

# **Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**

**Consolidated Financial Statements  
December 31, 2019 and 2018**

**Lotte Chilsung Beverage Co.,Ltd and Subsidiaries**  
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**December 31, 2019 and 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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, 2019, 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. See Note 16 for further details regarding the impairment assessment on the liquor segment cash generating unit (CGU).

### *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.

### **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 19, 2020

This report is effective as of March 19, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2019 and 2018**

<i>(in Korean won)</i>	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,5,6	₩ 199,410,280,331	₩ 98,388,437,105
Short-term financial instruments	4,5,6,7	5,000,000,000	10,000,000,000
Trade and other receivables	4,5,6,8,38	255,708,301,365	265,113,158,208
Held-to-maturity financial assets	4,5,6,14	245,805,000	112,055,000
Inventories	10	273,940,057,416	257,098,970,295
Current tax assets	24	1,803,381,856	1,692,016,737
Other financial assets	4,5,6,9	4,412,156,155	3,976,263,376
Contract assets	30	1,707,521,890	1,865,206,874
Other assets	11	46,160,451,900	50,469,565,029
		<u>788,387,955,913</u>	<u>688,715,672,624</u>
<b>Non-current assets</b>			
Long-term financial instruments	4,5,6,7	5,760,200,399	5,541,626,431
Long-term trade and other receivables	4,5,6,8	6,274,527,234	5,813,234,370
Financial assets at fair value through profit or loss	4,5,6,12	335,184,376	193,925,174
Financial assets at fair value through other comprehensive income	4,5,6,13	25,112,169,914	36,403,369,105
Held-to-maturity financial assets	4,5,6,14	1,649,390,000	1,820,934,050
Deferred tax assets	24	131,080,695	-
Investments in associates	15	23,002,553,970	56,727,720,284
Property, plant and equipment	16	2,014,589,018,624	2,165,689,913,481
Right-of-use assets	40	80,548,058,491	-
Investment property	17	136,766,982,165	146,716,726,693
Intangible assets	18	118,580,731,417	151,697,343,776
Other financial assets	4,5,6,9	52,788,630,010	49,704,435,855
Other assets	11	2,583,508,963	2,255,124,818
		<u>2,468,122,036,258</u>	<u>2,622,564,354,037</u>
<b>Total assets</b>		<u>₩ 3,256,509,992,171</u>	<u>₩ 3,311,280,026,661</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4,5,6,19,38	₩ 272,502,008,006	₩ 339,460,758,332
Borrowings and current portion of debentures	4,5,6,20	536,403,005,743	199,752,537,295
Current portion of lease liabilities	4,40	24,454,828,092	835,297,536
Current tax liabilities	24	3,537,327,909	13,237,871,740
Current portion of provisions	25,30	3,639,603,943	2,828,344,999
Other financial liabilities	4,5,6,22	8,518,918,128	15,752,610,960
Other liabilities	26	92,573,792,631	117,162,990,610
		<u>941,629,484,452</u>	<u>689,030,411,472</u>
<b>Non-current liabilities</b>			
Borrowings and debentures	4,5,6,20	898,807,562,019	1,209,902,436,980
Lease liabilities	4,40	56,766,694,490	3,162,256,027
Net defined benefit liabilities	23	1,997,668,642	16,702,649,542
Deferred tax liabilities	24	80,443,449,350	101,870,178,866
Provisions	25,30	11,178,464,912	9,810,348,406
Other financial liabilities	4,5,6,21,22	15,302,270,538	24,810,097,511
Other liabilities	26	22,379,509,813	18,576,598,492
		<u>1,086,875,619,764</u>	<u>1,384,834,565,824</u>
<b>Total liabilities</b>		<u>2,028,505,104,216</u>	<u>2,073,864,977,296</u>
<b>Equity</b>			
Share capital	1,27	4,384,385,000	4,384,385,000
Hybrid bonds	27	149,459,980,000	-
Other components of equity	27	(846,759,594,444)	(846,654,614,749)
Accumulated other comprehensive income	28	(3,230,608,536)	(13,723,534,778)
Retained earnings	29	1,908,282,032,473	2,083,263,734,557
<b>Equity attributable to owners of the Parent Company</b>		<u>1,212,136,194,493</u>	<u>1,227,269,970,030</u>
<b>Non-controlling interest</b>		<u>15,868,693,462</u>	<u>10,145,079,335</u>
<b>Total equity</b>		<u>1,228,004,887,955</u>	<u>1,237,415,049,365</u>
<b>Total liabilities and equity</b>		<u>₩ 3,256,509,992,171</u>	<u>₩ 3,311,280,026,661</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, 2019 and 2018**

