

Lotte Chilsung Beverage Co.,Ltd and Subsidiaries

**Consolidated Financial Statements
December 31, 2018 and 2017**

Lotte Chilsung Beverage 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 Chilsung Beverage Co.,Ltd

Opinion

We have audited the accompanying consolidated financial statements of Lotte Chilsung Beverage Co.,Ltd and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A. Impairment assessment on the liquor segment cash generating unit (CGU)

Key Audit Matter

As at December 31, 2018, the Group determined that there is an indicator of impairment due to the continuing operating loss of the liquor segment. The Group performed an impairment test on the liquor CGU, using value-in-use calculations based on discounted cash flow method. We determined liquor CGU accounting treatments to be a key audit matter as the value-in-use involves significant judgement and estimates of the Group management including discount rates, growth rates and future cash flow forecast.

How our audit addressed the Key Audit Matter

We performed the audit procedures on the method of estimation on discounted cash flows of liquor CGU and the underlying data used for the estimation to test whether assumptions used by the Group management were reasonable.

We focused on a classification of CGU that the Group identified. We obtained an understanding and evaluated the underlying process and relevant controls in connection with business planning for value-in-use calculation. We evaluated competency, capability and independence of an external expert engaged by the Group and verified whether past business plans were achieved and assumptions and estimates were reasonable in the assessment model. We also assessed that the calculation of the valuation amount was correct and the impairment loss was allocated properly. Furthermore, we assessed the completeness of disclosures related to asset impairment of the Group, including the criteria for determining recoverable amount and the key assumptions used by the Group.

B. Business combination

Key Audit Matter

In October 2018, the Group acquired 52% shares of Lotte Akhtar Beverages (Private) Ltd. which is located in Pakistan, for ₩48,465 million. The Group recognized customer relationship amounting to ₩2,727 million and goodwill amounting to ₩33,754 million through purchase price allocation, and has entered into a shareholders' agreement with non-controlling shareholders of Lotte Akhtar Beverages (Private) Ltd. We considered that the business combination is a key audit matter as the significant level of the Group's judgment, such as discount rates and future cash flows, involved for the valuation of intangible recognized in the business combination and given the complexity of shareholder agreements.

How our audit addressed the Key Audit Matter

We assessed whether the intangible assets that the Group identified qualify for recognition as assets, and evaluated the competency and independence of external experts. Also, we assessed whether the assumptions and estimations of valuation model of the intangible assets are reasonable when allocating purchase price. In addition, we assessed that the valuation was accurate. We focused on the impacts of share purchase agreement and shareholders' agreement of Lotte Akhtar Beverages (Private) Ltd. on the financial statements, and verified the completeness of disclosures.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such 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 Jae-Hyuk Lee, Certified Public Accountant.

Seoul, Korea
March 20, 2019

<p>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.</p>

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

<i>(in Korean won)</i>	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	4,5,6,40	₩ 98,388,437,105	₩ 153,444,295,931
Short-term financial instruments	4,5,6,40	10,000,000,000	45,072,000,000
Trade and other receivables	4,5,6,8,38,40	265,113,158,208	268,396,772,753
Held-to-maturity financial assets	4,5,6,14,40	112,055,000	487,710,000
Inventories	10	257,098,970,295	238,781,825,569
Current tax assets		1,692,016,737	-
Other financial assets	4,5,6,9,21,40	3,976,263,376	3,232,166,258
Contract assets	30,40	1,865,206,874	-
Other assets	11	50,469,565,029	44,437,498,697
		<u>688,715,672,624</u>	<u>753,852,269,208</u>
Non-current assets			
Long-term financial instruments	4,5,6,7,40	5,541,626,431	15,318,328,539
Long-term trade and other receivables	4,5,6,8,40	5,813,234,370	5,491,605,853
Available-for-sale financial assets	4,5,6,13,40	-	49,992,103,592
Financial assets at fair value through profit or loss	4,5,6,12,40	193,925,174	-
Financial assets at fair value through other comprehensive income	4,5,6,12,40	36,403,369,105	-
Held-to-maturity financial assets	4,5,6,14,40	1,820,934,050	1,898,935,000
Investments in associates	15	56,727,720,284	54,066,889,782
Property, plant and equipment	16	2,165,689,913,481	2,245,308,556,665
Investment property	17	146,716,726,693	152,824,194,163
Intangible assets	18	151,697,343,776	165,125,515,991
Other financial assets	4,5,6,9,40	49,704,435,855	43,052,734,900
Other assets	11	2,255,124,818	-
		<u>2,622,564,354,037</u>	<u>2,733,078,864,485</u>
Total assets		<u>₩ 3,311,280,026,661</u>	<u>₩ 3,486,931,133,693</u>
Liabilities			
Current liabilities			
Trade and other payables	4,5,6,19,38,40	₩ 339,460,758,332	₩ 424,858,876,957
Borrowings and current portion of debentures	4,5,6,20,40	200,587,834,831	283,594,876,032
Current tax liabilities		13,237,871,740	8,455,026,242
Current portion of provisions	25,30,40	2,828,344,999	1,122,270,345
Other financial liabilities	4,5,6,22,40	15,752,610,960	15,003,622,068
Other liabilities	26	117,162,990,610	134,550,011,572
		<u>689,030,411,472</u>	<u>867,584,683,216</u>
Non-current liabilities			
Long-term trade and other payables	4,5,6,19,40	-	26,772,904,725
Borrowings and debentures	4,5,6,20,40	1,213,064,693,007	1,072,892,479,573
Net defined benefit liabilities	23	16,702,649,542	17,006,701,489
Deferred tax liabilities	24	101,870,178,866	144,972,816,068
Provisions	25,30,40	9,810,348,406	9,764,311,943
Other financial liabilities	4,5,6,21,22,40	24,810,097,511	22,743,219,922
Other liabilities	26	18,576,598,492	12,400,356,500
		<u>1,384,834,565,824</u>	<u>1,306,552,790,220</u>
Total liabilities		<u>2,073,864,977,296</u>	<u>2,174,137,473,436</u>
Equity			
Share capital	1,27	4,384,385,000	4,384,385,000
Other components of equity	27	(846,654,614,749)	(846,654,614,749)
Accumulated other comprehensive income	28	(13,723,534,778)	8,110,454,752
Retained earnings	29	2,083,263,734,557	2,146,953,435,254
Equity attributable to owners of the Parent Company		<u>1,227,269,970,030</u>	<u>1,312,793,660,257</u>
Non-controlling interest		<u>10,145,079,335</u>	<u>-</u>
Total equity		<u>1,237,415,049,365</u>	<u>1,312,793,660,257</u>
Total liabilities and equity		<u>₩ 3,311,280,026,661</u>	<u>₩ 3,486,931,133,693</u>

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

Lotte Chilsung Beverage Co.,Ltd and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

<i>(in Korean won)</i>	Notes	2018	2017
Sales	2,30,38,40	₩ 2,346,277,858,505	₩ 2,279,282,728,426
Cost of sales	32,38,40	<u>1,417,441,204,815</u>	<u>1,341,529,912,392</u>
Gross profit		928,836,653,690	937,752,816,034
Selling and administrative expenses	31,32,38,40	841,050,921,186	860,857,301,624
Impairment loss	32	<u>2,833,868,849</u>	<u>1,511,847,492</u>
Operating profit		84,951,863,655	75,383,666,918
Other income	33,38	9,014,180,609	388,485,725,009
Other expenses	33	127,472,080,159	205,784,279,546
Interest income		3,761,339,265	5,823,846,511
Finance income	6,34,38	1,466,920,757	14,797,495,577
Finance costs	6,34	43,848,596,773	56,688,640,419
Share of net profit of associates accounted for using the equity method	15	<u>3,200,554,699</u>	<u>7,306,461,398</u>
Profit (loss) before income tax		(68,925,817,947)	229,324,275,448
Income tax expense (benefit)	24	<u>(18,912,380,254)</u>	<u>20,686,945,532</u>
Profit (loss) from continuing operations		(50,013,437,693)	208,637,329,916
Loss from discontinued operations	42	-	(87,101,720,983)
Profit (loss) for the year		<u>₩ (50,013,437,693)</u>	<u>₩ 121,535,608,933</u>
Profit is attributable to:			
Owners of the Parent Company			
Profit from continuing operations		₩ (48,050,263,946)	₩ 208,637,329,916
Profit from discontinued operations		-	(74,002,602,726)
Non-controlling interests			
Profit from continuing operations		₩ (1,963,173,747)	-
Profit from discontinued operations		-	(13,099,118,257)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liability	23	₩ 4,801,484,625	5,932,499,327
Share of remeasurements of net defined benefit liability of associates	15	(225,199,470)	102,092,939
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	12,28	(10,281,310,742)	-
<i>Items that may be subsequently reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets	13,28	-	(350,316,095,611)
Gain (loss) on valuation of derivative instruments	28	(14,373,046)	303,412,209
Share of other comprehensive income of associates	15,28	1,560,474,023	7,366,872,884
Gain (loss) on foreign currency translation	28	<u>(7,688,921,434)</u>	<u>8,575,420,039</u>
Total comprehensive income for the year		<u>₩ (61,861,283,737)</u>	<u>₩ (206,500,189,280)</u>
Total comprehensive income for the year is attributable to:			
Owners of the Parent Company		₩ (58,426,845,977)	₩ (192,301,166,987)
Non-controlling interest		(3,434,437,760)	(14,199,022,293)
Earnings per share	36		
Earnings per share from continuing operations			
Basic and diluted earnings per ordinary share		₩ (58,529)	₩ 168,172
Basic and diluted earnings per preferred share		(58,479)	168,222
Earnings per share from discontinued operations			
Basic and diluted earnings per ordinary share		₩ -	₩ (59,651)
Basic and diluted earnings per preferred share		-	(59,651)

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

Lotte Chilsung Beverage Co.,Ltd and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2018 and 2017

(in Korean won)

Notes	Attributable to owners of the Parent Company					
	Share Capital	Other Components of Equity	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total Equity
Balance at January 1, 2017	₩ 6,786,015,000	₩ (20,984,783,777)	₩ 341,087,543,039	₩ 2,019,854,823,954	₩ 25,997,161,451	₩ 2,372,740,759,667
Total comprehensive income						
Profit(loss) for the year	-	-	-	134,634,727,190	(13,099,118,257)	121,535,608,933
Changes in the fair value of available-for-sale financial assets	28	-	(350,316,095,611)	-	-	(350,316,095,611)
Gain (loss) on valuation of derivative instruments	28	-	303,412,209	-	-	303,412,209
Share of other comprehensive income of associates	15	-	7,366,872,884	-	-	7,366,872,884
Gain (loss) on foreign currency translation	28	-	9,668,722,231	-	(1,093,302,192)	8,575,420,039
Remeasurements of net defined benefit liability	23	-	-	5,939,101,171	(6,601,844)	5,932,499,327
Share of remeasurements of net defined benefit liability of associates	15	-	-	102,092,939	-	102,092,939
Total comprehensive income for the year			(332,977,088,287)	140,675,921,300	(14,199,022,293)	(206,500,189,280)
Transactions with owners						
Dividends paid	37	-	-	(13,577,310,000)	(77,714,000)	(13,655,024,000)
Acquisition of treasury shares		(68,630,379,645)	-	-	-	(68,630,379,645)
Changes due to spin-off		(2,401,630,000)	(757,145,200,837)	-	(11,720,425,158)	(771,267,255,795)
Disposal of treasury shares		-	105,749,310	-	-	105,749,310
Total transactions with owners		(2,401,630,000)	(825,669,830,972)	(13,577,310,000)	(11,798,139,158)	(853,446,910,130)
Balance at December 31, 2017	₩ 4,384,385,000	₩ (846,654,614,749)	₩ 8,110,454,752	₩ 2,146,953,435,254	₩ -	₩ 1,312,793,660,257
Balance at January 1, 2018	₩ 4,384,385,000	₩ (846,654,614,749)	₩ 8,110,454,752	₩ 2,146,953,435,254	₩ -	₩ 1,312,793,660,257
Changes in accounting policy	40	-	(6,881,122,344)	6,881,122,344	-	-
Balance at January 1, 2018, after adjustments	4,384,385,000	(846,654,614,749)	1,229,332,408	2,153,834,557,598	-	1,312,793,660,257
Non-controlling interest related to business combination	41	-	-	-	13,579,517,095	13,579,517,095
Total comprehensive income						
Profit(loss) for the year	-	-	-	(48,050,263,946)	(1,963,173,747)	(50,013,437,693)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	28	-	(10,281,310,742)	-	-	(10,281,310,742)
Gain (loss) on valuation of derivative instruments	28	-	(14,373,046)	-	-	(14,373,046)
Share of other comprehensive income of associates	15	-	1,560,474,023	-	-	1,560,474,023
Gain (loss) on foreign currency translation	28	-	(6,217,657,421)	-	(1,471,264,013)	(7,688,921,434)
Remeasurements of net defined benefit liability	23	-	-	4,801,484,625	-	4,801,484,625
Share of remeasurements of net defined benefit liability of associates	15	-	-	(225,199,470)	-	(225,199,470)
Total comprehensive income for the year			(14,952,867,186)	(43,473,978,791)	(3,434,437,760)	(61,861,283,737)
Transactions with owners						
Dividends paid	37	-	-	(27,096,844,250)	-	(27,096,844,250)
Total transactions with owners				(27,096,844,250)	-	(27,096,844,250)
Balance at December 31, 2018	₩ 4,384,385,000	₩ (846,654,614,749)	₩ (13,723,534,778)	₩ 2,083,263,734,557	₩ 10,145,079,335	₩ 1,237,415,049,365

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

Lotte Chilsung Beverage Co.,Ltd and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in Korean won)	Notes	2018	2017
Cash flows from operating activities			
Cash generated from operations			
Profit (loss) for the year		₩ (50,013,437,693)	₩ 121,535,608,933
Adjustments	39	318,426,373,629	101,849,337,960
Changes in operating assets and liabilities	39	<u>(132,754,596,026)</u>	<u>(10,463,186,803)</u>
		135,658,339,910	212,921,760,090
Interest received		4,164,262,604	6,260,034,617
Interest paid		(35,311,392,998)	(30,007,779,006)
Dividend received		2,678,317,595	7,051,626,812
Income taxes paid		<u>(21,279,826,476)</u>	<u>(51,531,470,699)</u>
Net cash inflow from operating activities		<u>85,909,700,635</u>	<u>144,694,171,814</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		159,313,779,553	416,125,300,000
Increase in short-term financial instruments		(114,241,473,200)	(326,125,300,000)
Increase in long-term financial instruments		(223,297,892)	(288,927,116)
Decrease in held-to-maturity financial assets		487,710,000	136,160,000
Increase in held-to-maturity financial assets		(34,054,050)	(1,454,655,000)
Decrease in available-for-sale financial assets		-	8,238,355,641
Increase in available-for-sale financial assets		-	(1,494,873,663)
Increase in financial assets at fair value through profit or loss		(200,000,000)	-
Proceeds from disposal of non-current assets held for sale		-	41,207,970,186
Proceeds from disposal of property, plant and equipment		7,536,384,224	7,221,039,989
Payments for property, plant and equipment		(138,724,380,451)	(259,064,162,363)
Proceeds from disposal of intangible assets		3,328,747	61,630,720
Payments for intangible assets		(846,644,697)	(343,203,832)
Payments for investments in subsidiaries		(47,507,109,982)	(38,905,114,887)
Decrease in other financial assets		7,325,224,300	11,757,809,849
Increase in other financial assets		<u>(13,853,015,773)</u>	<u>(13,986,765,887)</u>
Net cash outflow from investing activities		<u>(140,963,549,221)</u>	<u>(156,914,736,363)</u>
Cash flows from financing activities			
Net decrease in short-term borrowings		(79,370,900,562)	(286,747,805,751)
Increase in long-term borrowings		60,000,000,000	120,000,000,000
Repayments of current portion of long-term borrowings		(21,948,376,051)	(72,824,161,412)
Repayments of finance lease liabilities		(912,873,223)	(651,623,219)
Proceeds from issuance of debentures		249,400,160,000	399,057,640,000
Repayments of debentures		(180,000,000,000)	(162,190,000,000)
Proceeds from disposal of treasury shares		-	105,749,310
Exercise of appraisal rights of dissenting shareholders		-	(102,797,026,307)
Payments for treasury shares		-	(5,371,368,395)
Dividends paid		(27,096,844,250)	(13,655,024,000)
Decrease in cash and cash equivalents due to spin-off	42	-	<u>(28,006,359,488)</u>
Net cash inflow (outflow) from financing activities		<u>71,165,914</u>	<u>(153,079,979,262)</u>
Net decrease in cash and cash equivalents		(54,982,682,672)	(165,300,543,811)
Cash and cash equivalents at the beginning of the financial year		153,444,295,931	319,691,830,966
Effects of exchange rate changes on cash and cash equivalents		(73,176,154)	(946,991,224)
Cash and cash equivalents at the end of the year		<u>₩ 98,388,437,105</u>	<u>₩ 153,444,295,931</u>

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

Lotte Chilsung Beverage Co.,Ltd and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

1. General Information

Lotte Chilsung Beverage Co.,Ltd (the Parent Company) was established in 1967 to engage in manufacturing and selling soft drink, liquor, fruit/vegetable drink, cereal drink, food and other beverage. On June 21, 1973, the Parent Company listed its stock on the Korea Exchange. The share capital of the Parent Company as at December 31, 2018, amounted to ₩ 4,384 million, and its major shareholders are as follows:

<i>(in shares)</i>	Number of shares		Percentage of ownership	
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares
Shin Kyuk Ho and 4 others	31,761	13,952	4.0%	18.0%
Lotte Corporation	212,166	6,489	26.5%	8.4%
Lotte aluminium Co.,Ltd.	70,887	3,050	8.9%	3.9%
Lotte Scholarship Foundation	50,168	3,965	6.3%	5.1%
Hotel Lotte Co.,Ltd.	47,345	3,747	5.9%	4.8%
Lotte Holdings Co.,Ltd.	10,983	-	1.4%	-
Lotte Foundation for Arts	-	920	-	1.2%
Treasury shares	42,011	13,846	5.2%	17.9%
Others	334,025	31,562	41.8%	40.7%
	799,346	77,531	100.0%	100.0%

1.1 Consolidated Subsidiaries

2018				
	Closing date	Main business	Percentage of ownership (%)	Location
Sanchung Beverage Co.,Ltd. (formerly, Sansu Beverages Co.,Ltd.) ¹	December 31	Manufacturing and selling	66.7	Korea
Lotte Akhtar Beverages (Private) Limited ²	June 30	Manufacturing and selling	52.0	Pakistan
2017				
	Closing date	Main business	Percentage of ownership (%)	Location
Sanchung Beverage Co.,Ltd. (formerly, Sansu Beverages Co.,Ltd.) ¹	December 31	Manufacturing and selling	66.7	Korea

¹ Although the Group owns 66.7% of actual shares of the entity, the effective percentage of ownership is 100% as the Parent Company holds risks and benefits on shares of non-controlling interest.

