)	(58)	(893)		
Ending net book amount	₩ 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 loss	(1,253)	-	-	-	-	-	-	(1,253)		

Lease expenses recognized for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

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<i>(in millions of Korean won)</i>	2018		2017	
Lease expenses	₩	5,094	₩	1,418

The total future minimum lease payments as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Within 1 year	₩	4,127	₩	4,377
1 year to 5 years		6,281		5,897
	₩	<u>10,408</u>	₩	<u>10,274</u>

Assets provided as collateral

Land, building and machinery are provided as collateral with the maximum credit amount of ₩39,950 million for major tax payments, borrowings and others (Note 35).

The Group leases various buildings and machinery under non-cancellable finance lease agreements.

Details of machinery classified as a finance lease as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Finance lease assets – buildings	₩	1,234	₩	-
Finance lease assets – machinery		3,682		-
Net book amount	₩	<u>4,916</u>	₩	<u>-</u>

16. Intangible Assets

Changes in intangible assets for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018				
	Industrial property rights	Memberships	Others¹	Goodwill	Total
Beginning balance	₩ 4,782	₩ 4,428	₩ 98,440	₩ 90,187	₩ 197,837
Acquisition	361	-	203	-	564
Transfer	256	-	-	-	256
Disposal	-	-	(7)	-	(7)
Amortization	(862)	-	(4,642)	-	(5,504)

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Changes due to business combination	207	-	91,996	97,092	189,295
Foreign currency translations	1	-	(4,526)	(7,883)	(12,408)
Ending balance	₩ 4,745	₩ 4,428	₩ 181,464	₩ 179,396	₩ 370,033

¹ Others consist of brand value, customer relationships value and others.

Amortization amounting to ₩5,499 million (2017: ₩215 million) is included in the 'selling and administrative expenses' and ₩5 million is included in the 'cost of sales'

<i>(in millions of Korean won)</i>	2017				
	Industrial property rights	Memberships	Others ¹	Goodwill	Total
Beginning balance	₩ 4,821	₩ 4,413	₩ 957	₩ 1,595	₩ 11,786
Acquisition	35	15	-	-	50
Transfer	125	-	-	-	125
Amortization	(207)	-	(8)	-	(215)
Changes due to business combination ²	8	-	97,551	88,592	186,151
Foreign currency translations	-	-	(60)	-	(60)
Ending balance	₩ 4,782	₩ 4,428	₩ 98,440	₩ 90,187	₩ 197,837

¹ Others consist of brand value, customer relationships value and others.

² ₩58,085 million, out of changes in intangible assets due to business combination, was reclassified from industrial property rights to others during the three-month period ended December 31, 2017.

17. Impairment Tests for Goodwill

Goodwill at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Boulangerie segment	₩ 1,595	₩ 1,595
NATUUR segment	12,069	-
HAVMOR ICECREAM LIMITED	81,136	88,592
Lotte Confectionery RUS LLC	3,946	-
Confectionery Holdings B.V.	38,832	-
Rakhat JSC	40,512	-

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Lotte Kolson(Private)Limited		1,306		-
	₩	179,396	₩	90,187

The Group recognized goodwill amounting to ₩97,091 million as a result of acquisition of NATUUR segment, Lotte Confectionery RUS LLC, Confectionery Holdings B.V., Rakhat JSC and Lotte Kolson(Private)Limited.

Goodwill impairment reviews are undertaken annually. As a result of the impairment test, it was determined that the carrying amount of cash generating unit does not exceed the recoverable amount. The calculation of value-in-use uses pre-tax cash flow projections based on financial budgets for the next five years, approved by management. The key assumptions used in calculating value-in-use are as follows:

<i>(in percentage, %)</i>	2018			
	Gross margin ratio¹	Sales growth rate²	Perpetual growth rate³	Discount rate⁴
Boulangerie segment	37.57%	1.24%	0.00%	7.59%
NATUUR segment	52.70%	4.37%	1.00%	7.59%
HAVMOR ICECREAM LIMITED	39.02%	14.15%	2.00%	11.12%
Lotte Confectionery RUS LLC	33.04%	14.19%	1.00%	12.50%

¹The average gross-margin 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 Group.

³ Expected growth rate after five years

⁴ Discount rate which applied to the cash flow projection

The Group determines the sales growth rate based on its past performances and expectation on future market development. The discount rate used is the discount rate that reflects relevant risks of segments.

18. Investment Property

Changes in investment property for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		
	Land	Buildings	Total
January 1, 2018	₩ 15,844	₩ 2,562	₩ 18,406
Acquisitions	-	4,151	4,151

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Transfer	30,931	36,302	67,233
Depreciation	-	(341)	(341)
Changes due to business combination	1,119	-	1,119
Foreign currency translations	-	(44)	(44)
December 31, 2018	<u>₩ 47,894</u>	<u>₩ 42,630</u>	<u>₩ 90,524</u>
Acquisition cost	₩ 47,974	₩ 66,319	₩ 114,293
Accumulated depreciation	-	(23,689)	(23,689)
Accumulated impairment loss	(80)	-	(80)

Fair value of investment property as at December 31, 2018, is ₩122,325 million (2017: ₩26,142 million). All of depreciation of investment property are included in 'cost of sale'.

Rental income from investment property during 2018, is ₩8,969 million (during the three-month period ended December 31, 2017: ₩ 62 million).

(in millions of Korean won)

	2017		
	Land	Buildings	Total
October 1, 2017	₩ 15,844	₩ 1,549	₩ 17,393
Transfer	-	29	29
Depreciation	-	(28)	(28)
Changes due to business combination	-	1,014	1,014
Foreign currency translations	-	(2)	(2)
December 31, 2017	<u>₩ 15,844</u>	<u>₩ 2,562</u>	<u>₩ 18,406</u>
Acquisition cost	₩ 15,844	₩ 7,205	₩ 23,049
Accumulated depreciation	-	(4,643)	(4,643)

19. Trade and Other Payables

Trade and other payables as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018	2017
Trade payables	₩ 111,747	₩ 84,938
Non-trade payables	59,910	67,582
	<u>₩ 171,657</u>	<u>₩ 152,520</u>

20. Borrowings

Details of carrying amount of borrowings as at December 31, 2018 and 2017, are as follows:

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Short-term Borrowings

(in millions of Korean won)

	Bank	Annual interest rate (%) as at December 31, 2018		2018		2017
Short-term borrowings	SHINHAN BANK	4.59	₩	87	₩	137
	Korea Investment & Securities Co., Ltd.	2.13		40,000		50,000
	NH INVESTMENT & SECURITIES CO.,LTD.	2.15		50,000		-
		2.26		40,000		-
	KTB Investment & Securities Co., Ltd.	-		-		100,000
	HDFC Bank	8.50		414		1,847
	Bank Center Credit and others	6.00~11.50		3,690		-
Current-portion of borrowings	HDFC Bank	-		-		1,079
	KEB Hana, Amsterdam branch and others	2.40~8.20		41,503		-
			₩	<u>175,694</u>	₩	<u>153,063</u>

Long-term Borrowings

(in millions of Korean won)