<i>(in Korean won)</i>	<b>Notes</b>	<b>2019</b>	<b>2018</b>
<b>Sales</b>	2,30,38	₩ 2,429,527,266,539	₩ 2,346,277,858,505
<b>Cost of sales</b>	10,32,38	<u>1,445,899,659,206</u>	<u>1,417,441,204,815</u>
<b>Gross profit</b>		983,627,607,333	928,836,653,690
Selling and administrative expenses	31,32,38	871,442,872,602	841,050,921,186
Impairment loss	6,8,32	<u>4,518,959,927</u>	<u>2,833,868,849</u>
<b>Operating profit</b>	2	107,665,774,804	84,951,863,655
Other income	6,33,38	24,699,580,322	9,014,180,609
Other expenses	6,33,38	228,986,926,215	127,472,080,159
Interest income	6	5,741,530,741	3,761,339,265
Finance income	6,34,38	1,543,749,852	1,466,920,757
Finance costs	6,34,38	39,399,562,218	43,848,596,773
Share of net profit of associates accounted for using the equity method	15	<u>(9,179,753,369)</u>	<u>3,200,554,699</u>
Profit (loss) before income tax		(137,915,606,083)	(68,925,817,947)
Income tax expense (benefit)	24	<u>6,090,097,514</u>	<u>(18,912,380,254)</u>
<b>Profit (loss) for the year</b>		(144,005,703,597)	(50,013,437,693)
<b>Profit is attributable to:</b>			
Owners of the Parent Company		₩ (142,432,425,123)	₩ (48,050,263,946)
Non-controlling interests		₩ (1,573,278,474)	₩ (1,963,173,747)
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liability	23	₩ 5,491,812,659	4,801,484,625
Share of remeasurements of net defined benefit liability of associates	15	(37,559,161)	(225,199,470)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	6,13,28	1,381,228,889	(10,281,310,742)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Gain (loss) on valuation of derivative instruments	6,28	-	(14,373,046)
Share of other comprehensive income of associates	15	(216,583,652)	1,560,474,023
Gain (loss) on foreign currency translation		<u>(2,908,305,696)</u>	<u>(7,688,921,434)</u>
<b>Total comprehensive income for the year</b>		<u>₩ (140,295,110,558)</u>	<u>₩ (61,861,283,737)</u>
<b>Total comprehensive income for the year is attributable to:</b>			
Owners of the Parent Company		₩ (137,470,298,167)	₩ (58,426,845,977)
Non-controlling interest		(2,824,812,391)	(3,434,437,760)
<b>Earnings per share</b>	36		
Basic and diluted earnings per ordinary share		₩ (17,939)	₩ (5,853)
Basic and diluted earnings per preferred share		(17,934)	(5,848)

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, 2019 and 2018**

(in Korean won)

Notes	Attributable to owners of the Parent Company							Total Equity
	Share Capital	Hybrid Bonds	Other Components of Equity	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest		
<b>Balance at January 1, 2018</b>	₩ 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 policies	-	-	-	(6,881,122,344)	6,881,122,344	-	-	
<b>Balance at January 1, 2018, after adjustments</b>	<u>4,384,385,000</u>	<u>-</u>	<u>(846,654,614,749)</u>	<u>1,229,332,408</u>	<u>2,153,834,557,598</u>	<u>-</u>	<u>1,312,793,660,257</u>	
Non-controlling interest related to business combination	41	-	-	-	-	13,579,517,095	13,579,517,095	
<b>Total comprehensive income</b>								
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	-	-	-	(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)	
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,952,867,186)</u>	<u>(43,473,978,791)</u>	<u>(3,434,437,760)</u>	<u>(61,861,283,737)</u>	
<b>Transactions with owners</b>								
Dividends paid	37	-	-	-	(27,096,844,250)	-	(27,096,844,250)	
<b>Total transactions with owners</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,096,844,250)</u>	<u>-</u>	<u>(27,096,844,250)</u>	
<b>Balance at December 31, 2018</b>	<u>₩ 4,384,385,000</u>	<u>₩ -</u>	<u>₩ (846,654,614,749)</u>	<u>₩ (13,723,534,778)</u>	<u>₩ 2,083,263,734,557</u>	<u>₩ 10,145,079,335</u>	<u>₩ 1,237,415,049,365</u>	
<b>Balance at January 1, 2019</b>	₩ 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	
<b>Changes in equity of subsidiaries</b>	-	-	(104,979,695)	-	-	8,548,426,518	8,443,446,823	
<b>Total comprehensive income</b>								
Profit (loss) for the year	-	-	-	-	(142,432,425,123)	(1,573,278,474)	(144,005,703,597)	
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	-	-	-	1,381,228,889	-	-	1,381,228,889	
Share of other comprehensive income of associates	15	-	-	(216,583,652)	-	-	(216,583,652)	
Gain (loss) on foreign currency translation	28	-	-	(1,656,771,779)	-	(1,251,533,917)	(2,908,305,696)	
Remeasurements of net defined benefit liability	23	-	-	-	5,491,812,659	-	5,491,812,659	
Share of remeasurements of net defined benefit liability of associates	15	-	-	-	(37,559,161)	-	(37,559,161)	
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(492,126,542)</u>	<u>(136,978,171,625)</u>	<u>(2,824,812,391)</u>	<u>(140,295,110,558)</u>	
Transfer of gain (loss) on disposal of equity investments at fair value through other comprehensive income	28	-	-	10,985,052,784	(10,985,052,784)	-	-	
<b>Transactions with owners</b>								
Dividends paid	37	-	-	-	(22,170,724,250)	-	(22,170,724,250)	
Issuance of hybrid bonds	27	-	149,459,980,000	-	-	-	149,459,980,000	
Interest of hybrid bonds	-	-	-	-	(4,847,753,425)	-	(4,847,753,425)	
<b>Total transactions with owners</b>	<u>-</u>	<u>149,459,980,000</u>	<u>-</u>	<u>-</u>	<u>(27,018,477,675)</u>	<u>-</u>	<u>122,441,502,325</u>	
<b>Balance at December 31, 2019</b>	<u>₩ 4,384,385,000</u>	<u>₩ 149,459,980,000</u>	<u>₩ (846,759,594,444)</u>	<u>₩ (3,230,608,536)</u>	<u>₩ 1,908,282,032,473</u>	<u>₩ 15,868,693,462</u>	<u>₩ 1,228,004,887,955</u>	