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² In 2018, the Group acquired 52% of shares of Lotte Akhtar Beverages (Private) Limited.

1.2 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2018 and 2017, is as follows:

(in millions of
Korean won)

Subsidiary	2018						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)	
Sanchung Beverage Co.,Ltd. (formerly, Sansu Beverages Co.,Ltd.)	₩ 14,619	₩ 4,424	₩ 10,195	₩ 19,079	₩ 2,354	₩	2,347
Lotte Akhtar Beverages (Private) Limited ¹	63,032	43,700	19,332	13,516	(4,103)		(4,103)

(in millions of
Korean won)

Subsidiary	2017						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)	
Sanchung Beverage Co.,Ltd. (formerly, Sansu Beverages Co.,Ltd.) ²	₩ 13,415	₩ 5,566	₩ 7,849	₩ -	₩ -	₩	-

¹ The entity was acquired in 2018 and above profit or loss is the amount incurred after the acquisition of control.

² Profit or loss is not presented since December 31, 2017 is deemed acquisition date.

1.3 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2018:

Subsidiary	Reason
Lotte Akhtar Beverages (Private) Limited	Newly acquired

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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

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

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

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

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- 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 amendment does not 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,

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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 in clause 57 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 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. 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 the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings. See Note 40 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 Group elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1, 2018, the period of initial application. See Notes 30 and 40 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.

(a) 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

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Leases. The Group will apply the standards for annual periods beginning on or after January 1, 2019. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the Group shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the Group shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the Group will not need to reassess all contracts if the Group elected to apply the practical expedient not to apply the standard to contracts that were not previously identified as containing a lease applying K-IFRS 1017 and Interpretation 2104.

For a contract that is, or contains, a lease, the Group shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below USD 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(i) Lessee Accounting

Method of Applying Korean IFRS 1116 Leases

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet elected the application method.

Financial effects of Korean IFRS 1116 Leases

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 December 31, 2018 to identify effects on 2018 financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

(ii) Lessor Accounting

Application Method and Financial Effects of Korean IFRS 1116 Leases

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The Group expects the effect on the financial statements applying the new standard will not be significant as accounting for the Group, as a lessor, will not significantly change.

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 Parent Company has control. The Parent Company controls an entity when the Parent Company 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 Parent Company. They are deconsolidated from the date that control ceases.

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

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

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

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

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

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(b) Associates

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

(d) Business Combination of Entities under a Common Control

Identifiable assets acquired and liabilities assumed in a business combination under a common control are measured at their book amounts on the consolidated financial statements of the Ultimate Parent Company.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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2.5 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 through profit or loss
- those to be measured at fair value through other comprehensive income, 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 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.

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- 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 'finance 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 'finance income or costs' 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, which held for long-term investment or strategic purpose, 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 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 'finance income and costs' 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 and lease 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

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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 (Note 20).

(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.

2.6 Derivative Instruments

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

The Group applies cash flow hedge accounting and fair value hedge accounting to hedge foreign exchange risk and interest risk of borrowings.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The ineffective portion is recognized in 'finance income (costs)'. The effective portion of changes in the fair value of derivatives accumulated in other comprehensive income is included in the initial cost of non-financial assets recognized as hedged transactions, and recognized in 'finance income (costs)' in the periods when the transaction affects profit or loss. When the forecast transaction is no longer expected to occur, accumulated profit or loss recognized in other comprehensive income is recognized in 'finance income (costs)'.

The effective portion of changes in the fair value of derivatives that are designated and qualify as fair value hedges is recognized in 'finance income (costs)'.

2.7 Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance.

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2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average method and first-in, first-out (FIFO) method, except for inventories in transits.

2.9 Non-current Assets (or Disposal Group) 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	25 - 40 years
Structures	15 - 20
Machinery	9 - 20
Vehicles	5 - 7
Others	4 - 10

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

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 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 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

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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 25 ~ 40 years.

2.13 Intangible Assets

Goodwill is measured as described in Note 2.14, and carried at cost less accumulated impairment losses. Intangible assets, except for goodwill, are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

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

	Useful lives
Intangible assets from business combination	10 - 20 years
Others	5 - 20

2.14 Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses at the date of acquisition of the control (the acquisition date), if any. For the purpose of impairment test, goodwill is allocated to a cash-generating unit in which synergy effect is expected from the business combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the statements of comprehensive income. An impairment loss recognized for goodwill cannot be reversed in subsequent periods. When the related cash-generating unit is disposed, the amount of related goodwill is included in the determination of the gain and loss on the disposal.

2.15 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.

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2.16 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.

2.17 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 debentures', and 'other financial liabilities' in the statement of financial position.

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

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.18 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 the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with*

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Customers

2.19 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.

2.20 Current and Deferred Tax

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

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

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

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

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

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

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

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2.21 Employee Benefits

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

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

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

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

2.22 Revenue Recognition

The Group measures revenue as the fair value of the consideration received or receivable, stated net of value-added tax, sales returns, sales rebate and sales discount. The Group recognizes revenue when the amount of revenue can be reliably measure, it is probable that future economic benefits will flow into the Group and fulfill the requirements for revenue recognition of the Group listed below.

(a) Sale of goods

Revenue on sales of goods is recognized when important risk and rewards from ownership of products have been transferred to the customer.

(b) Deividend and interest income

Deividend income from investment is recognized when a right to receive deividend is decided.

Interest income is recognized by effective interest method as time elapses. Effective interest is the interest rate that makes the net book value correspond with the present value of future cash flow of financial assets.

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2.23 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.

2.24 Segment Reporting

Management that makes strategic decisions determines the Group's operating segments. Management reviews based on operating income to make a decision for allocating resources and assess performance of the operating segments.

Operating segments of the Group in accordance with Korean IFRS 1108 *Operating Segments*, are as follows:

Segment	Products or services
Beverage division	Soft drink, fruit/vegetable drink and others
Liquor division	Liquor

Profit or loss by each segment for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		
	Beverage	Liquor	Total
Total segment revenue	₩ 1,599,143	₩ 756,724	₩ 2,355,867
Inter-segment revenue	(9,589)	-	(9,589)
Revenue from external customers	₩ 1,589,554	₩ 756,724	₩ 2,346,278
Operating profit (loss)	₩ 143,974	₩ (59,022)	₩ 84,952
Depreciation and amortization	64,161	87,570	151,731

(in millions of Korean won)

	2017 ¹		
	Beverage	Liquor	Total
Total segment revenue	₩ 1,588,636	₩ 859,901	₩ 2,448,537
Inter-segment revenue	(50,935)	(53,508)	(104,443)
Revenue from external customers	₩ 1,537,701	₩ 806,393	₩ 2,344,094
Operating profit (loss)	₩ 112,044	₩ (39,383)	₩ 72,661
Depreciation and amortization	72,976	76,237	149,213

¹ Amount classified as discontinued operations is included (Note 42).

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Accounting policies of reporting segment are same as those of the Group explained in Note 2. Segment revenue is a measurement that is regularly reported to the chief operating decision-maker for allocating resources and assessing performance of the operating segments. Segment assets and liabilities are not included as it is not regularly reported to the chief operating decision-maker.

As at December 31, 2018, the Group operates its business in Korea (Location of headquarter) and Pakistan. Details of non-current assets and sales by location as at and for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	Sales		Non-current assets¹	
	2018	2017	2018	2017
Korea	₩ 2,332,762	₩ 2,248,491	₩ 2,404,294	₩ 2,563,258
USA ²	-	9,583	-	-
Japan ²	-	53,878	-	-
China ²	-	18,950	-	-
Myanmar (including Singapore) ²	-	13,192	-	-
Pakistan	13,516	-	62,065	-
	<u>₩ 2,346,278</u>	<u>₩ 2,344,094</u>	<u>₩ 2,466,359</u>	<u>₩ 2,563,258</u>

¹ Deferred tax assets, financial assets and investments in associates are excluded from non-current assets.

² Sales in countries other than Korea are included in discontinued operations in accordance with spin-off during the year ended December 31, 2017 (Note 42).

2.25 Greenhouse Gas Emission Permits and Obligations

With enforcement of *The Act on the Allocation and Trading of Greenhouse Gas Emission Permits*, the allowances that are received free of charge from the government are measured at zero while allowances purchased are measured at acquisition cost and stated net of accumulated impairment loss. Emissions obligations are measured as the sum of the carrying amount of the allocated allowances that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The allowances and emissions obligations are classified as intangible assets and provisions, respectively, in the statement of financial position.

2.26 A Group of Assets Classified as Held for Distribution to Owners

In cases where the carrying amount of a group of assets that are classified as held for distribution to owners is primarily collected through distribution and if the likelihood of distribution is highly probable, they are classified as 'a group of assets classified as held for distribution to owners', and measured at the lower of carrying amount and fair value less costs to distribute.

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2.27 Approval of Issuance of the Financial Statements

The consolidated financial statements 2018 were approved for issue by the Board of Directors on March 6, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Impairment of goodwill and CGU

The recoverable amount of a cash generating unit (CGU) used for impairment test of goodwill and CGU is determined based on value-in-use calculations (Note 18).

(b) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 24).

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

(c) 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).

(d) Impairment of financial assets

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The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 4).

(e) 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 23).

4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the Board of Directors. The Board reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

4.1.1 Market Risk

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from international operations and transactions with different foreign currencies, primarily with respect to US Dollar and Japanese Yen. Foreign exchange risk management is carried out by considering the nature of the businesses and using risk management tools. The Group operates a system to manage receivables and payables denominated in foreign currencies. The risks of foreign currency exposure to receivables and payables are periodically evaluated, managed and reported through the system.

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Details of monetary assets and liabilities denominated in foreign currency as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018				2017			
	Assets		Liabilities		Assets		Liabilities	
USD	₩	17,944	₩	9,547	₩	31,672	₩	8,329
JPY		1,476		375		1,943		261
PKR		2,068		11,382		-		-
Others		562		2,685		105		3,609

The table below summarizes the impact of weakened/strengthened Korean won on the Group's profit before income tax for the year. The analysis is based on the assumption that Korean won has weakened/strengthened by 10% with all other variables held constant.

(in millions of Korean won)

	2018				2017			
	10% Strengthened		10% Weakened		10% Strengthened		10% Weakened	
USD	₩	840	₩	(840)	₩	2,334	₩	(2,334)
JPY		110		(110)		168		(168)
PKR		(931)		931		-		-
Others		(212)		212		(350)		350

The above sensitivity analysis has been performed for monetary assets and liability denominated in foreign currencies other than the Group's functional currency at the reporting date. The future changes in exchange rates may affect sales price and gross margin.

(b) Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group that are classified as financial assets at fair value through other comprehensive income (available-for-sale financial assets) in the consolidated statement of financial position. The Group's equity investments are traded in Korea Exchange.

The table below summarizes the impact of increases/decreases of the Group's equity. The analysis is based on the assumption that the equity indexes has increased/decreased with all other variables held constant, and that all the Group's equity instruments moved in line with the indexes.

(in millions of Korean won)

	2018				2017			
	10% increase		10% decrease		10% increase		10% decrease	
Before income tax	₩	983	₩	(983)	₩	1,570	₩	(1,570)
Tax effect		(238)		238		(380)		380
After income tax	₩	745	₩	(745)	₩	1,190	₩	(1,190)

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(c) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk since the value of financial statement line items (financial assets and liabilities) and interest income or expenses changes as a result of change in interest rate. The Group's position with regard to interest rate risk exposure is mainly related to investments in interest-bearing financial assets and issuance of interest-bearing liabilities.

The Group analyses its interest rate exposure on a dynamic basis.

Meanwhile, the Group exchanges nominal principal preset in accordance with interest rate swap contract with the balance calculated by applying difference between the fixed rate and floating rate. With this contract, the Group can mitigate the fluctuation risk from the fair value of fixed rate liabilities and cash flow of floating rate liabilities due to interest rate fluctuations.

4.1.2 Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The compliance with credit limits by wholesale customers is regularly monitored by line management. Sales to retail customers are settled in cash or using major credit cards.

There were no wholesale and retail customers exceeding their credit limits for the period, and management does not expect any losses upon if the above counterparties are in default under the terms of the agreements.

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

<i>(in millions of Korean won and in thousands of foreign currency)</i>	2018		2017	
Cash and cash equivalents ¹	₩	96,219	₩	150,043
Long and short-term financial instruments		15,542		60,390
Trade and other receivables		270,926		273,888
Financial assets at fair value through profit or loss		194		-
Held-to-maturity financial assets		1,933		2,387
Other financial assets		53,681		46,285
Financial guarantee		-	USD	5,500
		-	KYAT	8,800,000
	₩	438,495	₩	532,993
		-	USD	5,500
		-	KYAT	8,800,000

¹ As cash on hand is not included, cash and cash equivalents differ from the amount in the

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consolidated statements of financial position.

(b) Trade receivables

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for 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 concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the trade receivables.

On that basis, the loss allowance as at December 31, 2018 was determined as follows for trade receivables:

<i>(in millions of Korean won)</i>	Current	Within 3 months	Within 6 months	Within 9 months	Within 12 months	Over 12 months	Individual analysis ¹	Total
Expected loss rate								
General	-	0.19%	3.23%	28.74%	72.00%	97.87%	11.41%	3.57%
New distribution	-	-	-	-	-	100.00%	-	0.01%
Liquor	-	0.62%	5.09%	12.20%	22.72%	66.48%	18.52%	8.96%
Others	-	0.73%	-	-	-	-	-	0.66%
Trade receivables								
General	₩ 8,818	₩ 36,480	₩ 1,424	₩ 167	₩ 50	₩ 328	₩ 14,874	₩ 62,141
New distribution	-	69,384	8	1	-	4	-	69,397
Liquor	-	88,698	15,335	5,697	3,464	8,148	27,524	148,866
Others	-	1,371	33	61	26	31	-	1,522
Loss allowance provision								
General	-	₩ 71	₩ 46	₩ 48	₩ 36	₩ 321	₩ 1,698	₩ 2,220
New distribution	-	-	-	-	-	4	-	4
Liquor	-	553	780	695	787	5,417	5,099	13,331
Others	-	10	-	-	-	-	-	10

¹ The Group recognizes individual loss allowances for receivables from related parties and non-performing loans.

4.1.3 Liquidity Risk

In order to maintain appropriate amount of liquidity, the Group manages liquidity risk by performing cyclical expectations and adjustments of cash inflows and outflows. In addition, the Group has entered into bank overdraft agreements with financial institutions.

The Group 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 head-room as determined by the above-mentioned forecasts.

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

(in millions of Korean won)

2018

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		Less than 1 year	Between 1 and 2 years	Over 2 years	Total
Trade and other payables	₩	303,248	₩ -	₩ -	₩ 303,248
Borrowings and debentures ¹		234,290	535,924	730,000	1,500,214
Other financial liabilities		15,753	-	24,810	40,563
	₩	553,291	₩ 535,924	₩ 754,810	₩ 1,844,025

(in millions of Korean won)

2017					
		Less than 1 year	Between 1 and 2 years	Over 2 years	Total
Trade and other payables	₩	395,929	₩ -	₩ 26,773	₩ 422,702
Borrowings and debentures ¹		311,904	196,694	941,240	1,449,838
Other financial liabilities		15,004	-	22,743	37,747
Financial guarantee	USD	5,500	USD -	USD -	USD 5,500
	KYAT	8,800,000	KYAT -	KYAT -	KYAT 8,800,000
	₩	722,837	₩ 196,694	₩ 990,756	₩ 1,910,287
	USD	5,500	USD -	USD -	USD 5,500
	KYAT	8,800,000	KYAT -	KYAT -	KYAT 8,800,000

¹ The undiscounted nominal amounts of principal and interest expenses incurred to be paid until maturities.

4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so the Group can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt ratio. This ratio is calculated as total liabilities divided by total equity.

<i>(in millions of Korean won)</i>	2018	2017
Total liabilities	₩ 2,073,865	₩ 2,174,137
Total equity	1,237,415	1,312,794
Debt ratio	167.6%	165.6%

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5. Fair Value

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:

(in millions of Korean won)

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 98,388	₩ 98,388	₩ 153,444	₩ 153,444
Long and short-term financial instruments	15,542	15,542	60,390	60,390
Trade and other receivables	270,926	270,926	273,888	273,888
Held-to-maturity financial assets	1,933	1,933	2,387	2,387
Other financial assets	53,681	53,681	46,285	46,285
Financial assets at fair value through other comprehensive income	36,403	36,403	-	-
Financial assets at fair value through profit or loss	194	194	-	-
Available-for-sale financial assets ¹	-	-	49,917	49,917
	<u>₩ 477,067</u>	<u>₩ 477,067</u>	<u>₩ 586,311</u>	<u>₩ 586,311</u>
Financial liabilities				
Trade and other payables ²	₩ 303,248	₩ 303,248	₩ 422,702	₩ 422,702
Borrowings and debentures ³	1,413,653	1,435,772	1,356,487	1,359,662
Other financial liabilities	40,563	40,563	37,747	37,747
	<u>₩ 1,757,464</u>	<u>₩ 1,779,583</u>	<u>₩ 1,816,936</u>	<u>₩ 1,820,111</u>

¹ As at December 31, 2017, equity instruments amounting to ₩ 75 million that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably, and excluded from the fair value disclosures.