	Bank	Annual interest rate (%) as at December 31, 2018		2018		2017
Long-term borrowings	Mizuho Bank, Ltd.	2.31	₩	20,000	₩	-
	KEB Hana, Amsterdam branch and others	2.40~9.42		49,307		-
	HDFC Bank	-		-		2,206
			₩	<u>69,307</u>	₩	<u>2,206</u>

Debentures

(in millions of Korean won)

Bank	Maturity date	Annual interest rate (%) as at December 31,	2018	2017
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			2018			
61 th -1 Debenture in KRW	MIRAE ASSET	2018-07-03	-	₩	-	₩ 50,000
61 th -2 Debenture in KRW	DAEWOO CO.,LTD. and others	2025-07-03	2.89		50,000	50,000
62 th -1 Debenture in KRW	KB SECURITIES	2018-11-27	-		-	100,000
62 th -2 Debenture in KRW	CO.,LTD and others	2020-11-27	2.42		50,000	50,000
63 th -1 Debenture in KRW	Korea Investment & Securities Co., Ltd.	2020-02-22	1.92		110,000	110,000
63 th -2 Debenture in KRW		2022-02-22	2.22		170,000	170,000
2 nd Debenture in foreign currency	MUFG	2021-01-11	Three-months LIBOR		167,715	-
					<u>547,715</u>	<u>530,000</u>
Less: discount on debentures					(479)	(744)
Total book amount of debentures					<u>547,236</u>	<u>529,256</u>
Current portions:					-	149,927
Current debentures					-	150,000
Current discounts on debentures					-	(73)
Total book amount of non-current debentures					<u>₩ 547,236</u>	<u>₩ 379,329</u>

Debentures above will be paid on their maturity date. Interest expenses are paid every three months.

Details of carrying amount and fair value of debentures as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹
Debentures	₩ 547,236	₩ 544,689	₩ 529,256	₩ 526,368

¹ The fair value is calculated by discounting the future cash flows using corporate bond yields determined based on the Group's credit rating (AA+).

Changes in borrowings and debentures for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Borrowings	Debentures	Borrowings	Debentures

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Beginning balance	₩	155,269	₩	529,256	₩	50,054	₩	529,184
Amortization		-		268		-		72
Repayments		(168,675)		(150,000)		(50,054)		-
Increase		157,645		160,422		150,139		-
Changes due to business combination		100,706		-		5,132		-
Exchange differences		56		7,290		(2)		-
Ending balance	₩	245,001	₩	547,236	₩	155,269	₩	529,256

21. Post-employment Benefits

21.1 Defined Benefit Plan

Details of net defined benefit obligations recognized on the consolidated statements of financial position as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Present value of defined benefit obligations	₩	116,002	₩	113,171
Fair value of plan assets ¹		<u>(103,767)</u>		<u>(113,154)</u>
Liabilities in the consolidated statement of financial position	₩	<u>12,235</u>	₩	<u>17</u>

¹Fair value of plan assets includes ₩ 48 million (2017: ₩ 48 million) of contributions to the National Pension Fund.

Changes in the present value of defined benefit obligations for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	113,171	₩	121,839
Current service cost		18,446		4,649
Interest expenses		3,764		687
Remeasurements of net defined benefit liabilities:				
- Actuarial gains and losses arising from changes in demographic assumptions		(277)		324
- Actuarial gains and losses arising from changes in financial assumptions		(984)		(125)
- Actuarial gains and losses arising from experience adjustments		2,649		(1,504)
Exchange differences		(24)		-
Payments from plans:				

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- Benefit payments	(9,303)	(13,291)
- Benefit payments due to participation in Defined contribution pension	(17,335)	-
Liabilities transferred from affiliated company	5,172	56
Liabilities assumed due to businesses combination	723	536
Ending balance	<u>₩ 116,002</u>	<u>₩ 113,171</u>

Changes in the fair value of plan assets for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	113,154	₩	92,824
Interest income		3,227		466
Remeasurements:				
- Return on plan assets (excluding amounts included in interest income)		(934)		42
Exchange differences		(23)		-
Contributions:				
- Employers		10,586		30,448
Payments from plans:				
- Benefit payments		(9,285)		(11,013)
- Benefit payments due to participation in Defined contribution pension		(17,334)		-
Management commissions		(410)		(163)
Transfer amount from affiliated company		4,686		56
Assets acquired due to businesses combination		100		494
Ending balance	<u>₩</u>	<u>103,767</u>	<u>₩</u>	<u>113,154</u>

Plan assets as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Amount	Proportion (%)	Amount	Proportion (%)
Insurance instrument	₩ 103,719	99.95	₩ 113,106	99.96
National pension fund	48	0.05	48	0.04
	<u>₩ 103,767</u>	<u>100.00</u>	<u>₩ 113,154</u>	<u>100.00</u>

The principal actuarial assumptions as at December 31, 2018 and 2017, are as follows:

<i>(in percentage, %)</i>	2018	2017
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Discount rate	2.94	2.94
Salary growth rate	2.04	2.15
Future salary increase rate	2.98	2.68

The sensitivity of the defined benefit obligations as at December 31, 2018, to changes in the weight principal assumptions is:

	2018		
	Changes in principal assumptions	Increase in principal assumptions	Decrease in principal assumption
Discount rate	1.00%	4.24% decrease	4.71% increase
Salary growth rate	1.00%	4.72% increase	4.32% decrease
Future salary increase rate	1.00%	4.57% increase	4.26% decrease

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

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

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

The Group 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 year ended December 31, 2019, are ₩ 16,796 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2018, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year		Between 1-2 years		Between 2-5 years		Over 5 years		Total	
Pension benefits	₩	40,777	₩	15,268	₩	44,530	₩	157,515	₩	258,090

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The weighted average duration of the defined benefit obligations is 5.67 years.

21.2 Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2018 is ₩ 2,364 million.

22. Income Tax Expenses and Deferred Income Tax

Income tax expense for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
Current tax:				
Current tax on profits for the period	₩	10,718	₩	-
Adjustments in respect of prior periods		1,951		-
Total current tax		<u>12,669</u>		<u>-</u>
Deferred tax:				
Origination and reversal of temporary differences		(295)		1,322
Total deferred tax		<u>(295)</u>		<u>1,322</u>
Income tax expense	₩	<u>12,374</u>	₩	<u>1,322</u>

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

<i>(in millions of Korean won)</i>	2018		2017	
Profit before tax	₩	20,793	₩	3,270
Tax calculated at domestic tax rates applicable to profits in the respective countries		8,996		927
Tax effects of:				
Income not subject to tax		(1,563)		(1)
Expenses not deductible for tax purposes		1,297		378
Tax credit		(754)		-
Deferred income tax assets not recognized		1,687		-
Income tax refunds		1,951		-
Others		760		18
Income tax expense	₩	<u>12,374</u>	₩	<u>1,322</u>

The income tax (charged) / credited directly to equity for the year ended December 31, 2018 and the

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three-month period ended December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain (loss) on valuation of fair value through other comprehensive income - financial assets	₩ (67)	₩ 16	₩ (51)	₩ 13	₩ (3)	₩ 10
Cash flow hedge	(4,280)	1,035	(3,245)	-	-	-
Actuarial gain (loss) on defined benefit obligations	(2,322)	563	(1,759)	1,347	(326)	1,021
	₩ (6,669)	₩ 1,614	₩ (5,055)	₩ 1,360	₩ (329)	₩ 1,031