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, 2019 and 2018**

(in Korean won)	Notes	2019	2018
<b>Cash flows from operating activities</b>			
Cash generated from operations			
Profit (loss) for the year		₩ (144,005,703,597)	₩ (50,013,437,693)
Adjustments	39	446,091,876,973	318,426,373,629
Changes in operating assets and liabilities	39	(97,469,803,962)	(132,754,596,026)
		<u>204,616,369,414</u>	<u>135,658,339,910</u>
Interest received		4,855,427,053	4,164,262,604
Interest paid		(38,249,785,413)	(35,311,392,998)
Dividend received		2,635,449,888	2,678,317,595
Income taxes paid		(39,781,500,180)	(21,279,826,476)
<b>Net cash inflow from operating activities</b>		<u>134,075,960,762</u>	<u>85,909,700,635</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments		40,000,000,000	159,313,779,553
Increase in short-term financial instruments		(30,000,000,000)	(114,241,473,200)
Increase in long-term financial instruments		(5,212,147,730)	(223,297,892)
Decrease in held-to-maturity financial assets		112,055,000	487,710,000
Increase in held-to-maturity financial assets		(74,260,950)	(34,054,050)
Decrease in financial assets at fair value through other comprehensive income		4,280,932,831	-
Increase in financial assets at fair value through profit or loss		(150,000,000)	(200,000,000)
Proceeds from disposal of property, plant and equipment		13,699,092,476	7,536,384,224
Payments for property, plant and equipment		(153,134,904,318)	(138,724,380,451)
Proceeds from disposal of intangible assets		68,100,000	3,328,747
Payments for intangible assets		(45,548,081)	(846,644,697)
Payments for investments in subsidiaries		-	(47,507,109,982)
Decrease in other financial assets		6,847,910,306	7,325,224,300
Increase in other financial assets		(10,617,606,617)	(13,853,015,773)
<b>Net cash outflow from investing activities</b>		<u>(134,226,377,083)</u>	<u>(140,963,549,221)</u>
<b>Cash flows from financing activities</b>			
Net increase (decrease) in short-term borrowings		409,806,696	(79,370,900,562)
Repayments of current portion of long-term borrowings		(2,384,467,260)	(21,948,376,051)
Increase in long-term borrowings		-	60,000,000,000
Repayments of long-term borrowings		(1,194,767,037)	-
Proceeds from issuance of debentures		199,467,948,400	249,400,160,000
Repayments of debentures		(169,617,884,955)	(180,000,000,000)
Payments for investments in subsidiaries		(28,000,000,000)	-
Repayments of finance lease liabilities		(28,757,635,585)	(912,873,223)
Dividends paid		(22,170,724,250)	(27,096,844,250)
Issuance of hybrid bonds		149,459,980,000	-
Interest paid for hybrid bonds		(3,926,250,000)	-
Issuance of shares		8,645,330,852	-
<b>Net cash inflow (outflow) from financing activities</b>		<u>101,931,336,861</u>	<u>71,165,914</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		101,780,920,540	(54,982,682,672)
Cash and cash equivalents at the beginning of the financial year		98,388,437,105	153,444,295,931
Effects of exchange rate changes on cash and cash equivalents		(759,077,314)	(73,176,154)
<b>Cash and cash equivalents at the end of the year</b>		<u>₩ 199,410,280,331</u>	<u>₩ 98,388,437,105</u>

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

**Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**  
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**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, 2019, amounted to ₩ 4,384 million, and its major shareholders are as follows:

<i>(in shares)</i>	<b>Number of shares</b>		<b>Percentage of ownership</b>	
	<b>Ordinary shares</b>	<b>Preferred shares</b>	<b>Ordinary shares</b>	<b>Preferred shares</b>
Shin Kyuk Ho and 4 others	317,610	139,520	4.0%	18.0%
Lotte Corporation	2,121,660	64,890	26.5%	8.4%
Lotte aluminium Co.,Ltd.	708,870	30,500	8.9%	3.9%
Lotte Scholarship Foundation	501,680	39,650	6.3%	5.1%
Hotel Lotte Co.,Ltd.	473,450	37,470	5.9%	4.8%
Lotte Holdings Co.,Ltd.	109,830	-	1.4%	-
Lotte Foundation for Arts	-	9,200	-	1.2%
Treasury shares	420,110	138,460	5.2%	17.9%
Others	3,340,250	315,620	41.8%	40.7%
	<b>7,993,460</b>	<b>775,310</b>	<b>100.0%</b>	<b>100.0%</b>

**1.1 Consolidated Subsidiaries**

<b>2019</b>				
	<b>Closing date</b>	<b>Main business</b>	<b>Percentage of ownership (%)</b>	<b>Location</b>
Sanchung Beverage Co.,Ltd. <sup>1</sup>	December 31	Manufacturing and selling	100.0	Korea
Lotte Akhtar Beverages (Private) Limited <sup>2</sup>	December 31	Manufacturing and selling	52.0	Pakistan
<b>2018</b>				
	<b>Closing date</b>	<b>Main business</b>	<b>Percentage of ownership (%)</b>	<b>Location</b>
Sanchung Beverage Co.,Ltd. <sup>1</sup>	December 31	Manufacturing and selling	66.7	Korea
Lotte Akhtar Beverages (Private) Limited <sup>2</sup>	June 30	Manufacturing and selling	52.0	Pakistan

<sup>1</sup> As at December 31, 2018, 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. In 2019, the Group acquired 33.3% of the shares of Sanchung Beverage Co.,Ltd.

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<sup>2</sup> In 2018, the Group acquired 52% of shares of Lotte Akhtar Beverages (Private) Limited, whose main business objectives are to manufacture and sell beverages. During 2019, Lotte Akhtar Beverages (Private) Limited's fiscal period end has been changed from June 30 to December 31.