² Payables related to employee benefits are excluded.

³ The fair value of short-term borrowings and debentures equal to their carrying amount, as the effect of the present value discount is not significant. The fair value of non-current borrowings and debentures and finance lease liabilities is calculated by discounting the cash flows using corporate bond yields based on the Group's credit rating (AA0~AA+).

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5.2 Financial Instruments Measured at Cost

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

<i>(in millions of Korean won)</i>	2018		2017	
Available-for-sale financial assets				
Non-listed shares	₩	-	₩	50
Investment in association		-		25
	₩	-	₩	75

Non-listed shares and investment in association are unlisted equity instruments invested in Gangwon Football Club Co.,Ltd. and Korea Foods Industry Association. They are measured at cost because the variability of estimated cash flows is significant and the probability of the various estimates cannot be reasonably assessed.

5.3 Fair Value Hierarchy

Items that are measured at fair value are categorized by the fair value hierarchy levels, and the defined levels are as follows:

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value 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/liabilities measured at fair value				
Financial assets at fair value through other comprehensive income	₩ 17,756	₩ -	₩ 18,647	₩ 36,403
Derivative liabilities	-	-	8,937	8,937

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(in millions of Korean won)

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets/liabilities measured at fair value				
Available-for-sale financial assets ¹	₩ 22,881	₩ -	₩ 27,036	₩ 49,917
Derivative assets	-	19	-	19
Derivative liabilities	-	-	5,208	5,208

¹ As at December 31, 2017, the amount of ₩ 75 million which is measured at cost because fair value cannot be measured reliably is not included.

5.4 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Group's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Changes in level 3 for recurring fair value measurements for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		2017		
	Financial assets at fair value through other comprehensive income	Derivative liabilities	Available-for-sale financial assets	Derivative assets	Derivative liabilities
Beginning balance	₩ -	₩ 5,208	₩ 236,030	₩ 1,311	₩ -
Acquisition ¹	-	-	2,805	-	5,208
Transfer ²	27,036	-	2,976	-	-
Valuation	(8,389)	3,729	27,799	-	-
Impairment	-	-	(8,287)	-	-
Disposal and others ³	-	-	(5,353)	(1,311)	-
Decrease due to spin-off ⁴	-	-	(228,934)	-	-
Ending balance	₩ 18,647	₩ 8,937	₩ 27,036	₩ -	₩ 5,208

¹ In 2017, the Group additionally acquired shares of Lotte Global Logistics Co.,Ltd. and Sewang Metal Ind. Co.,Ltd. amounting to ₩ 2,422 million and ₩ 383 million, respectively, through the exercise of stock warrants. Also, derivative liabilities increase amounting to ₩ 5,208 million as the Group has entered into put option contracts in relation to the shares of Lotte Global Logistics Co.,Ltd. with LLH INC(Note 21).

² In accordance with the application of Korean IFRS 1109, the Group reclassified ₩ 27,036 million of available-for-sale financial assets to financial assets at fair value through other comprehensive income for the year ended December 31, 2018. And the shares of Lotte Packaging Co.,Ltd and Lotte Corporate Management Co.,Ltd amounting to ₩ 2,976 million was transferred to Level 3 for

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the year ended December 31, 2017.

³ The amount of ₩ 5,353 million decreased due to liquidation of Igis I Corporation and all stock warrants amounting to ₩ 1,311 million of Lotte Global Logistics Co.,Ltd. were exercised in 2017.

⁴ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017 (Note 42).

5.5 Valuation Techniques and the Inputs

Valuation techniques and inputs used in the recurring fair value measurements categorized within Level 3 of the fair value hierarchy as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>		2018			
	Fair value	Level	Valuation techniques	Inputs	Range of inputs (weighted average)
Financial assets at fair value through other comprehensive income	₩ 18,647	3	FCFE model	Weighted Average Cost of Capital	8.01%~8.28%
			Market approach	PER multiples	11.36
				PBR multiples	1.32
			EV/EBITDA	5.63	
Derivative liabilities	8,937	3	DCF model	Weighted Average Cost of Capital	7.08%
			Binomial option valuation model	Volatility of underlying asset price	1.53%
<i>(in millions of Korean won)</i>		2017			
	Fair value	Level	Valuation techniques	Inputs	Range of inputs (weighted average)
Available-for-sale financial assets	₩ 27,036	3	FCFE model	Cost of Equity Capital	7.49%
			Market approach	PER multiples	8.92
				PBR multiples	1.14 ~ 1.24
			DCF model	Weighted Average Cost of Capital	6.42%
Derivative liabilities	5,208	3	Black-Scholes model	Annualized Volatility	19.69%

5.6 Valuation Processes for Fair Value Measurements Categorized as Level 3

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The Group's finance department operates a separate team that performs the fair value measurements required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation process and result are held between the CFO, AC and the valuation team, in line with the Group's reporting periods.

5.7 Sensitivity analysis for Recurring Fair Value Measurements Categorized as Level 3

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the most favorable or most unfavorable amounts are presented.

The results of the sensitivity analysis for the effect on profit or loss from changes in inputs for each financial instrument that categorized as level 3 and subject to sensitivity analysis, are as follows:

(in millions of Korean won)

	2018		2017	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through fair value through other comprehensive income (available-for-sale financial assets) ¹	₩ 3,862	₩ (2,760)	₩ 3,857	₩ (2,658)

¹ For equity securities, changes in their fair value are calculated by increasing or decreasing the discount rate of increase or decrease, which are significant unobservable inputs, by 1%.

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6. Financial Instruments by Category

6.1 Carrying Amounts of Financial Instruments by Category

Carrying amounts of financial assets by category as at December 31, 2018 and 2017, are as follows:

(in millions of
Korean won)

	2018					
	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Held-to- maturity financial assets	Derivative instruments	Total
Cash and cash equivalents	₩ 58,909	₩ 39,479	₩ -	₩ -	₩ -	₩ 98,388
Long and short-term financial instruments	5,030	10,512	-	-	-	15,542
Trade and other receivables	270,926	-	-	-	-	270,926
Financial assets at fair value through profit or loss	-	194	-	-	-	194
Financial assets at fair value through other comprehensive income	-	-	36,403	-	-	36,403
Held-to-maturity financial assets	-	-	-	1,933	-	1,933
Other financial assets	53,681	-	-	-	-	53,681
	<u>₩ 388,546</u>	<u>₩ 50,185</u>	<u>₩ 36,403</u>	<u>₩ 1,933</u>	<u>₩ -</u>	<u>₩ 477,067</u>

(in millions of
Korean won)

	2017				
	Loans and receivables	Available-for- sale financial assets	Held-to- maturity financial assets	Derivative instruments	Total
Cash and cash equivalents	₩ 153,444	₩ -	₩ -	₩ -	₩ 153,444
Long and short-term financial instruments	60,390	-	-	-	60,390
Trade and other receivables	273,888	-	-	-	273,888
Available-for-sale financial assets	-	49,992	-	-	49,992
Held-to-maturity financial assets	-	-	2,387	-	2,387
Other financial assets	46,266	-	-	19	46,285
	<u>₩ 533,988</u>	<u>₩ 49,992</u>	<u>₩ 2,387</u>	<u>₩ 19</u>	<u>₩ 586,386</u>

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Carrying amounts of financial liabilities by category as at December 31, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018		
	Financial liabilities at amortized cost	Derivative instruments	Total
Trade and other payables	₩ 303,248	₩ -	₩ 303,248
Borrowings and debentures	1,413,653	-	1,413,653
Other financial liabilities	31,626	8,937	40,563
	<u>₩ 1,748,527</u>	<u>₩ 8,937</u>	<u>₩ 1,757,464</u>

(in thousands of Korean won)

	2017		
	Financial liabilities at amortized cost	Derivative instruments	Total
Trade and other payables	₩ 422,702	₩ -	₩ 422,702
Borrowings and debentures	1,356,487	-	1,356,487
Other financial liabilities	32,539	5,208	37,747
	<u>₩ 1,811,728</u>	<u>₩ 5,208</u>	<u>₩ 1,816,936</u>

6.2 Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018	2017
Loans and receivables		
Loss on foreign currency translation	₩ -	₩ (1,572)
Impairment loss	-	(1,512)
Interest income	-	5,799
Held-to-maturity financial assets		
Interest income	-	25
Financial assets at amortized cost		
Gain on foreign currency translation	534	-
Impairment loss	(2,834)	-
Other impairment loss	(1,923)	-
Interest income	1,462	-
Derivative instruments for hedging		
Loss on transactions of derivative instruments	-	(6,037)
Gain (loss) on valuation of derivative instruments (other comprehensive income)	(19)	400
Derivative instruments for trading		

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<i>(in millions of Korean won)</i>	2018	2017
Loss on valuation of derivative instruments	(3,729)	(5,208)
Financial assets at fair value through profit or loss		
Loss on valuation of financial assets at fair value through profit or loss	(6)	-
Interest income	2,299	-
Financial assets at fair value through other comprehensive income (available-for-sale)		
Dividend income	803	4,547
Loss on valuation of available-for-sales financial assets (other comprehensive income)	-	(462,158)
Loss on valuation of financial assets at fair value (other comprehensive income)	(13,564)	-
Impairment loss on available-for-sale financial assets	-	(8,296)
Gain on disposal of available-for-sale financial assets	-	2,165
Non-current assets held for sale		
Gain on disposal of non-current assets held for sale	-	1,671
Financial liabilities at amortized cost		
Gain (loss) on foreign currency translation	(169)	554
Interest expenses	(37,917)	(29,732)
Financial guarantee income	25	17

7. Restricted Financial Instruments

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

<i>(in millions of Korean won)</i>						
Description	Depository	2018		2017		Details
Long-term financial instruments	Industrial Bank of Korea	₩	5,000	₩	5,000	Mutual cooperation fund ¹
	Kookmin Bank and others		29		29	Deposit for checking accounts
		₩	5,029	₩	5,029	

¹ The Group has entered into a mutual cooperation fund for supporting small and medium sized companies and the contracted amount is restricted to use.

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8. Trade and Other Receivables

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

(in millions of Korean won)

	2018		2017	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 276,089	₩ 5,837	₩ 276,031	₩ 5,512
Less: Provision for impairment	(15,541)	(24)	(15,173)	(20)
Trade receivables - net	260,548	5,813	260,858	5,492
Non-trade receivables	6,815	-	7,910	-
Less: Provision for impairment	(2,250)	-	(371)	-
Non-trade receivables - net	4,565	-	7,539	-
	₩ 265,113	₩ 5,813	₩ 268,397	₩ 5,492

Movements in the provision for impairment of trade and other receivables for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018	2017
Beginning balance	₩ 15,564	₩ 14,217
Changes in consolidation scope	-	991
Impairment loss	4,713	1,342
Write-off	(2,627)	(1,891)
Collection of receivables written off	165	69
Decrease due to spin-off ¹	-	(292)
Others	-	1,128
Ending balance	₩ 17,815	₩ 15,564

¹ The amounts decreased due to spin-off during the year ended December 31, 2017. (Note 42).

9. Other Financial Assets

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

(in millions of Korean won)

	2018		2017	
	Current	Non-current	Current	Non-current
Accrued income	₩ 85	₩ -	₩ 488	₩ -
Loans	2,329	7,994	2,648	7,776
Deposits provided	1,563	41,710	77	35,277
Derivative assets	-	-	19	-

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₩	3,977	₩	49,704	₩	3,232	₩	43,053
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10. Inventories

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

<i>(in millions of Korean won)</i>	2018			2017		
	Acquisition cost	Valuation allowance	Book amount	Acquisition cost	Valuation allowance	Book amount
Finished goods	₩ 93,230	₩ (3,662)	₩ 89,568	₩ 96,742	₩ (2,331)	₩ 94,411
Merchandise	44,441	(3,212)	41,229	42,531	(3,093)	39,438
Semi-finished goods	16,818	-	16,818	18,419	(452)	17,967
Work-in-process	1,847	-	1,847	1,485	-	1,485
Raw materials	73,718	(836)	72,882	65,060	(674)	64,386
Sub-materials	402	(50)	352	397	(54)	343
Stored goods	12,211	(49)	12,162	6,826	(145)	6,681
Raw materials in transit	12,408	-	12,408	6,084	-	6,084
Merchandise in transit	9,794	-	9,794	7,951	-	7,951
By-product	39	-	39	36	-	36
	₩ 264,908	₩ (7,809)	₩ 257,099	₩ 245,531	₩ (6,749)	₩ 238,782

Inventories recognized as an expense during the year ended December 31, 2018, amounted to ₩ 1,412,896 million (2017: ₩ 1,339,034 million). These were included in 'cost of sales'.

Loss on valuation of inventories amounted to ₩ 1,060 million (2017: ₩ 1,007 million). These were recognized as an expense during the year ended December 31, 2018, and included in 'cost of sales' in statement of comprehensive income.

11. Other Assets

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

<i>(in millions of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Prepayments	₩ 39,640	₩ -	₩ 32,500	₩ -
Prepaid expenses	10,415	2,255	11,920	-
Prepaid value added tax	398	-	-	-
Others	17	-	17	-
	₩ 50,470	₩ 2,255	₩ 44,437	₩ -

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12. Financial Assets at Fair Value

12.1 Financial Assets at Fair Value through Other Comprehensive Income

Details of financial assets at fair value through other comprehensive income as at December 31, 2018, are as follows:

(in millions of Korean won)

2018

Equity securities		
Marketable	₩	17,756
Non-marketable		18,647
	₩	<u>36,403</u>

(a) Marketable equity securities

Details of marketable securities as at December 31, 2018, are as follows:

(in millions of Korean won and in shares)

2018

	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying amount
Ordinary shares				
Shinhan Financial Group Co.,Ltd	159	0.00	₩ 26	₩ 6
BNK Financial Group Inc.	2,156,883	0.66	14,251	15,810
Samhwa Crown & Closure Co.,Ltd	19,548	0.91	104	916
Woori Investment Bank Co.,Ltd	7,042	0.00	47	5
Samkwang Glass Co., Ltd	30,000	0.62	176	867
Others	-	-	109	152
			₩ 14,713	₩ 17,756

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(b) Non-marketable equity securities

Details of non-marketable securities as at December 31, 2018, are as follows:

<i>(in millions of Korean won and in shares)</i>	2018			
	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying amount
Ordinary shares				
Lotte Global Logistics Co.,LTD.	720,078	3.00	₩ 27,591	₩ 12,910
Korea Ethanol Supplies Company	27,840	7.78	560	643
Sewang Metal Ind. Co., Ltd.	46,849	8.26	1,643	1,806
Seoan Alcohol Co.Ltd.	34,874	8.72	908	3,288
Gangwon Football Club Co.,Ltd.	10,000	0.55	50	-
Others	-	-	708	-
			<u>₩ 31,460</u>	<u>₩ 18,647</u>

Changes in financial assets at fair value through other comprehensive income for the year ended December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018
Beginning balance	₩ -
Transfer ¹	49,992
Acquisition	-
Others	(25)
Valuation	(13,564)
Ending balance	<u>₩ 36,403</u>

¹ The Group classified the equity instruments as available-for-sale financial assets with intend to hold them for the medium to long-term during the year ended December 31, 2017.

Details of valuation of financial assets at fair value through other comprehensive income for the year ended December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	Acquisition cost	Carrying amount	Gain (loss) on valuation
Marketable equity instruments	₩ 14,713	₩ 17,756	₩ 3,043
Non-marketable equity instruments	<u>31,460</u>	<u>18,647</u>	<u>(12,813)</u>
	<u>₩ 46,173</u>	<u>₩ 36,403</u>	<u>₩ (9,770)</u>

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12.2 Financial Assets at Fair Value through Profit or Loss

Details of financial assets at fair value through profit or loss as at December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Lotte Startup fund No1	₩	194	₩	-

Changes in financial assets at fair value through profit or loss for the year ended December 31, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	-	₩	-
Acquisition		200		-
Valuation		(6)		-
Ending balance	₩	194	₩	-

13. Available-for-sale Financial Assets

Details of available-for-sale financial assets as at December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	
Equity securities		
Marketable	₩	22,881
Non-marketable		27,086
Investment in association		25
	₩	49,992

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(a) Marketable equity securities

Details of marketable securities as at December 31, 2017, are as follows:

<i>(in millions of Korean won and in shares)</i>	2017			
	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying amount
Ordinary shares				
Shinhan Financial Group Co.,Ltd	159	-	₩ 26	₩ 8
BNK Financial Group Inc.	2,156,883	0.66	14,251	20,318
Samhwa Crown & Closure Co.,Ltd	19,548	0.91	104	1,013
Woori Investment Bank Co.,Ltd	7,042	-	47	4
Samkwang Glass Co., Ltd	30,000	0.62	176	1,311
Others	-	-	109	227
			<u>₩ 14,713</u>	<u>₩ 22,881</u>

(b) Non-marketable equity securities

Details of non-marketable securities as at December 31, 2017, are as follows:

<i>(in millions of Korean won and in shares)</i>	2017			
	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying amount
Ordinary shares				
Lotte Global Logistics Co.,LTD.	720,078	3.94	₩ 27,591	₩ 19,305
Korea Ethanol Supplies Company	27,840	7.78	560	625
Sewang Metal Ind. Co., Ltd.	46,849	8.26	1,643	3,935
Seoan Alcohol Co.Ltd.	34,874	8.72	908	3,171
Gangwon Football Club Co.,Ltd. ¹	10,000	0.55	50	50
Others	-	-	708	-
			<u>₩ 31,460</u>	<u>₩ 27,086</u>

¹They are measured at cost because the collection of information to estimate fair value of non-marketable equity securities is not available and the probability of the various estimates cannot be reasonably assessed.

(c) Investment in association

As at December 31, 2017, the Group's investment in association consists of ₩ 25 million of Korea

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Foods Industry Association.