The analysis of deferred tax assets and liabilities as at December 31, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018	2017
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 32,914	₩ 25,908
Deferred tax asset to be recovered within 12 months	18,147	17,572
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(220,896)	(184,817)
Deferred tax liability to be recovered within 12 months	(2,631)	(26)
Deferred tax liabilities, net	₩ (172,466)	₩ (141,363)

Changes in the temporary differences and related deferred tax assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	2018						
	January 1, 2018	Statement of profit or loss	Other comprehensive income	Retained earnings	Acquisition of subsidiaries	Currency translation differences	December 31, 2018
Deferred tax liabilities							
Gain on valuation of fair value through other comprehensive income - financial assets	₩ (19)	₩ -	₩ 16	₩ -	₩ -	₩ -	₩ (3)
Revaluation of	(83,932)	392	-	-	-	-	(83,540)

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land								
Advanced depreciation provision	(18,128)	273	-	-	-	-	-	(17,855)
Depreciation	(22,558)	(345)	-	-	(9,063)	95		(31,871)
Retirement deposits	(23,907)	762	-	-	-	-		(23,145)
Reserve for research and development	(806)	806	-	-	-	-		-
Business combination assessment	(34,383)	1,563	-	-	(34,126)	1,730		(65,216)
Others	(1,110)	(234)	-	-	(553)	-		(1,897)
	(184,843)	3,217	16	-	(43,742)	1,825		(223,527)
Deferred tax assets								
Accrual for retirement and severance benefits	19,519	(1,037)	-	-	310	-		18,792
Provisions for sales return	6,242	(857)	-	-	-	-		5,385
Impairment loss	4,669	188	-	-	-	-		4,857
Remeasurements of net defined benefit liabilities	4,388	-	-	563	-	-		4,951
Accrued expenses	4,000	65	-	-	55	(5)		4,115
Leased assets	116	(116)	-	-	-	-		-
Non-deductible bad debt reserves	2,094	(408)	-	-	-	-		1,686
Others	2,452	516	1,036	-	7,761	(490)		11,275
	43,480	(1,649)	1,036	563	8,126	(495)		51,061
	₩ (141,363)	₩ 1,568	₩ 1,052	₩ 563	₩ (35,616)	₩ 1,330		₩ (172,466)

(in millions of Korean won)

2017

	January 1, 2017	Statement of profit or loss	Other comprehensive income	Retained earnings	Acquisition of subsidiaries	Currency translation differences	December 31, 2017
Deferred tax liabilities							
Gain on valuation of available-for-sale securities	₩ (16)	₩ -	₩ (3)	₩ -	₩ -	₩ -	₩ (19)

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Revaluation of land	(83,936)	4	-	-	-	-	(83,932)
Advanced depreciation provision	(18,129)	1	-	-	-	-	(18,128)
Depreciation	(21,973)	912	-	-	(1,497)	-	(22,558)
Retirement deposits	(22,464)	(1,443)	-	-	-	-	(23,907)
Reserve for research and development	(1,109)	303	-	-	-	-	(806)
Others	(1,139)	29	-	-	(34,383)	-	(35,493)
	<u>(148,766)</u>	<u>(194)</u>	<u>(3)</u>	<u>-</u>	<u>(35,880)</u>	<u>-</u>	<u>(184,843)</u>
Deferred tax assets							
Accrual for retirement and severance benefits	20,889	(1,370)	-	-	-	-	19,519
Provisions for sales return	6,033	210	-	-	-	-	6,243
Impairment loss	4,585	84	-	-	-	-	4,669
Remeasurements of net defined benefit liabilities	4,714	-	-	(326)	-	-	4,388
Accrued expenses	4,918	(918)	-	-	-	-	4,000
Leased assets	116	-	-	-	-	-	116
Non-deductible bad debt reserves	1,625	426	-	-	43	-	2,094
Others	1,963	440	-	-	93	(45)	2,451
	<u>44,843</u>	<u>(1,128)</u>	<u>-</u>	<u>(326)</u>	<u>136</u>	<u>(45)</u>	<u>43,480</u>
	<u>₩ (103,923)</u>	<u>₩ (1,322)</u>	<u>₩ (3)</u>	<u>₩ (326)</u>	<u>₩ (35,744)</u>	<u>₩ (45)</u>	<u>₩ (141,363)</u>

Temporary differences not recognized as deferred tax assets are as follows:

(in millions of Korean won)

	2018	2017
Investments in subsidiaries and associates	₩ 9,061	₩ 8,909

Deductible temporary differences from investments in subsidiaries and associates and tax losses have not been recognized as deferred tax assets as it was not determined to be realizable in the near future.

Temporary differences not recognized as deferred tax liabilities are as follows:

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<i>(in millions of Korean won)</i>	2018		2017	
Investments in subsidiaries and associates	₩	9,883	₩	8,801

The Group did not recognize temporary differences as deferred tax liabilities arising on investments in subsidiaries and associates as timing of reversal of the temporary differences are controllable and is not subject to extinction with dividend paid and it is probable that the temporary difference will not be reversed in the foreseeable future.

23. Provisions

Changes in provisions for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	26,592	₩	25,156
Increase		501		1,436
Ending balance	₩	27,093	₩	26,592
Less: current	₩	(26,497)	₩	(26,592)
Non-current	₩	596	₩	-

Provisions on sales return have been accrued for the estimated sales returns determined based on historical experience.

24. Share Capital, Capital surplus and Other Components of Equity

(a) Share capital

The share capital and outstanding shares increased by ₩ 1,104 million and by 2,207,615 shares, respectively, through contribution in kind, which was contribution of shares of Rakhat JSC, Lotte Confectionery Holdings B.V. and Lotte Kolson(Private) Limited, which were overseas corporations held by Lotte Corporation Co., Ltd, the largest shareholder. The related issuance of new shares was in the form of 3rd party allocation. As a result of above capital increase, 6,416,717 shares of ordinary shares have been issued with a par value of ₩ 500 per share.

(b) Capital surplus

<i>(in millions of Korean won)</i>	2018		2017	
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Share premium ₩ 1,178,514 ₩ 819,823

¹Share premium increased by ₩358,691 million through capital increase during 2018.

(c) Other components of equity

The Group acquired 4,578 treasury shares for ₩870 million through acquisition of fractional shares which occurred from spin-off on October 1, 2017.

25. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as at December 31, 2018 and 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
Gain on valuation of financial asset at fair value through other comprehensive income	₩	9	₩	60
Shares of other comprehensive loss of associates		-		(107)
Cash flow hedge		(3,245)		-
Cumulative effect of foreign currency translations		(14,308)		(1,334)
	₩	<u>(17,544)</u>	₩	<u>(1,381)</u>

Changes in accumulated other comprehensive income for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Beginning balance	Decrease¹	Reclassification to profit or losses	Ending balance
Gain (loss) on valuation of financial asset at fair value through other comprehensive income	₩ 60	₩ (1)	₩ (50)	₩ 9
Shares of other comprehensive income (loss) of associates	(107)	-	107	-
Cash flow hedge	-	(3,245)	-	(3,245)
Cumulative effect of foreign currency translations	(1,334)	(12,974)	-	(14,308)

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Ending balance	₩	(1,381)	₩	(16,220)	₩	57	₩	(17,544)
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¹Changes in accumulated other comprehensive income represent net of tax effect amounts.