**1.2 Summarized Financial Information**

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2019 and 2018, is as follows:

(in millions of  
Korean won)

Subsidiary	2019						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)	
Sanchung Beverage Co.,Ltd.	₩ 21,489	₩ 11,003	₩ 10,486	₩ 15,223	₩ 386	₩ 290	
Lotte Akhtar Beverages (Private) Limited	60,507	28,912	31,595	84,701	(3,044)	(3,044)	

(in millions of  
Korean won)

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

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

**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.

# **Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**

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

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The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), and
- defined benefit pension plans – plan assets measured at fair value.

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, 2019.

#### **- Enactment of Korean IFRS 1116 *Leases***

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

With implementation of Korean IFRS 1116 Lease, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 40.

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

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the financial statements.

# **Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**

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#### - Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the financial statements.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. The amendment does not have a significant impact on the financial statements.

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

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. The enactment does not have a significant impact on the financial statements.

#### - Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

##### • Amendments to Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. The amendment does not have a significant impact on the financial statements.

##### • Amendments to Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. The amendment does not have a significant impact on the financial statements.

##### • Amendments to Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive

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income or equity according to where the entity originally recognized those past transactions or events. The amendment does not have a significant impact on the financial statements.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. The amendment does not have a significant impact on the financial statements.

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

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group.

- Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting policies, changes in accounting estimates and errors*

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- Amendments to Korean IFRS 1103 *Business Combination*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

## **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

# **Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**

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

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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.

#### *(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 the Group's share of losses of an associate equals or exceeds its interest in the associate (including long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If there is an objective evidence of impairment for the investment in the associate, the Group



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recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss. If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, if necessary, adjustments shall be made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

#### *(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.

Gain (losses) on settlement of foreign currency transactions are recognized in other income (expenses), and foreign exchange gains and losses resulting from the translation of monetary assets and liabilities are recognized in finance income (expenses).

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

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. Changes in fair value of non-designated equity investment are recognized in profit or loss.

##### (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 'interest income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within '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, 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

# **Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries**

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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.

#### **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.

#### **2.8 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average 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

# Lotte Chilsung Beverage Co.,Ltd. and Subsidiaries

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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:

	<b>Useful lives</b>
Buildings	20 - 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 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:

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	<b>Useful lives</b>
Intangible assets from business combination	10 - 20 years
Others	5 - 10

#### **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.

#### **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

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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 Customers*

#### **2.19 Provisions**

Provisions for returns and restoration costs are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. 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

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comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income 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 profit 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 when the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

#### **2.21 Employee Benefits**

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

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

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

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the



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statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

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

#### **(b) Other Long-term Employee Benefits**

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

#### **(c) Employee Welfare Fund**

Employee welfare fund are held by the Group.

## **2.22 Revenue Recognition**

The Group has applied Korean IFRS 1115 Revenue from Contracts to recognize all types of contracts by using the five-step revenue recognition model. The five-step revenue recognition model is as follows: ① Identify contracts with customers ② Identify the separate performance obligation ③ Determine the transaction price of the contract ④ Allocate the transaction price to each of the separate performance obligations ⑤ Recognize the revenue as each performance obligation is satisfied.

#### **(a) Sale of Goods**

The Group is engaged in the business of manufacturing or purchasing beverages and liquor items. Revenue from the sale of goods is recognized when the Group sells a product to the customer. The amount estimated to pay or payable to customers (including customers of the customer) in supplying beverages and liquors may result in variable consideration. In applying Korean IFRS 1115, the Group recognizes revenue by deducting the amount due to customers or customers' customers from revenue.

#### **(b) Sale Returns**

The Group allows sales returns to the customers within a given period, which may cause variable

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consideration. With implementation of Korean IFRS 1115, the refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled. In addition, when the customer exercises the right of return, the Group has a right to collect the product from the customer and therefore, the Group recognizes an asset and adjusts cost of sales. The asset and refund liability are recognized separately and are not offset.

#### **2.23 Lease**

As explained in Note 2.2 above, the Group has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 40.

As at December 31, 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding lease payments, not of finance charges, were included in borrowings and current portion of debentures or borrowings and debentures. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Also, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases various offices, warehouses, equipment and cars. Lease contracts are typically made for fixed periods of 1 to 10 years, but may have extension options as described in (b) below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Group (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group (the lessee) exercising that option

Lease liability measurement also includes payments to be made in option periods if the lessee is reasonably certain to exercise an option to extend the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- Uses corporate bond interest rate considering the Group's credit rating and lease-term
- Uses the latest third-party financial interest rates provided by subsidiaries

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received

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- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise low-value office equipment.

*(a) Variable lease payments*

Some vehicle leases include variable conditions of lease payments due to the mileage arising from transportation. Variable lease payments that depend on the mileage arising from transportation are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

*(b) Extension and termination options*

Extension and termination options are included in some of vehicle lease contracts across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

*(c) Residual value guarantees*

To optimize lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

**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:

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

Profit or loss by each segment for the years ended December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

**2019**

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	Beverage		Liquor		Total	
Total segment revenue	₩	1,743,449	₩	699,644	₩	2,443,093
Inter-segment revenue		(13,566)		-		(13,566)
Revenue from external customers	₩	1,729,883	₩	699,644	₩	2,429,527
Operating profit (loss)	₩	166,562	₩	(58,896)	₩	107,666
Depreciation and amortization <sup>1</sup>		79,238		84,451		163,689

(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 <sup>1</sup>		64,161		87,570		151,731

<sup>1</sup> Amount of depreciation expense for idle assets recognized as other expenses is included.

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, 2019, 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, 2019 and 2018, are as follows:

	(in millions of Korean won)			
	Sales		Non-current assets <sup>1</sup>	
	2019	2018	2019	2018
Korea	₩ 2,344,826	₩ 2,332,762	₩ 2,304,086	₩ 2,402,039
Pakistan	84,701	13,516	46,399	62,065
	₩ 2,429,527	₩ 2,346,278	₩ 2,350,485	₩ 2,464,104

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

## 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

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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.