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

<i>(in millions of Korean won)</i>	2017	
Beginning balance	₩	618,019
Acquisition		2,805
Disposal		(6,074)
Valuation		55,170
Decrease due to spin-off ¹		(611,632)
Impairment loss		(8,296)
Ending balance	₩	<u>49,992</u>

¹ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017.

Details of impairment loss and changes in the fair value of available-for-sale financial assets as at December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2017			
	Acquisition cost	Carrying amount	Changes in the fair value of available-for-sale financial assets	Accumulated impairment loss
Marketable equity instruments	₩ 14,713	₩ 22,881	₩ 8,252	₩ (84)
Non-marketable equity instruments	31,460	27,086	4,620	(8,994)
Investment in association	25	25	-	-
	<u>₩ 46,198</u>	<u>₩ 49,992</u>	<u>₩ 12,872</u>	<u>₩ (9,078)</u>

14.Held-to-maturity Financial Assets

Details of held-to-maturity financial assets as at December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Government bonds	₩ 112	₩ 1,821	₩ 488	₩ 1,899

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15. Investments in Associates

Set out below are the associates of the Group as at December 31 2018.

Name of entity	Percentage of ownership (%)		Location	Date of financial statements	Remarks
	2018	2017			
Lotte Asahi Liquor Company Ltd.	49.99	49.99	Korea	December 31	Sales
PT LOTTE RND CENTER INDONESIA	33.33	33.33	Indonesia	December 31	Research center

Details of valuation of investments in associates that are accounted for using the equity method for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018						
	Beginning balance	Dividends	Valuation of equity method				Ending balance
			Share of profit or loss of associates	Share of other comprehensive income of associates	Retained earnings		
Lotte Asahi Liquor Company Ltd.	₩ 53,446	₩ (1,875)	₩ 3,293	₩ 1,577	₩ (225)	₩ 56,216	
PT LOTTE RND CENTER INDONESIA	621	-	(92)	(17)	-	512	
	<u>₩ 54,067</u>	<u>₩ (1,875)</u>	<u>₩ 3,201</u>	<u>₩ 1,560</u>	<u>₩ (225)</u>	<u>₩ 56,728</u>	

(in millions of Korean won)

	2017							
	Beginning balance	Impairment loss	Transfer ¹	Dividends	Valuation of equity method			Ending balance
					Share of profit or loss of associates	Share of other comprehensive income of associates	Retained earnings	
Pepsi-Cola Products Philippines, Inc.	₩ 133,471	₩ (29,105)	₩ (96,476)	₩ (2,227)	₩ 4,347	₩ (10,112)	₩ 102	₩ -
Lotte giants baseball club	5,565	(430)	(5,465)	-	295	-	35	-
Lotte Asahi Liquor Company Ltd.	52,563	-	-	(277)	2,762	(1,567)	(35)	53,446
PT LOTTE RND CENTER INDONESIA	810	-	-	-	(98)	(91)	-	621
	<u>₩ 192,409</u>	<u>₩ (29,535)</u>	<u>₩ (101,941)</u>	<u>₩ (2,504)</u>	<u>₩ 7,306</u>	<u>₩ (11,770)</u>	<u>₩ 102</u>	<u>₩ 54,067</u>

¹ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017. (Notes 42)

The tables below provide summarized financial information for those associates that are material

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to the Group and received dividends from the associates.

(in millions of Korean won)

	2018	
	Lotte Asahi Liquor Company Ltd.	PT LOTTE RND CENTER INDONESIA
Current assets	₩ 49,697	₩ 356
Non-current assets	5,840	1,181
Current liabilities	₩ 12,569	₩ 1
Non-current liabilities	370	-
Sales	₩ 124,760	₩ 102
Profit (loss) for the year	₩ 6,583	₩ (277)
Other comprehensive income	2,704	-
Total comprehensive income	₩ 9,287	₩ (277)
Dividends received from investees	₩ 1,875	₩ -

(in millions of Korean won)

	2017	
	Lotte Asahi Liquor Company Ltd.	PT LOTTE RND CENTER INDONESIA
Current assets	₩ 45,537	₩ 413
Non-current assets	9,232	1,450
Current liabilities	₩ 17,426	₩ -
Non-current liabilities	283	-
Sales	₩ 136,030	₩ 110
Profit (loss) for the year	₩ 5,518	₩ (299)
Other comprehensive income	(2,708)	-
Total comprehensive income	₩ 2,810	₩ (299)
Dividends received from investees	₩ 277	₩ -

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The tables below provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the associate.

(in millions of
Korean won)

		2018					
		Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW (a*b)	Margin from elimination of investments	Intergroup transactions	Book amount
Lotte Asahi Liquor Company Ltd.	₩	42,598	49.99%	₩ 21,299	₩ 34,917	₩ -	₩ 56,216
PT LOTTE RND CENTER INDONESIA		1,536	33.33%	512	-	-	512

(in millions of
Korean won)

		2017					
		Net assets at the end of the year (a)	Group's share in % (b)	Group's share in KRW (a*b)	Margin from elimination of investments	Intergroup transactions	Book amount
Lotte Asahi Liquor Company Ltd.	₩	37,060	49.99%	₩ 18,530	₩ 34,917	₩ (1)	₩ 53,446
PT LOTTE RND CENTER INDONESIA		1,863	33.33%	621	-	-	621

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16. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018							
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Total
Beginning balance	₩ 1,004,608	₩ 422,525	₩ 56,002	₩ 572,481	₩ 4,682	₩ 177,732	₩ 7,279	₩ 2,245,309
Business combination ¹	23,033	1,813	-	27,978	-	2,859	-	55,683
Acquisition	29	2,290	70	3,424	2,363	54,164	24,538	86,878
Transfer	5,904	279	-	9,495	-	2,609	(13,506)	4,781
Disposal	(2,386)	(2,374)	(12)	(2,780)	(92)	(4,903)	-	(12,547)
Depreciation	-	(16,333)	(4,274)	(55,721)	(2,111)	(50,980)	-	(129,419)
Impairment loss	(11,566)	(20,152)	(2,951)	(35,292)	(29)	(8,618)	-	(78,608)
Exchange differences	(2,653)	(208)	-	(3,184)	-	(342)	-	(6,387)
Ending balance	₩ 1,016,969	₩ 387,840	₩ 48,835	₩ 516,401	₩ 4,813	₩ 172,521	₩ 18,311	₩ 2,165,690
Acquisition cost	₩ 1,028,535	₩ 543,472	₩ 121,153	₩ 952,084	₩ 13,895	₩ 672,295	₩ 18,311	₩ 3,349,745
Accumulated depreciation	-	(135,480)	(69,367)	(400,387)	(9,053)	(461,039)	-	(1,075,326)
Accumulated impairment loss	(11,566)	(20,152)	(2,951)	(35,292)	(29)	(38,735)	-	(108,725)
Government grant	-	-	-	(4)	-	-	-	(4)

¹ The Group newly acquired 52% of shares of Lotte Akhtar Beverages (Private) Limited and the entity was included in consolidation scope (Note 41).

<i>(in millions of Korean won)</i>	2017							
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Total
Beginning balance	₩ 934,588	₩ 303,607	₩ 42,412	₩ 370,318	₩ 5,481	₩ 193,327	₩ 368,879	₩ 2,218,612
Business combination ¹	2,017	2,038	401	5,347	50	6	516	10,375
Acquisition	7	2,606	1,010	3,743	1,823	55,276	254,650	319,115
Transfer	94,050	179,663	27,708	321,371	-	3,083	(612,452)	13,423
Disposal	(3,502)	(828)	(19)	(2,094)	(195)	(5,245)	-	(11,883)
Depreciation	-	(15,656)	(4,293)	(52,832)	(2,103)	(53,133)	-	(128,017)
Impairment loss	-	(6,101)	(1,284)	(15,073)	(104)	(7,550)	(610)	(30,722)
Exchange differences	-	(194)	13	(1,690)	(4)	(327)	3	(2,199)
Decrease due to spin-off ²	(22,611)	(42,610)	(9,953)	(56,512)	(266)	(7,705)	(3,707)	(143,364)
Others	59	-	7	(97)	-	-	-	(31)
Ending balance	₩ 1,004,608	₩ 422,525	₩ 56,002	₩ 572,481	₩ 4,682	₩ 177,732	₩ 7,279	₩ 2,245,309
Acquisition cost	₩ 1,004,608	₩ 540,299	₩ 121,197	₩ 940,723	₩ 13,103	₩ 643,413	₩ 7,279	₩ 3,270,622
Accumulated depreciation	-	(117,774)	(65,195)	(368,238)	(8,421)	(435,564)	-	(995,192)
Accumulated impairment loss	-	-	-	-	-	(30,117)	-	(30,117)
Government grant	-	-	-	(4)	-	-	-	(4)

¹ The Group newly acquired 66.7% of shares of Sancheong Beverage Co.,Ltd. (formerly, Sansu

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Beverages Co.,Ltd.) and the entity was included in consolidation scope (Note 41).

² The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017 (Note 42).

Depreciation expense of ₩ 97,584 million (2017: ₩ 83,516 million) was charged to 'cost of sales', ₩ 30,444 million (2017: ₩ 33,870 million) to 'selling and administrative expenses', ₩ 1,391 million (2017: nil) to 'other expenses' for the year ended December 31, 2018 and ₩ 10,631 million to 'profit or loss from discontinued operations' for the year ended December 31, 2017.

Impairment of Assets

The liquor segment of the Group's cash-generating unit (hereafter 'CGU') has been tested for impairment as accumulation of operating losses, accordingly, impairment loss of ₩ 79,904 million was recognized. This impairment is attributed to property, plant and equipment and intangible assets. The recoverable amount of the CGU is calculated on a basis of the value in use and impairment losses are recognized as other expenses. Discount rate for calculation of value in use is 4.5%.

Assets provided as collateral

As at December 31, 2018, land, buildings and machinery amounting up to ₩ 16,208 million (2017: ₩ 16,208 million) are provided as collateral for borrowings and payment of liquor tax (Note 35).

Capitalized borrowing costs for acquisition of qualifying assets

During 2017, the Group has capitalized borrowing costs amounting to ₩ 3,221 million on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 1.98%.

Operating lease

The Group leases vehicles under operating lease agreements. Lease payments recognized as expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Lease payments	₩	21,709	₩	21,840

The total of future minimum lease payments to the lessor at the end of the reporting period are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Within one year	₩	19,398	₩	15,383
Later than one year but not later than five years		16,923		19,530
	₩	<u>36,321</u>	₩	<u>34,913</u>

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Finance lease

The Group leases various machinery under non-cancellable finance lease agreements. The lease terms are 6 and 8 years.

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	
Cost- capitalized finance leases	₩	5,894	₩	5,894
Accumulated depreciation		(1,493)		(837)
Net book amount	₩	<u>4,401</u>	₩	<u>5,057</u>

The total of future minimum lease payments at the end of the reporting period are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Total minimum lease payments				
Within one year	₩	880	₩	844
Later than one year but not later than five years		3,263		3,374
Later than five years		-		596
		<u>4,143</u>		<u>4,814</u>
Unearned interest expenses		<u>145</u>		<u>204</u>
Net minimum lease payments				
Within one year		836		791
Later than one year but not later than five years		3,162		3,229
Later than five years		-		590
	₩	<u>3,998</u>	₩	<u>4,610</u>

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17. Investment Properties

Changes in investment properties for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018					
	Land		Buildings		Total	
Beginning balance	₩	143,974	₩	8,850	₩	152,824
Transfer		(5,904)		275		(5,629)
Depreciation		-		(478)		(478)
Ending balance	₩	<u>138,070</u>	₩	<u>8,647</u>	₩	<u>146,717</u>
Acquisition cost	₩	138,070	₩	17,997	₩	156,067
Accumulated depreciation		-		(9,350)		(9,350)

(in millions of Korean won)

	2017					
	Land		Buildings		Total	
Beginning balance	₩	161,480	₩	8,834	₩	170,314
Transfer		(17,189)		603		(16,586)
Depreciation		-		(467)		(467)
Exchange differences		(4)		(3)		(7)
Decrease due to spin-off ¹		(313)		(117)		(430)
Ending balance	₩	<u>143,974</u>	₩	<u>8,850</u>	₩	<u>152,824</u>
Acquisition cost	₩	143,974	₩	17,128	₩	161,102
Accumulated depreciation		-		(8,278)		(8,278)

¹ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017. (Note 42)

Fair value of investment properties as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018				2017			
	Book amount		Fair value		Book amount		Fair value	
Land	₩	138,070	₩	203,846	₩	143,974	₩	199,482
Buildings		<u>8,647</u>		<u>8,647</u>		<u>8,850</u>		<u>8,850</u>
	₩	<u>146,717</u>	₩	<u>212,493</u>	₩	<u>152,824</u>	₩	<u>208,332</u>

Fair value of investment properties is calculated considering growth rate of official land price from appraised value.

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Income and expenses from investment properties for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Rental income	₩	5,130	₩	4,415
Operating expenses		(1,157)		(1,282)
Depreciation		(478)		(467)
	₩	<u>3,495</u>	₩	<u>2,666</u>

18.Intangible Assets

Changes in intangible assets for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018			
	Goodwill	Intangible assets from business combination¹	Others	Total
Beginning balance	₩ 38,710	₩ 111,962	₩ 14,453	₩ 165,125
Business combination ²	33,754	2,727	57	36,538
Acquisition	-	-	247	247
Transfer	-	-	756	756
Disposal	-	-	(186)	(186)
Amortization	-	(18,740)	(3,095)	(21,835)
Impairment loss	(18,200)	(5,477)	(329)	(24,006)
Exchange differences and others	(4,624)	(312)	(6)	(4,942)
Ending balance	₩ <u>49,640</u>	₩ <u>90,160</u>	₩ <u>11,897</u>	₩ <u>151,697</u>
Acquisition cost	₩ 193,613	₩ 260,215	₩ 45,977	₩ 499,805
Accumulated amortization	-	(164,578)	(33,751)	(198,329)
Accumulated impairment loss	(143,973)	(5,477)	(329)	(149,779)

¹ Intangible assets from business combination include water-intake right, customer relationships, brand, technology and others.

² The Group newly acquired 52% of shares of Lotte Akhtar Beverages (Private) Limited and the entity was included in consolidation scope (Note 41).

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(in millions of Korean won)	2017							
	Goodwill		Intangible assets from business combination ¹		Others		Total	
Beginning balance	₩	194,818	₩	111,197	₩	45,535	₩	351,550
Business combination ²		38,710		26,000		-		64,710
Acquisition		-		-		942		942
Transfer		-		-		3,053		3,053
Disposal		-		-		(61)		(61)
Amortization		-		(17,065)		(3,664)		(20,729)
Impairment loss ³		(173,668)		-		(8,222)		(181,890)
Exchange differences and others		(2,066)		(84)		(877)		(3,027)
Decrease due to spin-off ⁴		(19,084)		(8,086)		(22,253)		(49,423)
Ending balance	₩	38,710	₩	111,962	₩	14,453	₩	165,125
Acquisition cost	₩	164,483	₩	257,800	₩	44,904	₩	467,187
Accumulated amortization		-		(145,838)		(30,451)		(176,289)
Accumulated impairment loss		(125,773)		-		-		(125,773)

¹ Intangible assets from business combination include water-intake right, customer relationships, brand, technology and others.

² The Group newly acquired 66.7% of shares of Sancheong Beverage Co.,Ltd. (formerly, Sansu Beverages Co.,Ltd.) and the entity was included in consolidation scope (Note 41).

³ As a result of impairment test, the carrying amount of cash generating units exceed the recoverable amount. Therefore, the Group recognized ₩ 173,668 million as impairment loss.

⁴ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017 (Note 42).

Amortization of ₩ 816 million (2017: ₩ 629 million) is included in 'cost of sales', ₩ 21,019 million (2017: ₩ 18,830 million) to 'selling and administrative expenses' for the year ended December 31, 2018 and ₩ 1,270 million to 'profit or loss from discontinued operations' for the year ended December 31, 2017.

The Group recognized total research and development costs of ₩ 1,025 million (2017: ₩ 1,353 million) as expenses.

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Impairment Tests for Goodwill

The table below summarizes goodwill allocation for each operating segment.

<i>(in millions of Korean won)</i>	2018		2017	
Beverage	₩	49,640	₩	38,710
Liquor		-		-
	₩	49,640	₩	38,710

The recoverable amounts of CGU have been determined based on value-in-use calculations, and the key assumptions used for value-in-use calculations as at December 31, 2018, are as follows:

	Beverage
Sales growth rate ¹	13.21%~14.56%
Perpetual growth rate ²	1.00%
Discount rate	6.16%~13.60%

¹ This is the average annual sales growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

² This does not exceed the long-term average expected growth rate from related industry report.

During 2018, as a result of impairment test for goodwill, impairment loss of ₩ 18,200 million was recognized because the carrying amount of CGU exceeded the recoverable amount.

19. Trade and Other Payables

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

<i>(in millions of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Trade payables	₩ 110,022	₩ -	₩ 167,734	₩ -
Non-trade payables ¹	199,777	-	235,863	26,773
Accrued expenses	29,662	-	21,262	-
	₩ 339,461	₩ -	₩ 424,859	₩ 26,773

¹ Although the Group holds 66.7% of shares of Sanchung Beverage Co., Ltd. (formerly, Sansu Beverage Co., Ltd.), the Group also holds risk and benefits on the shares of non-controlling interests and recognizes investments and liabilities (non-trade payables) for the shares.