(in millions of Korean won)

	2017					
	October 1, 2017		December 31, 2017			
		Decrease (increase)¹				
Changes in value of available- for-sale financial assets	₩	50	₩	10	₩	60
Shares of other comprehensive income (loss) of associates		185		(292)		(107)
Cumulative effect of foreign currency translations		(31)		(1,303)		(1,334)
	₩	204	₩	(1,585)	₩	(1,381)

¹Changes in accumulated other comprehensive income represent net of tax effect amounts.

26. Retained Earnings

Details of retained earnings as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		2017	
Legal reserves ¹	₩	118	₩	-
Retained earnings before appropriation		9,356		3,048
	₩	9,474	₩	3,048

¹The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock, or used to reduce accumulated deficit.

27. Selling and Administrative Expenses

Selling and administrative expenses for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

(in millions of Korean won)

	2018		2017	
Salaries	₩	138,087	₩	32,291
Severance benefits		13,276		3,171
Employee fringe benefits		26,398		5,787

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Training expenses	1,881	630
Travel expenses	2,747	376
Vehicles maintenance expenses	8,205	1,849
Insurance	1,459	375
Taxes and dues	4,657	464
Entertainment	1,178	259
Supplies expenses	4,010	922
Publication expenses	272	73
Communications	1,855	451
Water & utilities	3,427	1,049
Repairs and maintenance	4,730	1,065
Rental expenses	18,691	5,760
Depreciation	20,494	4,047
Amortization	5,499	215
Commission expenses	178,083	56,488
Advertising expenses	41,384	10,162
Sample expenses	1,046	212
Sale commissions	37,184	9,368
Sales promotional expenses	12,645	12,779
Impairment loss	683	2,082
Miscellaneous expenses	14,316	952
	₩ 542,207	₩ 150,827

28. Expenses by Nature

Cost of sales and selling and administrative expenses that are recorded by nature for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consist of:

<i>(in millions of Korean won)</i>	2018	2017
Changes in finished goods, merchandise and work-in-process	₩ (23,361)	₩ (11,243)
Raw materials and supplies used	559,299	133,438
Purchasing merchandise	226,844	58,624
Employee benefit expense	258,843	62,443
Advertising expense	41,384	10,162
Rental expense	19,782	6,112
Commission expenses	263,874	77,115
Depreciation	79,049	18,517

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<i>(in millions of Korean won)</i>	2018	2017
Amortization	5,504	215
Sales commissions	37,184	9,368
Sales promotional expense	12,645	12,779
Miscellaneous expenses	149,091	18,845
	<u>₩ 1,630,138</u>	<u>₩ 396,375</u>

29. Other Income

Other income for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consists of:

<i>(in millions of Korean won)</i>	2018	2017
Gain on foreign currency transaction	₩ 1,787	₩ 457
Gain on foreign currency translation	2,970	248
Gain on disposal of property, plant and equipment	2,682	465
Gain on disposal of intangible assets	4	-
Miscellaneous gains	3,867	1,253
	<u>₩ 11,310</u>	<u>₩ 2,423</u>

30. Other Expenses

Other non-operating expenses for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consist of:

<i>(in millions of Korean won)</i>	2018	2017
Loss on foreign currency transaction	₩ 1,253	₩ 767
Loss on foreign currency translation	7,169	653
Loss on impairment of intangible assets	1,676	-
Loss on disposal of property, plant and equipment	3,545	2
Loss on disposal of intangible assets	1	-
Donations	13,823	1,955
Other Impairment loss of other receivables	7,156	41
Loss on disposal of investments in associates	1,239	-
Miscellaneous losses	5,002	1,469

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₩	40,864	₩	4,887
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31. Finance Income

Finance income for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
Interest income	₩	2,883	₩	639
Gain on foreign currency transaction		-		4
Gain on foreign currency translation		213		2
Gain on payment guarantee		156		-
Gain on disposal of debt instruments at fair value through other comprehensive income		67		-
Gain on valuation of derivatives for hedging purpose		7,290		-
	₩	10,609	₩	645

32. Finance Costs

Finance costs for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
Interest expenses	₩	17,308	₩	3,301
Loss on foreign currency transaction		1		-
Loss on foreign currency translation		7,387		108
	₩	24,696	₩	3,409

33. Earnings per Share

(a) Basic earnings per share

Basic earnings per ordinary share for the year ended December 31, 2018 and the three-month period ended December 31, 2017, is as follows:

<i>(in Korean won)</i>	2018		2017	
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Profit attributable to ordinary shares (in Korean won)	₩ 9,362,416,687	₩ 2,027,136,414
Weighted average number of ordinary shares outstanding (unit: shares) ¹	4,271,055	4,206,067
Basic earnings per ordinary share (in Korean won)	₩ 2,192	₩ 482

¹ Weighted average numbers of shares outstanding are calculated as follows:

(unit: shares)	2018		
	Number of Shares	Number of days	Accumulated amount
Ordinary shares issued	4,209,102	365	1,536,322,230
Ordinary treasury shares	(4,578)	365	(1,670,970)
Contribution in kind	2,207,615	11	24,283,765
	<u>6,412,139</u>		<u>1,558,935,025</u>

Weighted average numbers of shares outstanding: $1,558,935,025 \div 365 \text{ days} = 4,271,055$ shares

(unit: shares)	2017		
	Number of Shares	Number of days	Accumulated amount
Spin-off	4,209,102	92	387,237,384
Treasury shares	(4,578)	61	(279,258)
	<u>4,204,524</u>		<u>386,958,126</u>

Weighted average numbers of shares outstanding: $386,958,126 \div 92 \text{ days} = 4,206,067$ shares

(b) Diluted earnings per share

The Group has no potential dilutive ordinary shares. Accordingly, basic earnings (loss) per share is identical to diluted earnings (loss) per share.

34. Dividends

A dividend in respect of the year ended December 31, 2017, amounting to dividend of ₩ 1,117 million, was paid in April, 2018.

A dividend in respect of the year ended December 31, 2018, of ₩ 1,300 per share, amounting to a total dividend of ₩ 8,336 million, is to be proposed to shareholders at the annual general meeting on March 28, 2019. These financial statements do not reflect this dividend payable.

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35. Contingencies and Commitments

As at December 31, 2018, the Group is a plaintiff in 128 lawsuits amounting to ₩4,820 million (2017: 88 lawsuits and ₩2,486 million) and a defendant in 16 lawsuits amounting to ₩74,380 million (2017: 6 lawsuits and ₩575 million). The outcome of the above cases cannot be reasonably estimated, and outflows of resources and the timing are also uncertain. The Group expects that this case would not have any material impact on its financial statements.