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

The consolidated financial statements 2019 were approved for issue by the Board of Directors on February 10, 2020 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 16).

#### *(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.

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#### *(c) Revenue recognition*

A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Return rate is expected at the time of sale, and the Group's revenue is affected by changes in expected return rate.

#### *(d) Lease*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of property, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was increases in recognized lease liabilities and right-of-use assets of W 33,582 million and W 34,502 million, respectively.

#### *(e) 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).

#### *(f) Impairment of financial assets*

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

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conditions as well as forward looking estimates at the end of each reporting period.

#### *(g) 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, 2019 and 2018, are as follows:

*(in millions of Korean won)*

	<b>2019</b>				<b>2018</b>			
	<b>Assets</b>		<b>Liabilities</b>		<b>Assets</b>		<b>Liabilities</b>	
USD	₩	14,442	₩	14,160	₩	17,944	₩	9,547
JPY		263		191		1,476		375
PKR		3,208		25,628		2,068		11,382
Others		1,395		6,414		562		2,685

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)*

	<b>2019</b>				<b>2018</b>			
	<b>10% Strengthened</b>		<b>10% Weakened</b>		<b>10% Strengthened</b>		<b>10% Weakened</b>	
USD	₩	28	₩	(28)	₩	840	₩	(840)
JPY		7		(7)		110		(110)
PKR		(2,242)		2,242		(931)		931
Others		(502)		502		(212)		212

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)*

	<b>2019</b>				<b>2018</b>			
	<b>10% increase</b>		<b>10% decrease</b>		<b>10% increase</b>		<b>10% decrease</b>	
Before income tax	₩	1,836	₩	(1,836)	₩	983	₩	(983)
Tax effect		(444)		444		(238)		238
After income tax	₩	1,392	₩	(1,392)	₩	745	₩	(745)

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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.

**4.1.2 Credit Risk**

*(a) Risk management*

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.

*(b) Security*

For some trade receivables, the Group may obtain security in the form of guarantees or letters of credit, etc. which can be called upon if the counterparty is in default under the terms of the agreement.

*(c) The maximum exposure to credit risk as at December 31, 2019 and 2018, is as follows:*

<i>(in millions of Korean won and in thousands of foreign currency)</i>	<b>2019</b>		<b>2018</b>	
Cash and cash equivalents <sup>1</sup>	₩	198,524	₩	96,219
Long and short-term financial instruments		10,760		15,542
Trade and other receivables		261,983		270,926
Financial assets at fair value through profit or loss		335		194
Held-to-maturity financial assets		1,895		1,933
Other financial assets		57,201		53,681
	₩	<u>530,698</u>	₩	<u>438,495</u>

<sup>1</sup> As cash on hand is not included, cash and cash equivalents differ from the amount in the consolidated statements of financial position.

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(d) 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, 2019, and 2019, was determined as follows for trade receivables:

(in millions of Korean won)	2019							Total
	Current	Within 3 months	Within 6 months	Within 9 months	Within 12 months	Over 12 months	Individual analysis <sup>1</sup>	
<b>Expected loss rate</b>								
General	-	0.09%	1.97%	18.18%	70.59%	95.42%	60.73%	9.21%
New distribution	-	-	-	-	-	100.00%	-	-
Liquor	-	0.61%	4.87%	11.53%	19.46%	72.76%	12.15%	8.50%
Others	-	1.79%	-	-	-	-	-	1.58%
<b>Trade receivables</b>								
General	₩ 8,612	₩ 44,523	₩ 1,522	₩ 88	₩ 17	₩ 284	₩ 9,114	₩ 64,160
New distribution	-	70,370	15	1	-	3	-	70,389
Liquor	-	68,557	12,692	7,635	3,407	6,461	30,481	129,233
Others	-	1,618	131	16	28	45	-	1,838
<b>Loss allowance provision</b>								
General	₩ -	₩ 42	₩ 30	₩ 16	₩ 12	₩ 271	₩ 5,535	₩ 5,906
New distribution	-	-	-	-	-	3	-	3
Liquor	-	421	618	880	663	4,701	3,702	10,985
Others	-	29	-	-	-	-	-	29

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(in millions of Korean won)	2018							Total
	Current	Within 3 months	Within 6 months	Within 9 months	Within 12 months	Over 12 months	Individual analysis <sup>1</sup>	
<b>Expected loss rate</b>								
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%
<b>Trade receivables</b>								
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
<b>Loss allowance provision</b>								
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

<sup>1</sup> 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, 2019 and 2018, are as follows:

(in millions of Korean won)	2019			
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
Trade and other payables <sup>1</sup>	₩ 234,339	₩ -	₩ -	₩ 234,339
Borrowings and debentures <sup>2</sup>	569,441	371,753	570,180	1,511,374
Lease liabilities <sup>2</sup>	26,557	18,556	40,371	85,484
Other financial liabilities	8,519	-	15,302	23,821
	<u>₩ 838,856</u>	<u>₩ 390,309</u>	<u>₩ 625,853</u>	<u>₩ 1,855,018</u>

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<i>(in millions of Korean won)</i>	2018			
	Less than 1 year	Between 1 and 2 years	Over 2 years	Total
Trade and other payables <sup>1</sup>	₩ 303,248	₩ -	₩ -	₩ 303,248
Borrowings and debentures <sup>2</sup>	233,410	535,044	726,736	1,495,190
Lease liabilities <sup>2</sup>	880	880	3,264	5,024
Other financial liabilities	15,753	-	24,810	40,563
	<u>₩ 553,291</u>	<u>₩ 535,924</u>	<u>₩ 754,810</u>	<u>₩ 1,844,025</u>

<sup>1</sup> Payables related to employee benefits are excluded.