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20. Borrowings and Debentures

Borrowings and debentures as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		2017	
	Current	Non-current	Current	Non-current
Short-term borrowings	₩ 27,405	₩ -	₩ 81,443	₩ -
Long-term borrowings	2,436	181,229	21,389	120,575
Finance lease liabilities	836	3,162	791	3,820
Debentures	169,911	1,028,674	179,972	948,497
	<u>₩ 200,588</u>	<u>₩ 1,213,065</u>	<u>₩ 283,595</u>	<u>₩ 1,072,892</u>

Details of short-term borrowings as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

Category	Creditor	Latest maturity date	Annual interest rate (%) as at December 31, 2018	2018		2017	
				2018	2017	2017	2016
General loans	Tokyo Mitsubishi UFJ	-	-	₩ -	₩ -	₩ 80,000	
General loans	Woori Bank	2019.04.11	3.63	300		300	
General loans	Woori Bank	2019.06.26	2.77	1,000		1,000	
Secured loans	Allied Bank Limited	2019.04.30	12.61	624		-	
Secured loans	Askari Bank Limited	2019.01.31	12.05	3,354		-	
Secured loans	The Bank of Punjab	2019.05.31	12.80~13.55	4,316		-	
Secured loans	JS Bank Limited	2019.09.30	12.61	1,950		-	
Secured loans	MCB Bank Limited	2019.03.31	12.26	7,896		-	
Secured loans	United Bank Limited	2019.02.28	13.11	3,566		-	
Secured loans	Sindh Bank Limited	2019.10.31	13.55	1,750		-	
Secured loans	Soneri Bank Limited	2019.01.31	13.05	1,552		-	
Letter of credit	KEB Hana Bank	2019.01.06	LIBOR+1.55	276		143	
Sales loans	Woori Bank	-	-	821		-	
				<u>₩ 27,405</u>	<u>₩ 81,443</u>		

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Details of long-term borrowings as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

Category	Creditor	Latest maturity date	Annual interest rate (%) as at December 31,		2018	2017
			2018	2017		
Back-up Line CP ¹	Shinhan Bank	-	-	W	-	W 20,000
General loans	Tokyo Mitsubishi UFJ	2020.10.30	2.40		60,000	60,000
General loans	Mizuho Corporate Bank, Ltd	2020.11.06	2.49		60,000	60,000
General loans	Mizuho Corporate Bank, Ltd	2021.02.19	2.47		60,000	-
Facility loans	Woori Bank	-	-		-	389
Facility loans	Woori Bank	2019.06.24	3.61		350	1,050
Facility loans	Woori Bank	2019.09.09	3.17		225	525
Secured loans	Askari Bank Limited	2020.01.01	13.05		728	-
Secured loans	Faysal Bank Limited	2019.12.16	13.05		151	-
Secured loans	PakChina Investment Co. Ltd	2021.04.06	13.80		1,846	-
Secured loans	Sindh Bank Limited	2020.01.01	13.05		365	-
					<u>183,665</u>	<u>141,964</u>
	Less: current portion				<u>(2,436)</u>	<u>(21,389)</u>
					<u>W 181,229</u>	<u>W 120,575</u>

¹ The Group uses interest rate swaps for Back-up Line CP borrowings to manage exposure to fluctuations in cash flows from changes in interest rate, and recognizes coupon interests of the borrowings with 1.98% of fixed interest rate (Note 21).

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

(in millions of Korean won)

Category	Financial institution	Contract date	Completion date	Annual interest rate (%) as at December 31, 2018	2018	2017	Payment for principal and interests
Finance lease liability	Tetra Laval Credit	2015.09.01	2023.09.01	6M LIBOR+1.5	₩ 1,754	₩ 2,002	Payment at the end of every 6 months
Finance lease liability	Tetra Laval Credit	2017.06.01	2023.06.01	6M LIBOR+1.5	2,244	2,609	Payment at the end of every 6 months
					3,998	4,611	
				Less: current portion	(836)	(791)	
					₩ 3,162	₩ 3,820	

Details of debentures that consist of general debentures as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

Category	Issuance date	Repayment date	Annual interest rate (%) as at December 31, 2018	2018	2017	Payment for interests
43-2 nd non-guaranteed public debentures ¹	2014.11.07	2019.11.07	2.40	120,000	120,000	Payment at the end of every 3 months
44-1 st non-guaranteed public debentures	-	-	-	-	110,000	Payment at the end of every 3 months
44-2 nd non-guaranteed public debentures	2015.01.22	2020.01.22	2.32	170,000	170,000	Payment at the end of every 3 months
45-1 st non-guaranteed public debentures	-	-	-	-	70,000	Payment at the end of every 3 months
45-2 nd non-guaranteed public debentures	2015.07.14	2022.07.14	2.60	50,000	50,000	Payment at the end of every 3 months
45-3 rd non-guaranteed public debentures	2015.07.14	2025.07.14	2.89	60,000	60,000	Payment at the end of every 3 months
46-1 st non-guaranteed public debentures	2016.11.28	2019.11.28	2.15	50,000	50,000	Payment at the end of every 3 months
46-2 nd non-guaranteed public debentures	2016.11.28	2021.11.28	2.39	100,000	100,000	Payment at the end of every 3 months
47-1 st non-guaranteed public debentures	2017.04.21	2020.04.21	2.09	220,000	220,000	Payment at the end of every 3 months
47-2 nd non-guaranteed public debentures	2017.04.21	2022.04.21	2.36	130,000	130,000	Payment at the end of every 3 months
47-3 rd non-guaranteed public debentures	2017.04.21	2024.04.21	2.60	50,000	50,000	Payment at the end of every 3 months

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(in millions of Korean won)

Category	Issuance date	Repayment date	Annual interest rate (%) as at December 31, 2018	2018		2017		Payment for interests
				Assets	Liabilities	Assets	Liabilities	
48-1 st non-guaranteed public debentures	2018.01.18	2021.01.18	2.61	200,000	-	-	-	Payment at the end of every 3 months
48-2 nd non-guaranteed public debentures	2018.01.18	2023.01.18	2.92	50,000	-	-	-	Payment at the end of every 3 months
				1,200,000		1,130,000		
Less: discount on debentures				(1,415)		(1,531)		
				1,198,585		1,128,469		
Less: current portion				169,911		179,972		
Current portion of debentures				170,000		180,000		
Discount on current portion of debentures				(89)		(28)		
Non-current debentures				₩ 1,028,674		948,497		

¹ The Group borrows the funds for the purpose of obtaining a qualifying asset.

21. Derivative Instruments

(a) *Interest rate swap*

The Group uses interest rate swaps to manage exposure to fluctuations in cash flows from changes in interest rate of long-term borrowings. Details of derivative instruments as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)

Counterparty	Contract date	Maturity date	Currency swap		Interest rate swap		2018		2017					
			Buy	Sell	Buy	Sell	Assets	Liabilities	Assets	Liabilities				
Shinhan Bank	2015.10.30	2018.10.08	-	-	CD91days +0.34%	1.98%	₩	-	₩	-	₩	19	₩	-
							₩	-	₩	-	₩	19	₩	-

The full fair value of a derivative is classified as non-current when the remaining maturity of the hedged item is more than 12 months; it is classified as current when the remaining maturity of the hedged item is less than 12 months.

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(b) *Put option*

In 2017, the Group and other five affiliates have entered into put option contracts in relation to the shares of Lotte Global Logistics Co., LTD., held by LLH INC., and details of the put option are as follows:

Subject to exercise	Shares and stock warrants of Lotte Global Logistics Co., Ltd., held by LLH INC.
Conditions for the exercise	If operating income or profit for the year of Lotte Global Logistics Co., Ltd. does not reach certain amount on a basis of the consolidated statements in 2020 or 2021.
Exercise period	For one month after four years from April 12, 2017
Exercise price	Average acquisition cost per share of Lotte Global Logistics Co., Ltd. x (1+internal rate of return) ^(N/365)

The Group measured fair value of put option using the binomial model approach. The derivative liabilities measured at fair value in relation to the above put option amount to ₩8,937 million (2017: ₩5,208 million).

22.Other Financial Liabilities

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

<i>(in millions of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Guarantee deposit	₩ 15,753	₩ 15,873	₩ 14,979	₩ 17,535
Derivative liabilities	-	8,937	-	5,208
Other financial liabilities	-	-	25	-
	<u>₩ 15,753</u>	<u>₩ 24,810</u>	<u>₩ 15,004</u>	<u>₩ 22,743</u>

23.Net Defined Benefit Liabilities

Details of net defined benefit liabilities recognized in the 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 funded defined benefit obligations	₩ 195,360	₩ 192,698
Fair value of plan assets	(178,657)	(175,691)
Net defined benefit liabilities	<u>₩ 16,703</u>	<u>₩ 17,007</u>

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Movements in the defined benefit obligations for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	192,698	₩	175,466
Current service cost		31,281		32,379
Interest expense		5,796		6,065
Remeasurements:				
Actuarial gain from change in demographic assumptions		(1,038)		(4,156)
Actuarial loss (gain) from change in financial assumptions		3,042		(8,785)
Actuarial loss (gain) from experience adjustments		(11,017)		3,222
Transfer from/to associate		(1,835)		670
Liabilities acquired in a business combination		-		861
Benefit payments		(23,567)		(9,406)
Decrease due to spin-off ¹		-		(3,618)
Ending balance	₩	<u>195,360</u>	₩	<u>192,698</u>

¹ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017 (Note 42).

Movements in the fair value of plan assets for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	175,691	₩	161,090
Interest income		5,657		4,782
Remeasurements:				
Return on plan assets		(2,679)		(1,881)
Benefit payments		(22,288)		(9,987)
Transfer from/to associate		(1,724)		664
Contributions		24,000		23,000
Decrease due to spin-off ¹		-		(1,977)
Ending balance	₩	<u>178,657</u>	₩	<u>175,691</u>

¹ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017 (Note 42).

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Plan assets as at December 31, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
	Quoted price	In %	Quoted price	In %
Equity instruments	₩ 67,720	37.91	₩ 37,598	₩ 21.40
Debt instruments	71,775	40.17	98,527	56.08
Cash and cash equivalents	39,162	21.92	39,566	22.52
	₩ 178,657	100.00	₩ 175,691	₩ 100.00

Remeasurements recognized in other comprehensive income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Before tax effects	₩ 6,334	₩ 7,838
Tax effects	(1,533)	(1,906)
After tax effects	₩ 4,801	₩ 5,932

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

<i>(in percentage, %)</i>	2018	2017
Discount rate	3.16	3.35
Salary growth rate	3.52	3.68

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

<i>(in percentage)</i>	Impact on defined benefit obligation		
	Changes in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	8.02% decrease	9.27% increase
Salary growth rate	1.00%	9.16% increase	8.02% decrease

The group is exposed to the most significant risk from a decrease in discount rate, corporate bond yields, in which will increase the defined benefit obligations, although this will be partially offset by an increase in the value of the plan's bond holding.

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

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

Defined contribution plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,318 million (2017: ₩ 740 million).

Effect of defined benefit plan on future cash flows

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2019, are ₩ 29,827 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	₩ 24,375	₩ 13,792	₩ 37,599	₩ 188,543	₩ 264,309

The weighted average duration of the defined benefit obligation is 9.35 years.

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24. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2018 and 2017, consists of:

<i>(in millions of Korean won)</i>	2018	2017
Current tax:		
Current tax on profits for the year	₩ 26,244	₩ 27,915
Adjustments in respect of prior years	(157)	3,764
Total current tax	<u>26,087</u>	<u>31,679</u>
Deferred tax:		
Changes in deferred tax	(46,753)	4,336
Deferred tax relating to items that are charged or credited directly to equity	1,754	(15,328)
Total deferred tax	<u>(44,999)</u>	<u>(10,992)</u>
Income tax expense (benefits)	<u>₩ (18,912)</u>	<u>₩ 20,687</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 (loss) before income tax expense	₩ (68,926)	₩ 229,324
Tax at domestic tax rates applicable to profits in the respective countries	(16,218)	55,034
Tax effects of:		
Income not subject to tax	(179)	(104,597)
Expenses not deductible for tax purposes	17,822	22,403
Refund or additional payment of income taxes	(150)	3,764
Effects on changes in unrecognized deferred tax	(18,061)	57,585
Tax credits and others	(129)	(1,190)
Others	(1,997)	(12,312)
	<u>(2,694)</u>	<u>(34,347)</u>
Income tax expense(benefits)	<u>₩ (18,912)</u>	<u>₩ 20,687</u>

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The aggregate current and deferred tax relating to items that are charged or credited directly to equity for the years ended December 31, 2018 and 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 financial assets at fair value through other comprehensive income	₩ (13,563)	₩ 3,282	₩ (10,281)	₩ (462,158)	₩ 111,842	₩ (350,316)
Gain (loss) on valuation of derivative instruments	(19)	5	(14)	400	(97)	303
Remeasurements of net defined benefit liability	6,334	(1,533)	4,801	7,835	(1,902)	5,933
	<u>₩ (7,248)</u>	<u>₩ 1,754</u>	<u>₩ (5,494)</u>	<u>₩ (453,923)</u>	<u>₩ 109,843</u>	<u>₩ (344,080)</u>

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	₩ 113,096	₩ 81,830
Deferred tax asset to be recovered within 12 months	25,002	8,946
	<u>138,098</u>	<u>90,776</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(231,149)	(234,159)
Deferred tax liability to be recovered within 12 months	(8,819)	(1,590)
	<u>(239,968)</u>	<u>(235,749)</u>
Deferred tax liabilities, net	<u>₩ (101,870)</u>	<u>₩ (144,973)</u>

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The movements in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	2018					
	Beginning balance	Adjustments	Business combination	Profit or loss	Other comprehensive income	Ending balance
Depreciation	₩ (9,093)	₩ -	₩ 3,742	₩ 3,034	₩ -	₩ (2,317)
Non-deductible provision for impairment	3,383	-	-	495	-	3,878
Impairment loss on available-for-sale securities	2,197	-	-	(2,197)	-	-
Accrued income	(118)	-	-	98	-	(20)
Deposits for uncollectible empty bottles	(612)	-	-	-	-	(612)
Provision for returns	2,635	-	-	424	-	3,059
Annual leaves	2,410	-	-	212	-	2,622
Impairment loss on packaging	2,890	-	-	(1,176)	-	1,714
Long-term employee benefit obligations	3,001	-	-	1,495	-	4,496
Valuation allowance of inventories	1,633	-	-	257	-	1,890
Provision for severance benefits	39,105	-	-	713	-	39,818
Severance insurance	(43,068)	-	-	172	-	(42,896)
Revaluation of land	(137,918)	-	2,187	(160)	-	(135,891)
Valuation of available-for-sale securities	(3,115)	2,198	-	-	3,282	2,365
Valuation of derivative instruments	1,256	-	-	902	5	2,163
Remeasurements of net defined benefit liabilities	6,177	-	-	-	(1,533)	4,644
Impairment loss on property, plant and equipment, and intangible assets	-	-	-	19,924	-	19,924
Goodwill	-	-	-	17,957	-	17,957
Others	(15,736)	-	(2,530)	(6,398)	-	(24,664)
	<u>₩ (144,973)</u>	<u>₩ 2,198</u>	<u>₩ 3,399</u>	<u>₩ 35,752</u>	<u>₩ 1,754</u>	<u>₩ (101,870)</u>

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	2017					
	Beginning balance	Changes due to spin-off	Profit or loss	Business combination	Other comprehensive income	Ending balance
Depreciation	₩ (14,304)	₩ 275	₩ 5,289	₩ (353)	₩ -	₩ (9,093)
Non-deductible provision for impairment	3,729	(159)	(187)	-	-	3,383
Impairment loss on available-for-sale securities	9,043	(7,270)	424	-	-	2,197
Accrued income	(209)	-	91	-	-	(118)
Deposits for uncollectible empty bottles	(612)	-	-	-	-	(612)
Provision for returns	2,417	(6)	224	-	-	2,635
Annual leaves	2,204	(64)	260	10	-	2,410
Impairment loss on packaging	3,747	-	(857)	-	-	2,890
Long-term employee benefit obligations	2,858	(44)	187	-	-	3,001
Valuation allowance of inventories	1,491	(165)	307	-	-	1,633
Provision for severance benefits	35,425	(462)	3,998	144	-	39,105
Severance insurance	(43,062)	387	(393)	-	-	(43,068)
Revaluation of land	(139,043)	455	649	21	-	(137,918)
Valuation of available-for-sale securities	(114,957)	125,193	-	-	(13,351)	(3,115)
Valuation of derivative instruments	85	-	1,268	-	(97)	1,256
Remeasurements of net defined benefit liabilities	7,745	333	-	-	(1,901)	6,177
Others	(9,467)	(132)	(417)	(5,720)	-	(15,736)
	<u>₩ (252,910)</u>	<u>₩ 118,341</u>	<u>₩ 10,843</u>	<u>₩ (5,898)</u>	<u>₩ (15,349)</u>	<u>₩ (144,973)</u>

Details of unrecognized deductible temporary differences as deferred tax assets as at December 31, 2018 and 2017, are as follows:

(in millions of Korean won)	2018	2017	Remarks
Goodwill and others	₩ 3,332	₩ 103,149	No plan for sale

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25.Provisions

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

<i>(in millions of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Provision for returns	₩ 2,829	₩ 9,810	₩ 1,122	₩ 9,764

Changes in provisions for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Beginning balance	₩	10,886	₩	10,011
Increase		1,753		907
Decrease due to spin-off ¹		-		(32)
Ending balance	₩	<u>12,639</u>	₩	<u>10,886</u>

¹ The amounts were transferred to newly established corporation due to spin-off during the year ended December 31, 2017 (Note 42).

26.Other Liabilities

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

<i>(in millions of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Withholdings	₩ 4,590	₩ -	₩ 5,349	₩ -
Advance received	390	-	287	-
Unearned revenue	521	-	284	-
Withholdings of value added tax	21,844	-	20,795	-
Liquor tax	89,818	-	107,835	-
Long-term employee benefit liabilities	-	18,577	-	12,400
	₩ <u>117,163</u>	₩ <u>18,577</u>	₩ <u>134,550</u>	₩ <u>12,400</u>

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27.Share Capital and Others

(a) Share capital

The Group's total number of authorized shares is 2,400,000 shares and the total number of ordinary shares and preferred shares issued are 799,346 shares and 77,531 shares, respectively, with a par value of ₩5,000 per share.