Details of agreements with financial institutions as at December 31, 2018 and 2017, are as follows:

*(in millions of Korean won
and in thousands of US
dollars)*

		2018		2017	
Overdrafts	Shinhan Bank and others	₩	35,361	₩	26,016
General borrowings	Woori Bank and others	₩	17,599	₩	10,284
L/C	Woori Bank and others	USD	18,074	USD	17,000
Local L/C	KEB Hana Bank	₩	1,500	₩	1,500
Performance guarantees	Seoul Guarantee Insurance Company and others	₩	2,574	₩	3,564

As at December 31, 2018, the Group has entered into technology license agreements with WILKES & ASSOCIATES and others for the production of certain products and has paid royalty fees in accordance with the agreements. Details of the technology license agreements are as follows:

Provided by	Related products	Royalty	Expiry date
PEPSICO	Snack (Cheetos) production technology	Max[3.00% of Net sales, 2.00% of Gross sales]	December, 2020
	Snack (Doritos) production technology	Max[3.00% of Net sales, 2.18% of Gross sales]	December, 2020
HERSHEY	Trademark (HERSHEY ICE) license	3.00% of Net sales	December, 2019

In addition, the Group entered into a technology exchange and support agreement with Lotte Co., Ltd, in Japan, for ten years from April 1, 2004 to March 31, 2014 and the contract period was automatically extended for five years. According to this agreement, each party can use the other party's patents and trademarks. The related costs amounting to ₩286 million was recognized for the year ended December 31, 2018.

The Group entered into trademark license agreements with associates as follows:

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	Related product	Provide to	Offer period	Fee
Provision of technology	Choco pie	Lotte India Co., Ltd.	2010.1.1 – 2019.12.31	1.5% of Net sales
Provision of technology	SPOUT	Lotte India Co., Ltd.	2005.1.1 – 2019.12.31	1.5% of Net sales
Provision of license	SPOUT	Lotte India Co., Ltd.	2005.1.1 – 2019.12.31	1.5% of Net sales

Joint liability existed before the spin-off

After the spin-off, newly established, the Group and existing corporation, Lotte Corporation Co., Ltd are jointly liable for the liabilities that existed before the spin-off in accordance with paragraph 1 of Article 530-9 of the Commercial Code of Korea.

Assets provided as collateral

Assets provided as collateral as at December 31, 2018, are as follows:

(in millions of Korean won)

Secured assets	Secured party	Carrying amount	Secured amount
Land		₩ 3,574	₩
Buildings	Habib Bank Limited	17,659	39,950
Machinery		47,262	
		<u>₩ 68,495</u>	<u>₩ 39,950</u>

Brand usage contract, etc.

As at December 31, 2018, the Group has entered into contracts for brand use, management consulting and management support contracts with Lotte Corporation Co., Ltd. The consideration for usage of the brand is 0.15% of the sales amount deducted from advertising expenses. The management consulting and management support service costs are calculated by multiplying 5% by the amount which is calculated by allocating the expenses incurred in the course of performing the target business with reasonable criteria.

As at December 31, 2018, the Group has entered into a management support arrangement with Lotte Corporation Co., Ltd for overseas subsidiaries. The Group receives service fee based on actual costs incurred with agreed margins.

36. Related Party Transactions

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The Parent Company and its respective percentage of ownership as at December 31, 2018, are as follows:

	Percentage of ownership (%)		Remark
	2018	2017	
Lotte Corporation Co., Ltd ¹	48.42	8.23	

¹ Lotte Corporation Co., Ltd had significant influence on the Group in 2017 and changed to the Parent Company in 2018. For the years ended December 31, 2018, Lotte Corporation Co., Ltd contributed its shares of overseas subsidiaries and the Group issued new shares for the contribution. Contributed overseas subsidiaries are Rakhat JSC, Lotte Confectionery Holdings B.V. and Lotte Kolson(Private) Limited.

(in Korean won)	Number of issued shares(unit: shares)	Issue price	Issue amount
Contribution in kind	2,207,615	157,904	348,591,238,960

See Notes 1. Investments in subsidiaries and associates for the details of contribution

Details of associates and other related parties that have sales and other transactions with the Group or have outstanding balances as at December 31, 2018 and 2017, are as follows:

	2018	2017	Remark
Parent Company	Lotte Corporation Co., Ltd	-	
Significant influence on the Group.	-	Lotte Corporation Co., Ltd	
Other related parties	-	Lotte Taiwan Co., Ltd	1
Others	Lotte Logistics Co., Ltd.	Lotte Logistics Co., Ltd.	
	LOTTEGRS Co., Ltd.	LOTTEGRS Co., Ltd.	
	LOTTE FOODS CO.,LTD.	LOTTE FOODS CO.,LTD.	
	LOTTE SHOPPING CO.,LTD.	LOTTE SHOPPING CO.,LTD.	2
	Lotte Aluminum Co., Ltd.	Lotte Aluminum Co., Ltd.	
	LOTTE CARD Co.,Ltd. and others	LOTTE CARD Co.,Ltd. and others	

¹ Lotte Taiwan Co., Ltd. was excluded from associates in 2018, and the Group acquired shares of L&M Mayson Company Limited. during the year ended December 31, 2018.

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² Although the entities are not the related party of the Group in accordance with Korean IFRS 1024, the entities belong to the Large Enterprise Group to which the Group also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

Sales and purchases with related parties for the year ended December 31, 2018 and the three-month period ended December 31, 2017, are as follows:

(in millions of Korean won)

Name of entity	2018						
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Dividend	Other income	Other expenses
Parent Company							
Lotte Corporation Co.,Ltd	₩ 6,483	₩ 1	₩ -	₩ -	₩ 97	₩ 945	₩ 4,044
Associates							
Lotte Taiwan Co., Ltd ²	3,855	-	-	-	-	-	-
Other related parties							
Lotte Logistics Co., Ltd.	73,529	275	-	-	-	85	101,439
LOTTEGRS Co., Ltd.	27,535	5	54	-	-	-	377
LOTTE FOODS CO.,LTD.	5,576	61,573	-	-	-	3,661	4,831
LOTTE SHOPPING CO.,LTD.	116,952	-	-	6,187	-	529	3,839
Lotte Aluminum Co., Ltd.	442	52,750	621	-	-	-	1,182
LOTTE CARD Co.,Ltd. and others	55,299	23,760	18,416	-	-	354	39,663
	₩289,671	₩138,364	₩ 19,091	₩ 6,187	₩ 97	₩ 5,574	₩155,375

(in millions of Korean won)

Name of entity	2017				
	Sales	Purchase	Acquisition of property, plant and equipment	Other income	Other expenses
Significant influence over the Group					
Lotte Corporation Co.,Ltd	₩ 2,083	₩ -	₩ -	₩ 248	₩ 764
Associate					
Lotte Taiwan Co., Ltd	1,453	-	-	-	219
Other related parties					
Lotte Logistics Co., Ltd.	18,483	138	-	-	21,587

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LOTTEGRS Co., Ltd.	8,694	2	-	93	62
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
	<u>₩ 80,003</u>	<u>₩ 32,364</u>	<u>₩ 4,759</u>	<u>₩ 1,525</u>	<u>₩ 37,580</u>

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Receivables		Payables	
	Trade receivables	Other receivables ¹	Trade payables	Other payables
Parent Company				
Lotte Corporation Co., Ltd	₩ 861	₩ 645	₩ -	₩ 414
Other related parties				
Lotte Logistics Co., Ltd.	10,462	80	1,037	5,498
LOTTEGRS Co., Ltd.	3,511	-	113	-
LOTTE FOODS CO.,LTD.	68	242	14,886	6,907
LOTTE SHOPPING CO.,LTD.	10,004	10	-	391
Lotte Aluminum Co., Ltd.	-	-	17,643	300
LOTTE CARD Co.,Ltd. and others	12,078	5,166	4,174	12,428
	<u>₩ 36,984</u>	<u>₩ 6,143</u>	<u>₩ 37,853</u>	<u>₩ 25,938</u>

¹Other receivables consist of non-trade receivables and other intangible assets.