<sup>2</sup> 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>	2019	2018
Total liabilities	₩ 2,028,505	₩ 2,073,865
Total equity	1,228,005	1,237,415
Debt ratio	165.2%	167.6%

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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, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 199,410	₩ 199,410	₩ 98,388	₩ 98,388
Long and short-term financial instruments	10,760	10,760	15,542	15,542
Trade and other receivables	261,983	261,983	270,926	270,926
Held-to-maturity financial assets	1,895	1,895	1,933	1,933
Other financial assets	57,201	57,201	53,681	53,681
Financial assets at fair value through other comprehensive income	25,112	25,112	36,403	36,403
Financial assets at fair value through profit or loss	335	335	194	194
	<u>₩ 556,696</u>	<u>₩ 556,696</u>	<u>₩ 477,067</u>	<u>₩ 477,067</u>
Financial liabilities				
Trade and other payables <sup>1</sup>	₩ 234,339	₩ 234,339	₩ 303,248	₩ 303,248
Borrowings and debentures <sup>2</sup>	1,435,211	1,452,254	1,409,655	1,431,613
Other financial liabilities	23,821	23,821	40,563	40,563
	<u>₩ 1,693,371</u>	<u>₩ 1,710,414</u>	<u>₩ 1,753,466</u>	<u>₩ 1,775,424</u>

<sup>1</sup> Payables related to employee benefits are excluded.

<sup>2</sup> 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).

**5.2 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, 2019 and 2018, are as follows:

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	2019			
	Level 1	Level 2	Level 3	Total
Financial assets/liabilities measured at fair value				
Financial assets at fair value through other comprehensive income	₩ 18,460	₩ -	₩ 6,652	₩ 25,112
Financial assets at fair value through profit or loss <sup>1</sup>	-	10,731	335	11,066

<sup>1</sup> The deposit for mutual growth cooperation of ₩ 5,000 million in the short-term financial instruments and the Bancassurance of ₩ 5,007 million in the long-term financial instruments are included.

(in millions of Korean won)

	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
Financial assets at fair value through profit or loss	-	10,512	194	10,706
Derivative liabilities	-	-	8,937	8,937

**5.3 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, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			2018		
	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Derivative liabilities	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Derivative liabilities
Beginning balance	₩ 18,647	₩ 194	₩ 8,937	₩ -	₩ -	₩ 5,208
Acquisition	-	150	-	-	200	-
Transfer <sup>1</sup>	-	-	-	27,036	-	-
Valuation	1,118	(9)	(105)	(8,389)	(6)	3,729
Disposal <sup>2</sup>	(13,113)	-	(8,832)	-	-	-
Ending balance	₩ 6,652	₩ 335	₩ -	₩ 18,647	₩ 194	₩ 8,937

<sup>1</sup> In accordance with the application of Korean IFRS 1109, the Group reclassified available-for-sale financial assets to financial assets at fair value through other comprehensive income for the year ended December 31, 2018.

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<sup>2</sup> The Group sold all shares and put options of Lotte Global Logistics Co.,LTD. during the current period.

**5.4 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, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>		<b>2019</b>			
	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	<b>Range of inputs (weighted average)</b>
Financial assets at fair value through other comprehensive income	₩ 6,652	3	Market approach	PER multiples	15.68
				PBR multiples	1.58
				EV/EBITDA	8.66
			DCF model	Weighted Average Cost of Capital	6.35%~6.42%
Financial assets at fair value through profit or loss	335	3	Net asset value method	N/A	N/A
<i>(in millions of Korean won)</i>		<b>2018</b>			
	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	<b>Range of inputs (weighted average)</b>
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
			DCF model	Weighted Average Cost of Capital	7.08%
Financial assets at fair value through profit or loss	194	3	Net asset value method	N/A	N/A
Derivative liabilities	8,937	3	Binomial option valuation model	Volatility of underlying asset price	1.53%



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**5.5 Valuation Processes for Fair Value Measurements Categorized as Level 3**

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.

**5.6 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)*

	2019		2018	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through fair value through other comprehensive income <sup>1</sup>	₩ 84	₩ (83)	₩ 3,862	₩ (2,760)

<sup>1</sup> 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, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>			
	<b>Financial assets at amortized cost</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets at fair value through other comprehensive income</b>	<b>Total</b>
Cash and cash equivalents	₩ 80,477	₩ 118,933	₩ -	₩ 199,410
Long and short-term financial instruments	29	10,731	-	10,760
Trade and other receivables	261,983	-	-	261,983
Financial assets at fair value through profit or loss	-	335	-	335
Financial assets at fair value through other comprehensive income	-	-	25,112	25,112
Held-to-maturity financial assets	1,895	-	-	1,895
Other financial assets	57,201	-	-	57,201
	<u>₩ 401,585</u>	<u>₩ 129,999</u>	<u>₩ 25,112</u>	<u>₩ 556,696</u>

<i>(in millions of Korean won)</i>	<b>2018</b>			
	<b>Financial assets at amortized cost</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets at fair value through other comprehensive income</b>	<b>Total</b>
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

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Held-to-maturity financial assets	1,933	-	-	1,933
Other financial assets	53,681	-	-	53,681
	<u>₩ 390,479</u>	<u>₩ 50,185</u>	<u>₩ 36,403</u>	<u>₩ 477,067</u>

**6.2 Carrying amounts of financial liabilities by category**

Carrying amounts of financial liabilities by category as at December 31, 2019 and 2018, are as follows:

(in thousands of Korean won)