(b) Other equity

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

<i>(in millions of Korean won)</i>	2018	2017
Share premium ¹	₩ 2,729	₩ 2,729
Other capital adjustments	(25,104)	(25,104)
Loss on capital reduction ²	(755,650)	(755,650)
Treasury shares ³	(68,630)	(68,630)
	<u>₩ (846,655)</u>	<u>₩ (846,655)</u>

¹ The amounts were decreased due to spin-off during the year ended December 31, 2017.

² The Group recognized the fair value of assets to be distributed to owners and relevant liabilities for spin-off as dividend payables in other capital adjustments. The differences between other capital adjustments that were deducted due to completion of spin-off on October 1, 2017, decreased share capital and share premium, were recognized as loss on capital reduction.

³ After extraordinary meeting of shareholders for resolution of spin-off on August 29, 2017, the shareholders who opposed the spin-off claimed for the Group to acquire 58,943 ordinary shares and 20,772 preferred shares. The Group acquired the shares for ₩102,797 million, and allocated the shares to treasury shares of ₩63,259 million and shares of Lotte Corporation of ₩39,538 million granted from the spin-off. In addition, the Group acquired 3,929 ordinary shares and 426 preferred shares for ₩5,371 million based on stock reverse split procedure from spin-off.

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28.Accumulated Other Comprehensive Income

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

<i>(in millions of Korean won)</i>	2018	2017
Gain on valuation of available-for-sale financial assets	₩ -	9,756
Loss on valuation of financial assets at fair value through other comprehensive income	(7,406)	-
Gain on valuation of derivative instruments	-	14
Share of other comprehensive income of associate	(100)	(1,660)
Cumulative effect of foreign currency translation	(6,218)	-
	₩ (13,724)	8,110

Changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Beginning balance	₩ 8,110	₩ 341,088
Changes in accounting policy	(6,881)	-
Beginning balance, after adjustments	1,229	-
Loss on valuation of financial assets at fair value through other comprehensive income		
Loss on valuation	(13,564)	-
Tax effects	3,282	-
Gain on valuation of available-for-sale financial assets		
Gain on valuation	-	55,170
Tax effects	-	(13,350)
Decrease due to spin-off ¹	-	(392,135)
Gain on valuation of derivative instruments		
Gain (loss) on valuation	(19)	400
Tax effects	5	(97)
Share of other comprehensive income of associate		
Gain (loss) on valuation	1,561	(11,770)
Tax effects	-	-
Decrease due to spin-off ¹	-	19,136
Cumulative effect of foreign currency translation		
Loss on valuation	(6,218)	(4,487)
Tax effects	-	-
Decrease due to spin-off ¹	-	14,155
Ending balance	₩ (13,724)	₩ 8,110

¹ The amounts decreased due to spin-off during the year ended December 31, 2017 (Note 42).

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29.Retained Earnings

Retained earnings as at December 31, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017
Legal reserves			
Earned profit reserves ¹	₩ 3,473	₩	3,473
Revaluation reserves ²	241,524		241,524
Discretionary reserves			
Revaluation surplus	457,652		457,652
Other discretionary reserves	1,295,656		1,195,656
Retained earnings before appropriation	84,959		248,648
	₩ 2,083,264	₩	2,146,953

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

² The Group revalued certain assets in accordance with the previous Asset Revaluation Act, and recognizes the revaluation surplus as revaluation reserves. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit.

30.Revenue from Contracts with Customers and Relevant Contract Assets and Liabilities

The Group has recognized the following amounts relating to revenue in the statement of profit or loss:

<i>(in millions of Korean won)</i>	2018		2017
Revenue from contracts with customers			
Sales of finished goods	₩ 1,922,106	₩	1,877,650
Sales of merchandise	414,599		395,331
Revenue from other sources: rental income and others	9,573		6,301

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Assets and Liabilities related to Contracts with Customers

The Group has recognized the following assets and liabilities related to contracts with customers:

<i>(in millions of Korean won)</i>	2018		2017	
Contract assets - inventory expected for return	₩	1,865	₩	-
Total contract assets	₩	1,865	₩	-
Contract liabilities - current provisions	₩	2,828	₩	1,122
Contract liabilities - non-current provisions		9,810		9,764
Total contract liabilities	₩	12,638	₩	10,886

31. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Salaries	₩	172,693	₩	144,275
Bonus		31,305		47,668
Post-employment benefits		22,775		23,282
Employee benefits		55,782		54,141
Travel expenses		3,150		7,968
Communication expenses		2,943		2,839
Utility expenses		3,333		3,282
Rental expenses		28,746		28,018
Repair expenses		16,850		17,203
Vehicle maintenance expenses		14,750		11,170
Insurance premium		1,992		2,745
Freight expenses		120,780		111,054
Commission expenses		84,990		67,202
Sales commission expenses		9,707		13,224
Supplies expenses		10,851		12,111
Advertising expenses		140,213		135,640
Depreciation		30,444		33,870
Amortization		21,019		18,830
Promotional expense		25,212		86,754
Taxes and dues		16,097		17,239
Other		27,419		22,342
	₩	841,051	₩	860,857

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32. Breakdown of Expenses by Nature

Details of nature of expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Changes in inventories	₩ (8,037)	₩ (15,354)
Purchase of raw materials and merchandise	1,138,669	1,116,113
Employee benefits expenses	335,637	312,056
Depreciation and amortization	150,341	137,310
Freight expenses	139,734	129,474
Advertising expenses	140,215	135,649
Other expenses	364,767	388,651
	<u>₩ 2,261,326</u>	<u>₩ 2,203,899</u>

33. Other Income and Expenses

Details of other income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Gain on settlement ¹	₩ -	₩ 372,998
Gain on foreign currency transactions	2,793	7,777
Gain on disposal of property, plant and equipment	2,194	2,994
Gain on disposal of intangible assets	3	1
Miscellaneous gains	3,336	4,716
Gain from insurance	688	-
	<u>₩ 9,014</u>	<u>₩ 388,486</u>

¹ The amounts were incurred from spin-off during the year ended December 31, 2017 (Note 42).

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Details of other expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Depreciation of idle assets	₩	1,391	₩	-
Loss on foreign currency transactions		2,693		2,945
Loss on disposal of property, plant and equipment		7,204		5,463
Impairment loss on property, plant and equipment		78,608		4,959
Loss on disposal of intangible assets		187		1
Impairment loss on intangible assets		24,006		125,773
Impairment loss on investments in associate		-		29,535
Donations		11,589		12,450
Miscellaneous losses		1,794		24,658
	₩	<u>127,472</u>	₩	<u>205,784</u>

34. Finance Income and Costs

Details of finance income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Dividend income	₩	803	₩	4,547
Gain on foreign currency translation		639		558
Gain on disposal of available-for-sale financial assets		-		2,165
Gain on disposal of non-current assets held for sale		-		7,510
Financial guarantee income		25		17
	₩	<u>1,467</u>	₩	<u>14,797</u>

Details of finance costs for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Interest expenses	₩	37,917	₩	29,732
Loss on foreign currency translation		273		1,576
Other impairment loss		1,923		-
Loss on valuation of financial assets at fair value through profit or loss		6		-
Loss on valuation of derivative instruments		3,729		5,208
Loss on transactions of derivative instruments		-		6,037
Impairment loss on available-for-sale financial assets		-		8,296
Loss on disposal of non-current assets held for sale		-		5,839
	₩	<u>43,848</u>	₩	<u>56,688</u>

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35.Contingencies and Commitments

Details of the Group's major financial commitments as at December 31, 2018 and 2017, are as follows:

*(in millions of Korean won and
in thousands of foreign currencies)*

		Credit line			
		Financial institutions		2018	2017
Letters of credit	Woori Bank	USD	13,000	USD	13,000
	Kookmin Bank	KRW	-	USD	1,000
	KEB Hana Bank ¹	USD	38,500	USD	38,500
		EUR	4,359		
General loans	Shinhan Bank	USD	5,000	USD	5,000
	KEB Hana Bank ¹	KRW	25,000	KRW	25,000
	Shinhan Bank	KRW	5,000	KRW	5,000
	Tokyo Mitsubishi UFJ	KRW	60,000	KRW	140,000
	Mizuho Corporate Bank, Ltd	KRW	120,000	KRW	60,000
	Askari Bank Limited	PKR	585,000	KRW	-
	Faysal Bank Limited	PKR	90,000	KRW	-
	PakChina Investment Co. Ltd.	PKR	375,000	KRW	-
	Sindh Bank Limited	PKR	900,000	KRW	-
	Allied Bank Limited	PKR	100,000	KRW	-
	The Bank of Punjab	PKR	650,000	KRW	-
	JS Bank Limited	PKR	250,000	KRW	-
	MCB Bank Limited	PKR	1,030,000	KRW	-
	United Bank Limited	PKR	450,000	KRW	-
	Soneri Bank Limited	PKR	200,000	KRW	-
Bank overdraft	Kookmin Bank	KRW	9,000	KRW	9,000
	Busan Bank	KRW	2,000	KRW	2,000
	Shinhan Bank	KRW	16,000	KRW	16,000
	KEB Hana Bank ¹	KRW	22,000	KRW	22,000
	Woori Bank	KRW	6,000	KRW	10,000
Purchase card	Kookmin Bank	KRW	25,000	KRW	35,000
	KEB Hana Bank	KRW	30,000	KRW	30,000
	Woori Bank	KRW	50,000	KRW	50,000
	Industrial Bank of Korea	KRW	100,000	KRW	-
	Lotte Card Co., Ltd.	KRW	60,000	KRW	60,000
CP	Shinhan Bank	KRW	60,000	KRW	80,000
Sales loans	Shinhan Bank	KRW	30,000	KRW	30,000

¹ The Group has entered into line of credit agreements of ₩41,000 million for general loans, bank overdraft, payment guarantee, D/A, D/P with KEB Hana Bank.

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Litigation

As at December 31, 2018, the Group has been named as a defendant in 6 pending litigations amounting to ₩139 million (2017: 6 litigations amounting to ₩611 million) in claims, and as a plaintiff in 30 litigations amounting to ₩13,563 million (2017: 26 litigations amounting to ₩1,851 million). The ultimate outcome of the above litigations cannot be determined as at December 31, 2018.

Technology license agreement

As at December 31, 2018, the Group has entered into technology license agreement with DEL Monte Fresh Produce Company and others, and paid its royalty as 1.10% ~ 3.00% of sales amount or paid by straight line basis.

Brand Use Agreement and others

As at December 31, 2018, the Group has concluded contracts for brand use, management consulting and management support contracts with Lotte Corporation Co., Ltd. The use price 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 by 5% to amount which is calculated by allocating the expenses incurred in the course of performing the target business with reasonable criteria.

Meanwhile, as at December 31, 2018, the Group has concluded contracts to provide management support service for Lotte Corporation Co., Ltd. and its overseas subsidiaries. The management support service costs are calculated expenses incurred in the course of performing the business by adding commission rate.

The Group and Lotte Corporation are jointly liable for the liabilities that existed before the spin-off.

Payment guarantees provided by others

As at December 31, 2018, the Group is provided payment guarantees amounting to ₩1,894 million (2017: ₩3,038 million) from Seoul Guarantee Insurance Company for approval, performance and deposits. And, the Group is provided payment guarantee with a limit of ₩10,000 million (2017: ₩10,000 million) from KEB Hana Bank for purchase of raw materials to manufacture alcoholic beverage. In addition, The Group is provided payment guarantees amounting to PKR 10,000 thousand, PKR 10,356 thousand, PKR 15,150 thousand from Askari Bank Limited, Faysal Bank Limited and United Bank Limited, respectively, to import system for gas supply, sugar solution, and Spare of Lotte Akhtar Beverages (Private) Limited.

LLH INC. has a put option that can sell its shares of Lotte Global Logistics Co., Ltd. to the six affiliates of Lotte Group, including the Group. In addition, in the event when the Lotte Group affiliates propose to sell the shares to a third, LLH INC. has a tag along right. The six affiliates of Lotte Group, including the Group, hold the right of first refusal on the shares of Lotte Global Logistics Co., Ltd. held by LLH INC.

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In relation to acquisition of Sanchung Beverage Co., Ltd. (formerly, Sansu Beverage Co., Ltd.), the Group decided to acquire 33.3% shares held by Kim Tae-Ryong and another shareholder for ₩ 28,000 million after July 2019.

The Group acquired 52% shares of Lotte Akhtar Beverages (Private) Limited for PKR 4,843,000,000.

According to the share purchase agreement, in case that the Group fails to meet the contractual obligations among shareholders, the shareholders of RIAZ BOTTLERS (PRIVATE) LTD (hereafter "AG") have right to sell for shares of Lotte Akhtar Beverages (Private) Limited held by AG at 120% of its fair value. In case that AG fails to meet the contractual obligations among shareholders, the Group has right to purchase for shares of Lotte Akhtar Beverages (Private) Limited held by AG at 80% of its fair value.

In case that the Group or AG is proposed to sell their shares from the third party, they can exercise right of first refusal to each other. The Group has drag-along right for AG and AG has tag-along right for the Group.

The Group has an exclusive bottling agreement with PepsiCo. Inc and The ConcentrateManufacturing Company of Ireland. The Group is exclusively manufacturing and selling the product of PepsiCo. Inc and The ConcentrateManufacturing Company of Ireland in Lahore and Kasur region under the treaties listed above.

Collateral

Details of assets pledged as collateral for payment of liquor tax and others as at December 31, 2018, are as follows:

(in millions of Korean won)

Asset pledged as collateral	Secured party	Carrying amount	Secured amount	Remark
Land and buildings	GS Caltex Corporation	₩ 7,503	₩ 300	Security for cash-settled gas gift card
Land	GOJIN MOTORS	4,881	200	Security for lease deposits
Land and buildings	East Incheon Tax office	6,256	395	Security for liquor tax payment of plant in Bupyeong
Land and buildings	North Incheon Tax office	5,850	5,705	Security for liquor tax payment of plant in Bupyeong
Land	Chungju Tax office	13,344	4,808	Security for liquor tax payment of plant in Chungju
Land, buildings and machinery	Woori Bank	5,762	4,800	Security for borrowings
		<u>₩ 43,596</u>	<u>₩ 16,208</u>	

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Under the agreement on debenture, the Group has an obligation to maintain financial ratios(Debt ratio from 200% to 300%), limitation on settlement of security rights on assets owned, limitation on disposal of assets, and limitation on changes in governance until the repayment of debenture for both principal and interests is completed.

36.Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year. Basic earnings (loss) per share for the years ended December 31, 2018 and 2017, is as follows:

(a) Basic earnings (loss) per share

Basic earnings (loss) per ordinary share from continuing operations for the years ended December 31, 2018 and 2017, are as follows:

<i>(in Korean won and in number of shares)</i>	2018	2017
Profit (loss) from continuing operations attributable to the equity holders of the Parent Company (A)	₩ (48,050,263,946)	₩ 208,637,329,916
Profit (loss) from continuing operations attributable to preferred shares of the Parent Company (B)	<u>(3,724,232,681)</u>	<u>18,145,284,304</u>
Profit (loss) from continuing operations attributable to the ordinary equity holders of the Parent Company (C=A-B)	<u>₩ (44,326,031,265)</u>	<u>₩ 190,492,045,612</u>
Weighted average number of ordinary shares outstanding ¹ (D)	<u>757,335</u>	<u>1,132,724</u>
Basic earnings (loss) per ordinary share from continuing operations (E=C÷D)	<u>₩ (58,529)</u>	<u>₩ 168,172</u>

¹ Weighted average numbers of ordinary shares outstanding for the year ended December 31, 2017, are calculated as follows:

Period	Details	Number of shares	Number of days	Accumulated amount
2017-01-01~2017-09-12	Beginning number of shares	1,237,131	255	315,468,405
2017-09-13~2017-10-12	Disposal of treasury shares	1,237,203	30	37,116,090
2017-10-13~2017-10-17	Capital reduction due to spin-off	799,346	5	3,996,730
2017-10-18~2017-11-02	Acquisition of treasury shares	761,264	16	12,180,224
2017-11-03~2017-12-31	Acquisition of treasury shares	757,335	59	<u>44,682,765</u>
				<u>413,444,214</u>

Weighted average numbers of shares outstanding: 413,444,214 ÷ 365 days = 1,132,724 shares

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Basic earnings (loss) per preferred share from continuing operations¹ for the years ended December 31, 2018 and 2017, are as follows:

<i>(in Korean won and in number of shares)</i>	2018	2017
Profit (loss) from continuing operations attributable to preferred shares of the Parent Company (A)	₩ (3,724,232,681)	₩ 18,145,284,304
Weighted average number of preferred shares outstanding ² (B)	<u>63,685</u>	<u>107,865</u>
Basic earnings (loss) per preferred share from continuing operations (C=A÷B)	<u>₩ (58,479)</u>	<u>₩ 168,222</u>

¹ It is determined as a preferred share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share.

² Weighted average numbers of preferred shares outstanding for the year ended December 31, 2017, are calculated as follows:

Period	Details	Number of shares	Number of days	Accumulated amount
2017-01-01~2017-10-12	Beginning number of shares	120,000	285	34,200,000
2017-10-13~2017-10-17	Capital reduction due to spin-off	77,531	5	387,655
2017-10-18~2017-11-02	Acquisition of treasury shares	64,111	16	1,025,776
2017-11-03~2017-12-31	Acquisition of treasury shares	63,685	59	<u>3,757,415</u>
				<u>39,370,846</u>

Weighted average numbers of shares outstanding: 39,370,846 ÷ 365 days = 107,865 shares

Basic earnings (loss) per ordinary share from discontinuing operations for the years ended December 31, 2018 and 2017, are as follows:

<i>(in Korean won and in number of shares)</i>	2018	2017
Profit (loss) from discontinuing operations attributable to the equity holders of the Parent Company (A)	₩ -	₩ (74,002,602,726)
Profit (loss) from discontinuing operations attributable to preferred shares of the Parent Company (B)	<u>-</u>	<u>(6,434,293,673)</u>
Profit (loss) from discontinuing operations attributable to the ordinary equity holders of the Parent Company (C=A-B)	<u>₩ -</u>	<u>₩ (67,568,309,053)</u>
Weighted average number of ordinary shares outstanding ¹ (D)	<u>757,335</u>	<u>1,132,724</u>
Basic earnings (loss) per ordinary share from discontinuing operations (E=C÷D)	<u>₩ -</u>	<u>₩ (59,651)</u>

¹ It is identical to weighted average number of ordinary shares outstanding used to calculation of earnings (loss) per ordinary share from continuing operations.