<i>(in millions of Korean won)</i>	2017			
	Receivables		Payables	
	Trade receivables	Other receivables ¹	Trade payables	Other payables
Significant influence on the Group				
Lotte Corporation Co., Ltd	₩ 868	₩ 132	₩ -	₩ 865
Associate				
Lotte Taiwan Co., Ltd	1,453	-	-	-
Other related parties				
Lotte Logistics Co., Ltd.	11,431	1	235	5,906
LOTTEGRS Co., Ltd.	6,482	440	1	48
LOTTE FOODS CO.,LTD.	397	209	17,944	638

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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
	<u>₩ 55,290</u>	<u>₩ 9,137</u>	<u>₩ 38,812</u>	<u>₩ 28,770</u>

¹Other receivables consist of non-trade receivables and other intangible assets.

The trade receivables from related parties are due one or two month after the date of transaction. The trade receivables from related parties are unsecured in nature and bear no interest.

For the year ended December 31, 2018, the Group acquired business line of NATUUR from LOTTEGRS Co., Ltd. based on the resolution of the Board of Directors. See Note 38 for details of business combination.

For details of contribution in kind between the Group and the Parent Company for the year ended December 31, 2018, see note 1.

The Group deposits pension plan to Lotte Non-Life Insurance Co., Ltd., a related party. As at December 31, 2018, the deposits amount to ₩4,951 million.

The Group entered into trademark license agreements with associates as follows:

	Related product	Provide to	Offer period	Fee
Provision of technology	Choco pie	Lotte India Co., Ltd.	2010.1.1 – 2019.12.31	1.5% of Net sales
Provision of technology	SPOUT	Lotte India Co., Ltd.	2005.1.1 – 2019.12.31	1.5% of Net sales
Provision of license	SPOUT	Lotte India Co., Ltd.	2005.1.1 – 2019.12.31	1.5% of Net sales

Payment guarantee and Collateral

After the spin-off, newly established, the Group and existing corporation, Lotte Corporation Co., Ltd are jointly liable for the liabilities that existed before the spin-off in accordance with paragraph 1 of Article 530-9 of the Commercial Code of Korea.

As at December 31, 2018, the Group has entered into contracts for brand use, management consulting and management support contracts with Lotte Corporation Co., Ltd. The consideration for usage of the brand is 0.15% of the sales amount deducted from advertising expenses. The management consulting and management support service costs are calculated by multiplying 5% by the amount which is calculated by allocating the expenses incurred in the course of performing the target business with reasonable criteria.

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As at December 31, 2018, the Group has entered into a management support arrangement with Lotte Corporation Co., Ltd for overseas subsidiaries. The Group receives service fee based on actual costs incurred with agreed margins.

The compensation paid or payable to key management for employee services for the year ended December 31, 2018 and the three-month period ended December 31, 2017, consists of:

<i>(in millions of Korean won)</i>	2018		2017	
Short-term employee benefits	₩	14,098	₩	3,869
Post-employment benefits		2,665		493
	₩	<u>16,763</u>	₩	<u>4,362</u>

Key management includes the directors (executive and non-executive) and internal auditors who have the authority and responsibilities for planning, operation and control of the business of the Group.

37. Cash Flow Information

(a) Significant non-cash transactions

<i>(in millions of Korean won)</i>	2018	2017
Reclassification of construction-in-progress to property, plant and equipment	₩ 13,784	₩ 14,607
Changes in other payables to acquire property, plant and equipment	(4,830)	3,934
Changes in prepaid to acquire intangible assets	256	125
Changes in non-trade receivables to dispose property, plant and equipment	293	-

(b) Changes in liabilities arising from financing activities

<i>(in millions of Korean won)</i>	2018					
	At Jan. 1	Cash flow	Changes due to business combination	Non-cash transactions		At Dec. 31
				Reclassification	Others	
Short-term borrowings	₩ 153,063	₩ (31,030)	₩ 67,038	₩ (14,463)	₩ 1,086	₩ 175,694
Long-term borrowings	2,206	20,000	33,668	14,463	(1,030)	69,307
Current portion of debentures	149,927	(150,000)	-	-	73	-
Debentures	379,329	160,421	-	-	7,486	547,236
	<u>₩ 684,525</u>	<u>₩ (609)</u>	<u>₩ 100,706</u>	<u>₩ -</u>	<u>₩ 7,615</u>	<u>₩ 792,237</u>

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<i>(in millions of Korean won)</i>	2017				
	At Oct. 1	Cash flow	Non-cash transactions		At Dec. 31
			Reclassification	Others	
Short-term borrowings	₩ 50,053	₩ 100,085	₩ -	₩ 2,925	₩ 153,063
Long-term borrowings	-	-	-	2,206	2,206
Current portion of debentures	49,975	-	100,000	(48)	149,927
Debentures	479,208	-	(100,000)	121	379,329
	<u>₩ 579,236</u>	<u>₩ 100,085</u>	<u>₩ -</u>	<u>₩ 5,204</u>	<u>₩ 684,525</u>

38. Business Combinations

(a) HAVMOR ICE CREAM LIMITED

The Group acquired 100% shares of HAVMOR ICE CREAM LIMITED on December 15, 2017 and HAVMOR ICE CREAM LIMITED was included as subsidiary.

The goodwill of ₩ 88,592 million arising from the acquisition is attributable to acquired Indian customer base and synergy effect with companies in the same category of industry.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount
Purchase consideration	
Cash	₩ 167,157
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	₩ 101
Trade and other receivables	1,760
Impairment of trade and other receivables	(125)
Inventories	7,412
Other current financial assets	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)

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Current portion of borrowings	(2,925)
Other current financial liabilities	(14)
Provisions	(225)
Other current liabilities	(130)
Borrowings	(2,206)
Other non-current financial liabilities	(4,287)
Net defined benefit liabilities	(41)
Deferred tax liabilities ¹	(35,744)
Total identifiable net assets	<u>78,565</u>
Goodwill	<u>₩ 88,592</u>

¹ Gain on changes in fair value amounting to ₩5,784 million and trademarks amounting to ₩93,565 million is included in identifiable intangibles assets and related deferred tax liabilities amounting to ₩34,383 million is included in liabilities assumed.

(b) Acquisition of Sweet With Co.,Ltd

The Group acquired 100% shares of Sweet With Co.,Ltd on January 3, 2018 and Sweet With Co.,Ltd included as subsidiary.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Cash	₩	313
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	248
Trade and other receivables		81
Other current assets		21
Property, plant and equipment		843
Trade and other payables		(4)
Other current financial liabilities		(41)
Other current liabilities		(285)
Other non-current financial liabilities		(469)
Net defined benefit liabilities		(38)
Total identifiable net assets		<u>356</u>
Gains on bargain purchase	₩	<u>(43)</u>

Because Sweet With Co., Ltd was deemed to be acquired on January 1, 2018, the revenue and profits

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of Sweet With Co., Ltd were included in the statement of comprehensive income for the current year.