	2019		
	Financial liabilities at amortized cost	Derivative instruments	Total
Trade and other payables <sup>1</sup>	₩ 234,339	₩ -	₩ 234,339
Borrowings and debentures	1,435,211	-	1,435,211
Other financial liabilities	23,821	-	23,821
	<u>₩ 1,693,371</u>	<u>₩ -</u>	<u>₩ 1,693,371</u>

(in thousands of Korean won)

	2018		
	Financial liabilities at amortized cost	Derivative instruments	Total
Trade and other payables <sup>1</sup>	₩ 303,248	₩ -	₩ 303,248
Borrowings and debentures	1,409,655	-	1,409,655
Other financial liabilities	31,626	8,937	40,563
	<u>₩ 1,744,529</u>	<u>₩ 8,937</u>	<u>₩ 1,753,466</u>

<sup>1</sup> Payables related to employee benefits are excluded.

**6.3 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, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019	2018
Financial assets at amortized cost	₩	₩
Gain on foreign currency translation	185	534
Gain on foreign exchange transactions	495	739
Impairment loss	(4,519)	(2,834)
Other impairment loss	(6)	(1,923)
Interest income	2,113	1,462
Derivative instruments for hedging		
Gain (loss) on valuation of derivative instruments (other comprehensive income)	-	(19)

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<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Derivative instruments for trading		
Loss on valuation of derivative instruments	105	(3,729)
Financial assets at fair value through profit or loss		
Loss on valuation of financial assets at fair value through profit or loss	(3)	(6)
Interest income	3,628	2,299
Financial assets at fair value through other comprehensive income (available-for-sale)		
Dividend income	990	803
Loss on valuation of financial assets at fair value (other comprehensive income)	1,822	(13,564)
Financial liabilities at amortized cost		
Gain (loss) on foreign currency translation	66	(169)
Loss on foreign exchange transactions	(943)	(623)
Interest expenses	(37,924)	(37,917)
Financial guarantee income	-	25

**7. Restricted Financial Instruments**

Details of restricted financial instruments as at December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

<b>Description</b>	<b>Depository</b>	<b>2019</b>		<b>2018</b>		<b>Details</b>
Short-term financial instruments	Industrial Bank of Korea	₩	5,000	₩	-	Mutual cooperation fund <sup>1</sup>
Long-term financial instruments	Industrial Bank of Korea	₩	-	₩	5,000	Mutual cooperation fund <sup>1</sup>
	Kookmin Bank and others		29		29	Deposit for checking accounts
		₩	5,029	₩	5,029	

<sup>1</sup> 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, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 259,300	₩ 6,320	₩ 276,089	₩ 5,837
Less: Provision for impairment	(16,878)	(45)	(15,541)	(24)
Trade receivables - net	242,422	6,275	260,548	5,813
Non-trade receivables	15,537	-	6,815	-
Less: Provision for impairment	(2,251)	-	(2,250)	-
Non-trade receivables - net	13,286	-	4,565	-
	₩ 255,708	₩ 6,275	₩ 265,113	₩ 5,813

Movements in the provision for impairment of trade and other receivables for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019	2018
Beginning balance	₩ 17,815	₩ 15,564
Impairment loss	4,519	4,713
Write-off	(3,201)	(2,627)
Collection of receivables written off	41	165
Ending balance	₩ 19,174	₩ 17,815

**9. Other Financial Assets**

Details of other financial assets as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Current	Non-current	Current	Non-current
Accrued income	₩ 252	₩ -	₩ 85	₩ -
Loans	2,039	6,196	2,329	7,994
Deposits provided	2,121	46,593	1,563	41,710
	₩ 4,412	₩ 52,789	₩ 3,977	₩ 49,704

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**10. Inventories**

Details of inventories as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>			<b>2018</b>		
	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Book amount</b>	<b>Acquisition cost</b>	<b>Valuation allowance</b>	<b>Book amount</b>
Finished goods	₩ 100,916	₩ (3,520)	₩ 97,396	₩ 93,230	₩ (3,662)	₩ 89,568
Merchandise	43,372	(2,746)	40,626	44,441	(3,212)	41,229
Semi-finished goods	16,967	-	16,967	16,818	-	16,818
Work-in-process	820	-	820	1,847	-	1,847
Raw materials	76,942	(2,061)	74,881	73,718	(836)	72,882
Sub-materials	389	(44)	345	402	(50)	352
Stored goods	13,178	(82)	13,096	12,211	(49)	12,162
Raw materials in transit	20,376	-	20,376	12,408	-	12,408
Merchandise in transit	9,418	-	9,418	9,794	-	9,794
By-product	15	-	15	39	-	39
	<u>₩ 282,393</u>	<u>₩ (8,453)</u>	<u>₩ 273,940</u>	<u>₩ 264,908</u>	<u>₩ (7,809)</u>	<u>₩ 257,099</u>

Inventories recognized as an expense during the year ended December 31, 2019, amounted to ₩ 1,441,202 million (2018: ₩ 1,412,896 million). These were included in 'cost of sales'.

Loss on valuation of inventories amounted to ₩ 644 million (2018: ₩ 1,060 million). These were recognized as an expense during the year ended December 31, 2019, and included in 'cost of sales' in statement of comprehensive income.