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Basic earnings (loss) per preferred share from discontinuing operations for the years ended December 31, 2018 and 2017, are as follows:

<i>(in Korean won and in number of shares)</i>	2018	2017
Profit (loss) from discontinuing operations attributable to preferred shares of the Parent Company (A)	₩ -	₩ (6,434,293,673)
Weighted average number of preferred shares outstanding ¹ (B)	<u>63,685</u>	<u>107,865</u>
Basic earnings (loss) per preferred share from discontinuing operations (C=A÷B)	<u>₩ -</u>	<u>₩ (59,651)</u>

¹ It is identical to weighted average number of preferred shares outstanding used to calculation of earnings (loss) per preferred share from continuing operations.

(b) Diluted earnings (loss) per share

The Group did not have any dilutive ordinary shares. Therefore, basic earnings (loss) per share is identical to diluted earnings (loss) per share.

37.Dividends

A dividend in respect of the year ended December 31, 2017, amounting to ordinary dividend of ₩ 24,992 million and preferred dividend of ₩ 2,105 million, was paid in April, 2018 (2017: ordinary dividend of ₩ 12,449 million and preferred dividend of ₩ 1,206 million).

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38.Related Party Transactions

Details of associate 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
Significant influence on the Group	Lotte Corporation ¹	Lotte Corporation ¹
Associate	Lotte Asahi Liquor Company Ltd.	Lotte Asahi Liquor Company Ltd.
Other related parties ²	Daehong Communications Inc., BaekHak Beverage Co., Ltd., KOREA SEVEN CO., LTD., Lotte aodeli beverage.co.LTD, Lotte Changbai beverage co.,LTD, LOTTE DATA COMMUNICATION COMPANY, LOTTEGRS Co., Ltd., Lotte Card Co., Ltd., CH Beverage Co., Ltd., MJA Wine Co., Ltd., LOTTE LIQUOR JAPAN, Lotte Confectionery Co., Ltd., and others	Daehong Communications Inc., BaekHak Beverage Co., Ltd., KOREA SEVEN CO., LTD., Lotte aodeli beverage.co.LTD, Lotte Changbai beverage co.,LTD, LOTTE DATA COMMUNICATION COMPANY, LOTTEGRS Co., Ltd., Lotte Card Co., Ltd., CH Beverage Co., Ltd., MJA Wine Co., Ltd., LOTTE LIQUOR JAPAN, and others
Others ³	Hotel Lotte Co., Ltd., Lotte Engineering & Construction Co., Ltd., Lotte Logistics Co., Ltd., Lotte Trading Co., Ltd., Lotte Shopping Co., Ltd., Lotte Aluminum Co., Ltd., Lotte Foods Co., Ltd., CS Mart Co., Ltd., and others	Hotel Lotte Co., Ltd., Lotte Engineering & Construction Co., Ltd., Lotte Logistics Co., Ltd., Lotte Trading Co., Ltd., Lotte Shopping Co., Ltd., Lotte Aluminum Co., Ltd., Lotte Confectionery Co., Ltd., Lotte Foods Co., Ltd., CS Mart Co., Ltd., and others

¹ Lotte Corporation is a newly established corporation through the spin-off and merger of the Group, Lotte Shopping Co., Ltd., Lotte Confectionery Co., Ltd. and Lotte Foods Co., Ltd., and recognizes the Group as an associate.

² Other related parties are subsidiaries of Lotte Corporation who has significant influence on the Group, and subsidiaries of Lotte Akhtar Beverages (Private) Limited, one of subsidiaries of the Group.

³ Although the entity is not the related party of the Group in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Group also belongs in accordance with the Monopoly Regulation and Fair Trade Act and foreign affiliates.

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Sales and purchases with related parties for the years ended December 31, 2018 and 2017, and outstanding balances arising from sales/purchases of goods and services as at December 31, 2018 and 2017, are as follows

(in millions of Korean won)

	2018			
	Sales	Income and others ¹	Purchase and others ³	Acquisition of property, plant and equipment
Significant influence on the Group				
Lotte Corporation ⁴	₩ 2,808	₩ 5	₩ 10,530	₩ -
Associate				
Lotte Asahi Liquor Company Ltd.	120	1,883	-	-
Other related parties				
Lotte giants baseball club	-	-	2,870	-
LOTTE LIQUOR JAPAN	44,546	-	1,235	-
Daehong Communications Inc.	10	39	36,806	-
KOREA SEVEN CO., LTD.	31,169	-	1,741	-
BaekHak Beverage Co., Ltd.	86	2,680	37,148	-
CH Beverage Co., Ltd.	221	1,100	24,960	-
LOTTEGRS Co., Ltd.	20,609	66	54	-
MJA Wine Co., Ltd.	9,887	-	774	-
Lotte aodeli beverage.co.LTD	1,958	-	-	-
Lotte Changbai beverage co.,LTD	-	35	624	-
LOTTE DATA COMMUNICATION COMPANY	2	85	10,754	4,652
Lotte Confectionery Co., Ltd.	1,793	320	9,582	14
Others	11,463	167	1,083	15
Others				
Lotte Aluminum Co., Ltd.	296	1	237,960	10,651
Lotte Logistics Co., Ltd. ⁵	65,349	430	124,228	16
Lotte Shopping Co., Ltd.	54,474	3,256	5,358	-
Lotte Engineering & Construction Co., Ltd. ⁶	2,830	-	-	2,155
Lotte Trading Co., Ltd.	13	-	37,718	-
Lotte Foods Co., Ltd.	3,782	675	22,724	-
CS Mart Co., Ltd.	15,345	-	209	-
Others	10,824	702	29,444	747
	₩ 277,585	₩ 11,444	₩ 598,085	₩ 18,250

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(in millions of Korean won)

	2017			
	Sales	Income and others ^{1,2}	Purchase and others ³	Acquisition of property, plant and equipment
Significant influence on the Group				
Lotte Corporation ⁴	₩ 794	₩ 13	₩ 897	₩ -
Associate				
Lotte Asahi Liquor Company Ltd.	288	301	-	-
Other related parties				
Daehong Communications Inc.	1	1,319	45,820	965
KOREA SEVEN CO., LTD.	31,232	-	2,453	-
LOTTEGRS Co., Ltd.	22,252	306	502	-
LOTTE LIQUOR JAPAN	11,137	-	486	-
BaekHak Beverage Co., Ltd.	-	2,350	6,920	-
LOTTE IT TECH CO., LTD.	-	-	563	158
Others	4,542	1,222	6,685	-
Others				
Lotte Aluminum Co., Ltd.	294	258	244,861	10,685
Lotte Logistics Co., Ltd. ⁵	69,772	1,146	114,108	-
Lotte Shopping Co., Ltd.	62,802	2,475	11,494	-
Lotte Engineering & Construction Co., Ltd. ⁶	1,702	-	356	188,177
Lotte Trading Co., Ltd.	36	-	42,885	-
Lotte Foods Co., Ltd.	3,432	1,888	24,121	-
CS Mart Co., Ltd.	16,271	-	424	-
Lotte-Nestle (Korea) Co., Ltd.	3	-	9,064	-
Igis I Corporation	-	8,238	-	-
Others	9,693	3,600	46,913	4,498
	₩ 234,251	₩ 23,116	₩ 558,552	₩ 204,483

¹ This includes dividend income, rental income and others.

² This includes the consideration amounting to ₩8,238 million, incurred from liquidation of Igis I Corporation.

³ This includes purchase of inventories, commission expenses, rental expenses, dividends paid and others.

⁴ This includes brand fees, business management service fees and others, incurred after Lotte Corporation was established.

⁵ The transaction amount with Lotte Logistics Co., Ltd is indicated in net amount, which deducts logistics expense and others.

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⁶ There are differences in transaction amounts as Lotte Engineering & Construction Co., Ltd. recognized the revenue using percentage of completion method.

(in millions of Korean won)

	2018			
	Trade receivables	Other receivables ¹	Trade payables	Other payables ²
Significant influence on the Group				
Lotte Corporation	₩ -	₩ 216	₩ -	₩ 448
Associate				
Lotte Asahi Liquor Company Ltd.	-	1	-	112
Other related parties				
Lotte Card Co., Ltd.	-	-	-	22,187
Daehong Communications Inc.	2	-	-	10,820
Lotte aodeli beverage.co.LTD	13,138	-	-	-
MJA Wine Co., Ltd.	5,303	-	-	71
LOTTEGRS Co., Ltd.	5,142	1	-	-
BaekHak Beverage Co., Ltd.	-	9	2,526	-
LOTTE DATA COMMUNICATION COMPANY	-	-	-	1,739
LOTTE LIQUOR JAPAN	1,457	-	73	-
Lotte Confectionery Co., Ltd.	52	2,107	518	674
Others	4,192	629	1,722	3,082
Others				
Lotte Engineering & Construction Co., Ltd. ³	6	-	-	27,622
Lotte Aluminum Co., Ltd.	-	519	16,874	3,008
Lotte Logistics Co., Ltd.	5,234	-	-	10,178
Lotte Shopping Co., Ltd.	4,943	6,153	-	4,854
Lotte Foods Co., Ltd.	362	3,054	1,881	2,135
Hotel Lotte Co., Ltd.	164	3,872	-	26
Lotte Trading Co., Ltd.	-	-	2,672	-
Others	2,306	1,629	445	1,959
	₩ 42,301	₩ 18,189	₩ 26,711	₩ 88,915

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	2017			
	Trade receivables	Other receivables ¹	Trade payables	Other payables ²
Significant influence on the Group				
Lotte Corporation	₩ -	₩ 354	₩ -	₩ 373
Associate				
Lotte Asahi Liquor Company Ltd.	1	1	-	2,612
Other related parties				
Lotte Card Co., Ltd.	13	-	-	54,528
Daehong Communications Inc.	-	56	85	27,468
Lotte aodeli beverage.co.LTD	10,798	-	-	-
MJA Wine Co., Ltd.	6,071	6	-	71
LOTTEGRS Co., Ltd.	5,208	141	-	11
Lotte Changbai beverage co.,LTD	-	1,937	1,717	-
LOTTE LIQUOR JAPAN	1,684	43	76	-
Others	3,387	670	3,875	531
Others				
Lotte Engineering & Construction Co., Ltd. ³	3	-	-	76,034
Lotte Aluminum Co., Ltd.	-	-	18,339	2,484
Lotte Logistics Co., Ltd.	-	5,878	41	14,708
Lotte Shopping Co., Ltd.	5,400	6,166	-	4,299
Lotte Foods Co., Ltd.	143	3,305	5,618	861
Lotte Confectionery Co., Ltd.	9	2,336	922	1,884
Hotel Lotte Co., Ltd.	136	3,872	-	28
Lotte Trading Co., Ltd.	10	-	2,842	-
Others	2,586	2,100	2,363	5,549
	₩ 35,449	₩ 26,865	₩ 35,878	₩ 191,441

¹ This includes leasehold deposits and others.

² This includes non-trade payables, accrued expenses, leasehold deposits received and others.

³ There are differences in transaction amounts as Lotte Engineering & Construction Co., Ltd. recognized the revenue using percentage of completion method while the Group recognized the expected total amount of construction cost upon the completion of Chungju 2nd plant as other payables.

Although the above receivables are not impaired at the end of the reporting period, the Group established provisions for impairment amounting to ₩ 2,079 million and ₩ 264 million as at December 31, 2018 and 2017, respectively, in relation to the future expected credit losses, and recognized impairment loss amounting to ₩ 1,815 million and ₩ 114 million for the years ended

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December 31, 2018 and 2017, respectively.

As at December 31, 2018, the Group has entered into a purchasing card agreement with Lotte Card Co., Ltd. and details of the agreement are as follows:

<i>(in millions of Korean won)</i>	Company	Agreed amount	Used amount	Repayments	Outstanding amount
Purchase card users	Lotte Card Co., Ltd.	₩ 60,000	₩ 172,399	₩ 210,557	₩ 16,370

Fund transactions with related parties for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017		
	Repayments	Loans	Repayments	Changes in scope of consolidation ¹	Contributions in cash
Others					
Lotte Changbai beverage co.,LTD	₩ 1,923	₩ 1,929	₩ -	₩ -	-
Lotte Global Logistics Co., Ltd.	-	-	-	-	978
Lotte Capital Co., Ltd.	-	-	5,000	4,700	-

¹ The borrowings of BaekHak Beverage Co., Ltd. for Lotte Capital Co., Ltd. were excluded from the Group's borrowings due to spin-off during the year ended December 31, 2017.

Details of payment guarantees and collateral provided by the Group for the financial supports to the related parties as at December 31, 2018, are as follows, and no collateral and payment guarantees are provided by the related parties.

There are no payment guaranteed by the Group as at December 31, 2018. Payment guaranteed provided by the Group as at December 1, 2017, are as follows:

(in thousands of foreign currencies)

	2017			
Guaranteed by	Guaranteed amount	Guarantee period	Remark	
LOTTE-MGS BEVERAGE (MYANMAR) Co., LTD.	Tokyo Mitsubishi	USD 5,500	2017.08 ~ 2018.08	Borrowings
	UFJ Yangon branch	KYAT 4,000,000		
	Shinhan Bank Yangon branch	KYAT 4,800,000	2017.08 ~ 2018.08	Borrowings
		USD 5,500		
		<u>KYAT 8,800,000</u>		

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Brand Use Agreement and others

As at December 31, 2018, the Group has concluded contracts for brand use, management consulting and management support contracts with Lotte Corporation Co., Ltd. The use price 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 by 5% to amount which is calculated by allocating the expenses incurred in the course of performing the target business with reasonable criteria.

Meanwhile, as at December 31, 2018, the Group has concluded contracts to provide management support service for Lotte Corporation Co., Ltd. and its overseas subsidiaries. The management support service costs are calculated expenses incurred in the course of performing the business by adding commission rate.

The Group and Lotte Corporation are jointly liable for the liabilities that existed before the spin-off.

In relation to acquisition of Sanchung Beverage Co., Ltd. (formerly, Sansu Beverage Co., Ltd.), the Group decided to acquire 33.3% shares held by Kim Tae-ryong and another shareholder for ₩ 28,000 million after July 2019.

The Group acquired 52% shares of Lotte Akhtar Beverages (Private) Limited for PKR 4,843,000,000.

According to the share purchase agreement, in case that the Group fails to meet the contractual obligations among shareholders, the shareholders of RIAZ BOTTLERS (PRIVATE) LTD (hereafter "AG") have right to sell for shares of Lotte Akhtar Beverages (Private) Limited held by AG at 120% of its fair value. In case that AG fails to meet the contractual obligations among shareholders, the Group has right to purchase for shares of Lotte Akhtar Beverages (Private) Limited held by AG at 80% of its fair value.

In case that the Group or AG is proposed to sell their shares from the third party, they can exercise right of first refusal to each other. The Group has drag-along right for AG and AG has tag-along right for the Group.

Key management includes executive directors and other executives who hold authorities and responsibilities over planning, operations and control of the Group. Details of compensation to key management are as follows:

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<i>(in millions of Korean won)</i>	2018		2017	
Short-term employee benefits	₩	12,478	₩	12,992
Post-employment benefits		1,769		1,916
	₩	<u>14,247</u>	₩	<u>14,908</u>

39. Cash Generated from Operations

Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Adjustments for ¹ :				
Income tax expenses (benefits)	₩	(18,912)	₩	21,107
Interest income		(3,761)		(5,850)
Interest expenses		37,917		32,010
Dividend income		(803)		(4,547)
Loss on valuation of derivative instruments		3,729		5,208
Loss on transactions of derivative instruments		-		6,037
Gain on foreign currency translation		(639)		(1,350)
Loss on foreign currency translation		273		1,631
Gain on foreign currency transactions		(2)		(6,066)
Loss on foreign currency transactions		23		-
Long-term employee benefit expenses		8,107		2,921
Post-employment benefit		31,304		32,878
Depreciation		129,896		128,484
Amortization		21,835		20,729
Impairment loss		2,834		1,342
Other impairment loss		1,923		-
Gain on disposal of property, plant and equipment		(2,194)		(2,950)
Loss on disposal of property, plant and equipment		7,204		7,616
Impairment loss on property, plant and equipment		78,608		30,722
Gain on disposal of intangible assets		(3)		(2)
Loss on disposal of intangible assets		186		1
Impairment loss on intangible assets		24,006		181,890
Financial guarantee income		(25)		(17)
Share of profit of associates		(3,201)		(7,306)
Impairment loss on investments in associates		-		29,535
Impairment loss on available-for-sale financial assets		-		8,296
Gain on disposal of available-for-sale financial assets		-		(2,165)
Loss on valuation of financial assets at fair value		6		-

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<i>(in millions of Korean won)</i>	2018		2017	
through profit or loss				
Loss on disposal of non-current assets held for sale		-		5,840
Gain on disposal of non-current assets held for sale		-		(7,510)
Impairment loss on non-current assets held for sale		-		2,714
Miscellaneous losses		-		5,421
Gain on settlement		-		(384,314)
Others		115		(456)
	₩	<u>318,426</u>	₩	<u>101,849</u>
Change in operating assets and liabilities:				
Decrease (increase) in trade and other receivables	₩	3,659	₩	(18,988)
Increase in inventories		(9,112)		(12,564)
Increase in contract assets		(1,865)		-
Increase in other current assets		(5,657)		(80)
Increase in other current financial assets		(1,135)		(47)
Increase (decrease) in trade and other payables		(73,932)		25,849
Increase in current portion of provisions		1,706		416
Increase in provisions		46		491
Increase in other current financial liabilities		72		483
Increase (decrease) in other current liabilities		(17,666)		15,879
Increase (decrease) in other financial liabilities		(1,662)		2,651
Payment of post-employment benefits		(23,567)		(9,406)
Increase in plan assets		(1,712)		(13,676)
Payment of long-term employee benefits		(1,930)		(2,141)
Transfer from associates		-		670
	₩	<u>(132,755)</u>	₩	<u>(10,463)</u>

¹ The adjustments above include items classified to profit (loss) from discontinued operation.