(c) Acquisition of NATUUR segment

In June 2018, the Group acquired NATUUR segment from LOTTEGRS Co., Ltd on the resolution of the Board of Directors on April 30, 2018.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Cash	₩	25,642
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	135
Trade and other receivables		5,230
Inventories		1,600
Other current assets		228
Other non-current assets		3,900
Property, plant and equipment		3,861
Intangible assets ¹		7,355
Trade and other payables		(5,054)
Other current liabilities		(1,103)
Other non-current liabilities		(401)
Net defined benefit liabilities		(485)
Deferred tax liabilities ¹		(1,693)
Total identifiable net assets		<u>13,573</u>
Goodwill	₩	<u>12,069</u>

¹Trademarks amounting to ₩6,995 million is included in identifiable intangibles assets and related deferred tax liabilities amounting to ₩1,693 million is included in liabilities assumed.

Because NATUUR segment was deemed to be acquired on June 1, 2018, the revenue and profits of NATUUR segment were included in the statement of comprehensive income for the seven month.

If NATUUR segment had been acquired at the beginning of the current period, the Group's revenue and net loss for the year would have been ₩37,599 million and ₩3,331 million, respectively, in the statement of comprehensive income.

(d) Lotte Confectionery RUS LLC

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The Group acquired 100% shares of Lotte Confectionery RUS LLC on May 17, 2018 and Lotte Confectionery RUS LLC was included as subsidiary. The Group expects to expand confectionery market in Russia as a result of acquisition of the shares.

The goodwill of ₩ 4,372 million arising from the acquisition is attributable to acquired Russian customer base and synergy effect with companies in the same category of industry.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Cash	₩	121
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	7,937
Trade and other receivables		5,036
Impairment of trade and other receivables		(2,622)
Inventories		2,837
Other current financial assets		-
Other current assets		6,592
Other non-current financial assets		-
Other non-current assets		5,280
Investment property		-
Property, plant and equipment ¹		32,434
Intangible assets ¹		3,100
Trade and other payables		(5,470)
Current portion of borrowings		(55,357)
Other current financial liabilities		(5)
Provisions		-
Other current liabilities		(1,499)
Borrowings		-
Other non-current financial liabilities		(25)
Post-employment benefit obligation		-
Deferred tax liabilities ¹		(2,489)
Total identifiable net assets		<u>(4,251)</u>
Goodwill	₩	<u>4,372</u>

¹ Gain on changes in fair value amounting to ₩9,346 million and identifiable intangibles assets (customer relationship) amounting to ₩3,098 million are included and related deferred tax liabilities amounting to ₩2,489 million is included in liabilities assumed.

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Because Lotte Confectionery RUS LLC was deemed to be acquired on June 30, 2018, the revenue and profits of Lotte Confectionery RUS LLC were included in the statement of comprehensive income for the six month.

If Lotte Confectionery RUS LLC had been acquired at the beginning of the current period, the Group's revenue and net loss for the year would have been ₩39,002 million and ₩7,819 million, respectively, in the statement of comprehensive income.

(e) Rakhat JSC

The Group acquired 92.44% shares of Rakhat JSC on December 20, 2018 and Rakhat JSC was included as subsidiary. The Group expects to expand confectionery market in Kazakhstan as a result of acquisition of the shares.

The goodwill of ₩40,512 million arising from the acquisition is attributable to acquired Kazakhstan customer base and synergy effect with companies in the same category of industry.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Contribution in kind	₩	209,167
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	28,803
Trade and other receivables		3,171
Impairment of trade and other receivables		(64)
Inventories		48,474
Other current financial assets		-
Other current assets		5,935
Other non-current financial assets		1
Other non-current assets		2,426
Investment property		-
Property, plant and equipment ¹		87,832
Intangible assets ¹		40,608
Trade and other payables		(4,486)
Current portion of borrowings		(523)
Other current financial liabilities		(1,173)
Provisions		(2,927)
Other current liabilities		(1,886)

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Borrowings		(1,708)
Other non-current financial liabilities		(2,487)
Post-employment benefit obligation		-
Deferred tax liabilities ¹		(19,556)
Less: non-controlling interest		-
Total identifiable net assets		182,440
Non-controlling interest		13,785
Goodwill	₩	<u>40,512</u>

¹ Gain on changes in fair value amounting to ₩42,491 million and identifiable intangibles assets (customer relationship) amounting to ₩40,059 million are included and related deferred tax liabilities amounting to ₩16,510 million is included in liabilities assumed.

Because Rakhat JSC was deemed to be acquired on December 31, 2018, the revenue and profits of Rakhat JSC were not included in the statement of comprehensive income for the current year.

If Rakhat JSC had been acquired at the beginning of the current period, the Group's revenue and net loss for the year would have been ₩189,310 million and ₩23,129 million, respectively, in the statement of comprehensive income.

(f) Confectionery Holdings B.V.

The Group acquired 51% shares of Confectionery Holdings B.V. on December 20, 2018 and Lotte Confectionery RUS LLC was included as subsidiary. The Group expects to expand confectionery market in Europe as a result of acquisition of the shares.

The goodwill of ₩38,832 million arising from the acquisition is attributable to acquired European customer base and synergy effect with companies in the same category of industry.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition at the acquisition date are as follows:

<i>(in millions of Korean won)</i>		Amount
Purchase consideration		
Contribution in kind	₩	107,829
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	35,017
Trade and other receivables		31,383
Impairment of trade and other receivables		(274)
Inventories		15,694

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Other current financial assets	33
Other current assets	3,011
Other non-current financial assets	30
Other non-current assets	1
Investment property	-
Property, plant and equipment ¹	52,780
Intangible assets ¹	35,976
Trade and other payables	(11,159)
Current portion of borrowings	-
Other current financial liabilities	(4,394)
Provisions	(1,589)
Other current liabilities	(4,059)
Borrowings	-
Other non-current financial liabilities	-
Post-employment benefit obligation	-
Deferred tax liabilities ¹	(17,162)
Total identifiable net assets	135,288
Non-controlling interest	66,291
Goodwill	<u>₩ 38,832</u>

¹ Gain on changes in fair value amounting to ₩12,393 million and identifiable intangibles assets (customer relationship) amounting to ₩35,603 million are included. Previously recognized goodwill amounting to ₩ 59,419 million was excluded. Related deferred tax liabilities amounting to ₩11,999 million is included in liabilities assumed.

Because Confectionery Holdings B.V. was deemed to be acquired on December 31, 2018, the revenue and profits of Confectionery Holdings B.V. were not included in the statement of comprehensive income for the current year.

If Confectionery Holdings B.V. had been acquired at the beginning of the current period, the Group's revenue and net loss for the year would have been ₩111,464 million and ₩6,485 million, respectively, in the statement of comprehensive income.

(g) Lotte Kolson(Private)Limited

The Group acquired 96.5% shares of Confectionery Holdings B.V. on December 20, 2018 and Lotte Kolson(Private)Limited was included as subsidiary. The Group expects to expand confectionery market in Pakistan as a result of acquisition of the shares.