Non-cash investing and financing transactions that are not included in the statements of cash flows for the years ended December 31, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
Reclassification of debentures to current portion	₩	169,903	₩	179,973
Reclassification of long-term borrowings to current portion		1,173		22,600
Increase (decrease) in non-trade payables due to acquisition of property, plant and equipment, and intangible assets		(50,665)		53,885
Increase in property, plant and equipment due to capitalization of borrowing costs and others		-		3,800
Decrease in non-trade receivables due to disposal of		-		4

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property, plant and equipment		
Increase in property, plant and equipment due to finance lease	-	2,965
Non-trade payables related to investments in subsidiaries	-	26,840
Decrease in assets/liabilities due to spin-off	-	765,031

Changes in liabilities arising from financial activities for the years ended December 31, 2018 and 2017, are as follows:

(in millions of Korean won)	Non-trade payables ¹		Liabilities from financing activities			
	Appraisal rights of dissenting shareholders	Lease liabilities	Short-term borrowings	Long-term borrowings	Debentures	
At January 1, 2017	₩ -	₩ 2,615	₩ 418,746	₩ 107,353	₩ 895,029	
Exercise of appraisal rights of dissenting shareholders	102,797	-	-	-	-	
Lease newly acquired	-	2,965	-	-	-	
Cash flows	(102,797)	(652)	(286,748)	47,176	236,868	
Exchange differences	-	(408)	(853)	(4,009)	(2,028)	
Changes due to spin-off	-	-	(53,602)	(4,670)	-	
Other non-financial changes	-	90	3,900	(3,886)	(1,400)	
At December 31, 2017	₩ -	₩ 4,610	₩ 81,443	₩ 141,964	₩ 1,128,469	
At January 1, 2018	₩ -	₩ 4,610	₩ 81,443	₩ 141,964	₩ 1,128,469	
Business combination	-	-	28,611	4,095	-	
Cash flows	-	(913)	(79,371)	38,052	69,400	
Exchange differences	-	183	(3,278)	(446)	-	
Other non-financial changes	-	118	-	-	716	
At December 31, 2018	₩ -	₩ 3,998	₩ 27,405	₩ 183,665	₩ 1,198,585	

¹ The balances of non-trade payables related to appraisal rights of dissenting shareholders are recorded.

40. Changes in Accounting Policies

40.1 Adoption of Korean IFRS 1109 *Financial Instruments*

As explained in Note 2, the Group has applied Korean IFRS 1109 *Financial Instruments* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1109, comparative

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figures have not been restated. The impacts of the changes accounting policies from the application of Korean IFRS 1109 on the consolidated financial statements are as follows:

(a) Classification and Measurement of Financial Instruments

The total impact on the Group's retained earnings due to classification and measurement of financial instruments as at January 1, 2018, is as follows:

<i>(in millions of Korean won)</i>	Notes	January 1, 2018	
Beginning balance - Korean IFRS 1039		₩	2,146,953
Reclassification of available-for-sale securities to financial assets at fair value through other comprehensive income	(i)		6,881
Beginning balance of retained earnings - Korean IFRS 1109		₩	<u>2,153,834</u>

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 impact on these changes on the Group's equity is as follows:

<i>(in millions of Korean won)</i>	Notes	Effect on accumulated other comprehensive income		Effect on retained earnings	
Beginning balance - Korean IFRS 1039		₩	8,110	₩	2,146,953
Reclassification of available-for-sale securities to financial assets at fair value through other comprehensive income	(i)		(6,881)		6,881
Beginning balance - Korean IFRS 1109		₩	<u>1,229</u>	₩	<u>2,153,834</u>

(i) Reclassification of financial assets 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 that are not held for trading and previously classified as available-for-sale in other comprehensive income. As a result, assets with a fair value of ₩49,992 million were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. Related impairment loss of ₩ 9,078 million were reclassified to other comprehensive income on January 1, 2018 (tax effects of ₩ 2,197 million).

(ii) Reclassification from held-to-maturity financial assets to amortized cost

Government bonds were reclassified from held-to-maturity financial assets to financial assets at

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amortized cost. The Group hold the assets to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(iii) 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:

<i>(in millions of Korean won)</i>	Measurement category		Carrying amount		
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	Difference
Current financial assets					
Cash and cash equivalents	Amortized costs	Amortized costs	₩ 153,444	₩ 77,991	₩ 75,453
Cash and cash equivalents	Amortized costs	Fair value through profit or loss	-	75,453	(75,453)
Short-term financial instruments	Amortized costs	Amortized costs	45,072	45,072	-
Trade and other receivables	Amortized costs	Amortized costs	268,397	268,397	-
Held-to-maturity government bonds	Held-to-maturity financial assets	Amortized costs	488	488	-
Derivative assets	Financial assets at fair value through profit or loss	Fair value through profit or loss	19	19	-
Other financial assets	Amortized costs	Amortized costs	3,213	3,213	-
Non-current financial assets					
Long-term financial instruments	Amortized costs	Amortized costs	15,318	5,029	10,289
Long-term financial instruments	Amortized costs	Fair value through profit or loss	-	10,289	(10,289)
Trade and other receivables	Amortized costs	Amortized costs	5,492	5,492	-
Held-to-maturity government bonds	Held-to-maturity financial assets	Amortized costs	1,899	1,899	-
Other financial assets	Amortized costs	Amortized costs	43,053	43,053	-
Equity instruments	Available-for-sale financial assets	Fair value through other comprehensive income	49,992	49,992	-
Current financial liabilities					
Trade and other payables	Amortized costs	Amortized costs	395,929	395,929	-
Borrowings and current portion of debentures	Amortized costs	Amortized costs	283,595	283,595	-
Other financial liabilities	Amortized costs	Amortized costs	15,004	15,004	-
Non-current financial liabilities					
Trade and other payables	Amortized costs	Amortized costs	26,773	26,773	-
Borrowings and current portion of debentures	Amortized costs	Amortized costs	1,072,892	1,072,892	-
Other financial liabilities	Amortized costs	Amortized costs	17,535	17,535	-
Derivative liabilities	Financial assets at fair value through profit or loss	Fair value through profit or loss	5,208	5,208	-

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(b) Impairment of Financial Assets

Upon adoption of Korean IFRS 1109, accounting policies for recognition of impairment have changed. There is no impact of the change in impairment methodology on the Group's beginning balance of retained earnings.

40.2 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 impacts of the changes accounting policies from the application of Korean IFRS 1115 on the consolidated financial statements are as follows.

The impact on the financial statements due to the application of Korean IFRS 1115 at the date of initial application (January 1, 2018) is as follows:

<i>(in millions of Korean won)</i>	December 31, 2017	Adjustments (B)	January 1, 2018
	Korean IFRS 1018 (A)		Korean IFRS 1115 (C=A+B)
Contract assets ¹	₩ -	₩ 1,808	₩ 1,808
Total assets	₩ 3,486,931	₩ 1,808	₩ 3,488,739
Current portion of provisions ¹	₩ 1,122	₩ 1,808	₩ 2,930
Total liabilities	₩ 2,174,137	₩ 1,808	₩ 2,175,945

¹ Accounting for sales with a right of return

When the customer has a right to return the product within a given period, the Group is obliged to refund the purchase price. The Group previously recognized a provision for returns which was measured on a net basis at the margin on the sale.

Under Korean IFRS 1115, a contract liability (other financial liability) for the expected refunds to customers is recognized. At the same time, a right to recover the product from the customer where the customer exercises the right of return is recognized as a contract asset.

To reflect this change in policy, the Group has reclassified ₩ 1,122 million from current portion of provisions and recognized contract liabilities of ₩2,930 million and contract assets of ₩1,808 million on January 1, 2018.

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Financial statement line items affected by the adoption of the new rules in the current period are as follows:

Statement of financial position

<i>(in millions of Korean won)</i>	Reported amount (A)	Adjustments (B)	Amount before application of Korean IFRS 1115 (C=A-B)
Contract assets	₩ 1,865	₩ 1,865	₩ -
Total assets	₩ 3,311,280	₩ 1,865	₩ 3,309,415
Current portion of provisions	₩ 2,828	₩ 1,865	₩ 963
Total liabilities	₩ 2,073,865	₩ 1,865	₩ 2,072,000

Statement of profit or loss

<i>(in millions of Korean won)</i>	Reported amount (A)	Adjustments (B)	Amount before application of Korean IFRS 1115 (C=A-B)
Sales	₩ 2,346,278	₩ (40,598)	₩ 2,386,876
Cost of sales	1,417,441	(121)	1,417,562
Selling and administrative expenses	841,051	(40,477)	881,528
Operating profit	84,952	-	84,952
Loss for the year	(50,013)	-	(50,013)

Adjustments arising from adoption of Korean IFRS 1115 are variable consideration and the consideration paid to the customer for ₩40,477 million and ₩1,865 million, respectively.

Statement of cash flows

<i>(in millions of Korean won)</i>	Reported amount (A)	Adjustments (B)	Amount before application of Korean IFRS 1115 (C=A-B)
Loss for the year	₩ (50,013)	₩ -	₩ (50,013)
Changes in assets and liabilities	(132,755)	-	(132,755)
Contract assets	(1,865)	(1,865)	-
Current portion of provisions	1,706	1,865	(159)

With adoption of Korean IFRS 1115, total cash flows from operating activities are identical even though the cash flows are decreased ₩1,865 million in contract assets and increased ₩1,865 million in current portion of provision comparing with the cash flows under previous K-IFRS.

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41. Business Combination

(a) *Sanchung Beverage Co., Ltd. (formerly, Sansu Beverage Co., Ltd.)*

On October 12, 2017, the Group has entered into a share purchase agreement to acquire 100% shares of Sanchung Beverage Co., Ltd. (formerly, Sansu Beverage Co., Ltd.) that is primarily engaged to manufacture and sell mineral water, for ₩68 billion from its shareholders. According to the agreement, the Group acquired 66.7% shares for ₩40 billion in December 2017, and will acquire the remaining shares for ₩28 billion in the second half of 2019.

The Group also holds risk and benefits on the shares of non-controlling interests and recognizes investments and liabilities (non-trade payables) for the shares.

Details of the purchase consideration for Sanchung Beverage Co., Ltd. (formerly, Sansu Beverage Co., Ltd.), the assets and liabilities recognized as a result of the acquisition at the acquisition date during 2017, are as follows:

<i>(in millions of Korean won)</i>	Amount
Purchase consideration	
Cash	₩ 40,000
Long-term non-trade payables	26,839
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,095
Trade and other receivables	1,386
Inventories	362
Property, plant and equipment, and intangible assets	36,375
Other assets	197
Trade and other payables	(794)
Borrowings	(3,264)
Net defined benefit liabilities	(861)
Deferred tax liabilities	(5,898)
Other liabilities	(469)
Net identifiable assets acquired	<u>28,129</u>
Goodwill	<u>38,710</u>
	<u>₩ 66,839</u>

(b) *Lotte Akhtar Beverages (Private) Limited*

In December 2017, the Group has entered into a share purchase agreement to acquire 52% shares of Lotte Akhtar Beverages (Private) Limited that is primarily engaged to manufacture and sell beverages, for ₩48,465 million in October 2018.

Details of the purchase consideration for Lotte Akhtar Beverages (Private) Limited, the assets and

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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	₩ 48,465
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	958
Trade and other receivables	5,001
Inventories	10,370
Property, plant and equipment, and intangible assets	58,467
Other assets	3,782
Trade and other payables	(13,286)
Borrowings	(32,706)
Deferred tax liabilities	(4,105)
Other liabilities	(190)
Net identifiable assets acquired ¹	28,291
Non-controlling interest ²	(13,580)
Goodwill ³	33,754
	₩ 48,465

¹ Consists of customer relations recognized from acquisition and related deferred tax liabilities .

² Non-controlling interest is measured at proportionate share of acquired net assets.

³ Goodwill recognized from acquisition.

42. Spin-off

(a) Summary

On October 1, 2017, the Group spun off the respective investment divisions of the Group, Lotte Shopping Co., Ltd. and Lotte Foods Co., Ltd. and merged into investment division of Lotte Confectionery Co., Ltd. (currently, Lotte Corporation) by resolution of Board of Directors on April 26, 2017, and approval of shareholders' meeting on August 29, 2017. In relation to the spin-off and merger, the Group and Lotte Corporation are jointly liable for the liabilities that existed before the spin-off.

Category	Details
Method of stock split	Spin-off
Companies subject to stock split	Business division of Lotte Chilsung Beverage Co., Ltd. (existing corporation) Investment division of Lotte Chilsung Beverage Co., Ltd.

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(newly established corporation)
Date of spin-off and merger October 1, 2017

In accordance with the Group's spin-off, the investment division was distributed to its owners on October 1, 2017. These results were applied Korean IFRS 1105 *Non-current Assets Held For Sale and Discontinued Operations* and Interpretation of Korean IFRS 2117 *Distributions of Non-cash Assets to Owners* during 2017. Gain (loss) arising from discontinued operations were presented separately as profit (loss) from discontinued operations in the consolidated statement of comprehensive income during the year ended December 31, 2017.

(b) Related financial information

The financial information related to the operations of the investment division subject to the spin-off is as follows:

i) Consolidated statements of comprehensive income

Details of profit or loss related to the investment division classified as discontinued operations for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2017
Revenue	W 64,811
Cost of sales	<u>34,246</u>
Gross profit	30,565
Selling and administrative expense	<u>33,288</u>
Operating loss	(2,723)
Other income	218
Other expenses	88,556
Finance income	817
Finance costs	<u>2,333</u>
Loss before income tax	<u>(92,577)</u>
Income tax expense	<u>420</u>
Loss from discontinued operations	(92,997)
Gain on disposal of discontinued operations	<u>5,895</u>
Loss of discontinued operations for the year	<u>W (87,102)</u>

ii) Statements of cash flows

Cash flows related to the discontinued operation for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	2017
Cash flows from operating activities	W 13,629

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Cash flows from investing activities		(15,354)
Cash flows from financing activities		3,190
Effects of exchange rate changes on cash and cash equivalents		(574)
Total cash flows	₩	891

iii) A group of assets classified as held for distribution to owners

On October 1, 2017, the Group distributed its investment division to the owners through the spin-off. In addition, the assets and liabilities of the investment division are measured at the lower of fair value less costs to distribute and carrying amounts (after impairment tests) at the date of classification as held for distribution to owners.

Details of the classes of assets and liabilities distributed to owners through the spin-off are as follows:

(in millions of Korean won)

	Amount	
A group of assets distributed to owners		
Current assets	₩	88,720
Cash and cash equivalents		28,006
Trade and other receivables		25,955
Held-to-maturity financial assets		4
Inventories		20,479
Current tax assets		606
Other financial assets		116
Other assets		7,349
Non-current assets held for sale		6,205
Non-current assets		910,249
Long-term financial instruments		8
Available-for-sale financial assets		611,632
Held-to-maturity financial assets		8
Deferred tax assets		1,918
Investment in associate		101,941
Property, plant and equipment		143,364
Investment property		430
Intangible assets		49,423
Other financial assets		1,525
Total (A group of assets distributed to owners)	₩	998,969
Liabilities related to a group of assets distributed to owners		
Current liabilities		99,015
Trade and other payables		33,086
Borrowings and debentures		53,602
Current tax liabilities		339

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<i>(in millions of Korean won)</i>	Amount
Current portion of provisions	32
Other financial liabilities	2,459
Other liabilities	9,497
Non-current liabilities	134,923
Borrowings and debentures	4,670
Net defined benefit liabilities	1,642
Deferred tax liabilities	120,259
Other financial liabilities	8,346
Other liabilities	6
Total (liabilities related to a group of assets distributed to owners)	233,938
Net carrying amount of a group of assets distributed to owners	₩ 765,031

Cumulative income or expense directly recognized in other comprehensive income relating to a group of assets distributed to owners is as follows:

<i>(in millions of Korean won)</i>	Amount
Gain on valuation of available-for-sale financial assets	₩ 392,135
Share of other comprehensive income of associate	(19,136)
Loss on foreign currency translation	(14,156)
	₩ 358,843

(c) Recognition of gain on settlement of spin-off

For non-cash assets that are non-reciprocal distributions, and where the owners of the same equity are treated equally, the Group recognizes the non-cash asset using the fair value at the date when the Group declares a distribution and has an obligation to distribute these assets to its owners. The Group measured the fair value of the segment subject to distribution using the estimate of independent external valuation and the valuation model.

The Group measured the fair value based on projected financial statements for the next five years. These financial statements were developed based on the Group's past performance, future plans, market forecast, and applied a present value technique. These measurements are classified in Level 3. Significant inputs used in the fair value measurement are as follows:

- Discount rate applied to FCFF model: 5.29% ~ 12.27%
- Perpetual growth rate applied: 0.00% ~ 2.00%

The difference between the non-cash assets held for distribution and dividends payable amounting to ₩ 384,314 million was recognized as gain on settlement of spin-off on October 1, 2017, the

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spin-off and merger date.

43.Events After the Reporting Period

The Group contributed ₩ 9,362 million to Lotte Akhtar Beverages (Private) Limited, a subsidiary, in January 2019.

The Group issued hybrid securities amounting to ₩150,000 million for operating funding in January 2019.

In accordance with the resolution of the Board of Directors on March 6, 2019, the Group decided to split their ordinary and preference shares by lowering the par value from ₩5,000 to ₩500. The stock split is scheduled for May 3, 2019. If the effect of stock split is considered, the total number of stocks issued is expected to be 7,993,460 for ordinary shares and 775,310 for preferred shares.

The Group decided to sell 720,078 shares of Lotte Global Logistics Co., Ltd. and put options by resolution of Board of Directors on March 18, 2019 after the end of the reporting period.