The goodwill of ₩1,306 million arising from the acquisition is attributable to acquired Pakistani customer base and synergy effect with companies in the same category of industry.

Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition

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at the acquisition date are as follows:

<i>(in millions of Korean won)</i>	Amount	
Purchase consideration		
Contribution in kind	₩	42,845
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	1,739
Trade and other receivables		1,015
Impairment of trade and other receivables		(1)
Inventories		9,722
Other current financial assets		475
Other current assets		7,230
Other non-current financial assets		3,674
Other non-current assets		1,439
Investment property		1,119
Property, plant and equipment ¹		73,177
Intangible assets ¹		5,164
Trade and other payables		(13,408)
Current portion of borrowings		(11,158)
Other current financial liabilities		(1,485)
Provisions		-
Other current liabilities		(1,577)
Borrowings		(31,960)
Other non-current financial liabilities		-
Post-employment benefit obligation		(684)
Deferred tax liabilities ¹		(1,436)
Total identifiable net assets		43,045
Non-controlling interest		1,506
Goodwill	₩	<u>1,306</u>

¹ Gain on changes in fair value amounting to ₩173 million and identifiable intangibles assets (customer relationship) amounting to ₩5,146 million are included and related deferred tax liabilities amounting to ₩1,436 million is included in liabilities assumed.

Because Lotte Kolson(Private)Limited was deemed to be acquired on December 31, 2018, the revenue and profits of Lotte Kolson(Private)Limited were not included in the statement of comprehensive income for the current year.

If Lotte Kolson(Private)Limited had been acquired at the beginning of the current period, the Group's revenue and net loss for the year would have been ₩103,704 million and ₩1,474 million, respectively,

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in the statement of comprehensive income.

39. Changes in Accounting Policies

39.1 Adoption of Korean IFRS 1109 *Financial Instruments*

(a) Classification and Measurement of Financial Instruments

There is no impact on the Group's retained earnings due to classification and measurement of financial instruments as at January 1, 2018.

On the date of initial application of Korean IFRS 1109, January 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

<i>(in millions of Korean won)</i>	Available-for-sale financial assets	Fair value through other comprehensive income	Amortized cost	Total
Financial assets – January 1, 2018				
Beginning balance – Korean IFRS 1039	₩ 754	₩	₩ 384,184	₩ 384,938
Reclassification of listed and unlisted debt securities from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(754)	754	-	-
Beginning balance - Korean IFRS 1109	₩ -	₩ 754	₩ 384,184	₩ 384,938

The beginning balance as at January 1, 2018, presented available-for-sale financial assets at fair value through other comprehensive income, and loans and receivables at amortized cost, respectively. These reclassifications have no impact on the measurement categories.

There is no impact on the Group's equity due to classification and measurement of financial instruments as at January 1, 2018.

(i) Reclassification of equity investments from available-for-sale to fair value through other comprehensive income

The Group elected to present changes in the fair value of all its equity investments previously classified as available-for-sale in other comprehensive income, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of ₩754 million were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income as at January 1, 2018.

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(ii) Reclassifications of financial instruments on adoption of Korean IFRS 1109

On the date of initial application, January 1, 2018, the financial instruments of the Group with any reclassifications noted, were as follows:

(in millions of Korean won)	Measurement category		Carrying amount			
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	Difference ¹	
Current financial assets						
Cash and cash equivalents	Amortized costs	Amortized costs	₩ 66,069	₩ 66,069	₩	-
Trade and other receivables	Amortized costs	Amortized costs	260,832	260,832		-
Debt securities	Available-for-sale financial assets	Fair value through other comprehensive income ¹	634	634		-
Other current financial assets	Amortized costs	Amortized costs	30,111	30,111		-
Non-current financial assets						
Debt securities	Available-for-sale financial assets	Fair value through other comprehensive income ¹	₩ 119	₩ 119	₩	-
Other non-current financial assets	Amortized costs	Amortized costs	27,172	27,172		-
Current financial liabilities						
Trade and other payables	Amortized costs	Amortized costs	₩ 152,520	₩ 152,520	₩	-
Current portion of borrowings	Amortized costs	Amortized costs	153,063	153,063		-
Current portion of debentures	Amortized costs	Amortized costs	149,927	149,927		-
Other current financial liabilities	Amortized costs	Amortized costs	35,555	35,555		-
Non-current financial liabilities						
Borrowings	Amortized costs	Amortized costs	₩ 2,206	₩ 2,206	₩	-
Debentures	Amortized costs	Amortized costs	379,329	379,329		-
Other non-current financial liabilities	Amortized costs	Amortized costs	10,863	10,863		-

¹ Fair value through other comprehensive income: invest in debt instruments

(b) Impairment of Financial Assets

The Group has three types of financial assets subject to Korean IFRS 1109's new expected credit loss model:

- trade receivables for sales of inventory

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- debt investments carried at fair value through other comprehensive income, and
- debt investments carried at amortized cost

Upon adoption of Korean IFRS 1109, accounting policies for recognition of impairment have changed.

(i) Trade receivables and Contract assets

The Group applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets.

(ii) Debt instruments

Debt investments at amortized cost and those at fair value through other comprehensive income are considered to be low risk, and thus the provision for impairment is determined as 12 months expected credit losses.

39.2 Adoption of Korean IFRS 1115 Revenue from Contracts with Customers

As explained in Note 2, the Group has applied Korean IFRS 1115 *Revenue from contracts with customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The significant changes in accounting policies from the application of Korean IFRS 1115 and the impacts of the changes on the financial statements are as follows.

(a) Revenue from contracts with customers

<i>(in millions of Korean won)</i>	Reported amount¹		Adjustments		Amount before application of Korean IFRS 1115	
Sales	₩	1,694,513	₩	88,465	₩	1,782,978
Selling and administrative expenses		542,207		88,465		630,672
Profit for the year		8,419		-		8,419
Total comprehensive income		(9,496)		-		(9,496)

Adjustments arising from adoption of Korean IFRS 1115 are variable consideration for ₩31,330 million and the consideration paid to the customer for ₩57,135 million.

(b) Assets and liabilities from contracts with customers

<i>(in millions of Korean won)</i>	2018	2017
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Contract assets	₩	-	₩	-
Contract liabilities				
Contract liabilities – current provisions		26,497		26,592
Contract liabilities – non-current provisions		596		-
	₩	<u>27,093</u>	₩	<u>26,592</u>

Contract liabilities are provisions from sales return that estimates the amount expected to be returned in the future based on past experience

40. Events After the Reporting Period

The Group acquired all shares of L&M Confectionery Pte. Ltd located in Singapore for ₩ 33,090 million in January, 2019. L&M Confectionery Pte. Ltd has significant influence over L&M Mayson Company Limited, the subsidiary of the Group, by holding 34.5% of the equity shares. As a result of this acquisition, the percentage of ownership on L&M Mayson Company Limited increased from 45.5% to 80%.

In February 2019, the Group acquired the remaining shares of Rakhat JSC in Kazakhstan (3.12%, 112,357 shares) from other shareholders through tender offer for KZT20,228 per share. The percentage of ownership on Rakhat JSC has changed from 92.44 to 95.56%.