**11. Other Assets**

Details of other assets as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Prepayments	₩ 36,408	₩ -	₩ 39,640	₩ -
Prepaid expenses	9,674	2,584	10,415	2,255
Prepaid value added tax	62	-	398	-
Others	16	-	17	-
	<u>₩ 46,160</u>	<u>₩ 2,584</u>	<u>₩ 50,470</u>	<u>₩ 2,255</u>

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**12. Financial Assets at Fair Value through Profit or Loss**

Details of financial assets at fair value through profit or loss as at December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Lotte Startup fund No1	₩	335	₩	194

Changes in financial assets at fair value through profit or loss for the year ended December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Beginning balance	₩	194	₩	-
Acquisition		150		200
Valuation		(9)		(6)
Ending balance	₩	<u>335</u>	₩	<u>194</u>

**13. Financial Assets at Fair Value through Other Comprehensive Income**

Details of financial assets at fair value through other comprehensive income as at December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Equity securities				
Marketable	₩	18,460	₩	17,756
Non-marketable		6,652		18,647
	₩	<u>25,112</u>	₩	<u>36,403</u>

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*(a) Marketable equity securities*

Details of marketable securities as at December 31, 2019, are as follows:

<i>(in millions of Korean won and in shares)</i>	2019			2018	
	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying amount	Carrying amount
<b>Ordinary shares</b>					
Shinhan Financial Group Co.,Ltd	159	0.00	₩ 26	₩ 7	₩ 6
BNK Financial Group Inc.	2,156,883	0.66	14,251	16,522	15,810
Samhwa Crown & Closure Co.,Ltd	19,548	0.91	104	890	916
Woori Investment Bank Co.,Ltd	7,042	0.00	47	4	5
Samkwang Glass Co., Ltd	30,000	0.62	176	915	867
Others	-	-	110	122	152
			₩ 14,714	₩ 18,460	₩ 17,756

*(b) Non-marketable equity securities*

Details of non-marketable securities as at December 31, 2019, are as follows:

<i>(in millions of Korean won and in shares)</i>	2019			2018	
	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying amount	Carrying amount
<b>Ordinary shares</b>					
Lotte Global Logistics Co.,LTD.	-	-	₩ -	₩ -	₩ 12,910
Korea Ethanol Supplies Company	27,840	7.78	560	600	643
Sewang Metal Ind. Co., Ltd.	46,849	8.26	1,643	2,466	1,806
Seoan Alcohol Co.Ltd.	34,874	8.72	908	3,586	3,288
Gangwon Football Club Co.,Ltd.	10,000	0.55	50	-	-
Others	-	-	693	-	-
			₩ 3,854	₩ 6,652	₩ 18,647



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Changes in financial assets at fair value through other comprehensive income for the year ended December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Beginning balance	₩	36,403	₩	-
Transfer <sup>1</sup>		-		49,992
Sale <sup>2</sup>		(13,113)		-
Others		-		(25)
Valuation		<u>1,822</u>		<u>(13,564)</u>
Ending balance	₩	<u>25,112</u>	₩	<u>36,403</u>

<sup>1</sup> In accordance with the application of Korean IFRS 1109, the Group reclassified available-for-sale financial assets to financial assets at fair value through other comprehensive income for the year ended December 31, 2018.

<sup>2</sup> The Group sold all shares of Lotte Global Logistics Co.,LTD. during the current period.

Details of valuation of financial assets at fair value through other comprehensive income for the year ended December 31, 2019, and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>			<b>2018</b>		
	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Gain (loss) on valuation</b>	<b>Acquisition cost</b>	<b>Carrying amount</b>	<b>Gain (loss) on valuation</b>
Marketable equity instruments	₩ 14,714	₩ 18,460	₩ 3,746	₩ 14,713	₩ 17,756	₩ 3,043
Non-marketable equity instruments	<u>3,854</u>	<u>6,652</u>	<u>2,798</u>	<u>31,460</u>	<u>18,647</u>	<u>(12,813)</u>
	<u>₩ 18,568</u>	<u>₩ 25,112</u>	<u>₩ 6,544</u>	<u>₩ 46,173</u>	<u>₩ 36,403</u>	<u>₩ (9,770)</u>

**14.Held-to-maturity Financial Assets**

Details of held-to-maturity financial assets as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Government bonds	₩ 246	₩ 1,649	₩ 112	₩ 1,821

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**15. Investments in Associates**

Set out below are the associates of the Group as at December 31 2019:

Name of entity	Percentage of ownership (%)		Location	Date of financial statements	Remarks
	2019	2018			
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, 2019 and 2018, are as follows:

**2019**

*(in millions of Korean won)*

	Valuation of equity method`						
	Beginning balance	Dividends	Share of profit or loss of associates	Share of other comprehensive income of associates	Retained earnings	Impairment	Ending balance
Lotte Asahi Liquor Company Ltd.	₩ 56,216	₩ 1,645	₩ (9,081)	₩ (258)	₩ (38)	₩ (22,646)	₩ 22,548
PT LOTTE RND CENTER INDONESIA	512	-	(98)	41	-	-	455
	<u>₩ 56,728</u>	<u>₩ 1,645</u>	<u>₩ (9,179)</u>	<u>₩ (217)</u>	<u>₩ (38)</u>	<u>₩ (22,646)</u>	<u>₩ 23,003</u>

*(in millions of Korean won)*

**2018**

	Valuation of equity method					
	Beginning balance	Dividends	Share of profit or loss of associates	Share of other comprehensive income of associates	Retained earnings	Ending balance
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>

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The tables below provide summarized financial information for those associates that are material to the Group and received dividends from the associates:

*(in millions of Korean won)*

	<b>2019</b>	
	<b>Lotte Asahi Liquor Company Ltd.</b>	<b>PT LOTTE RND CENTER INDONESIA</b>
Current assets	₩ 24,326	₩ 334
Non-current assets	7,972	1,030
Current liabilities	₩ 9,858	₩ -
Non-current liabilities	1,887	-
Sales	₩ 62,311	₩ 117
Profit (loss) for the year	₩ (18,162)	₩ (296)
Other comprehensive income	(591)	-
Total comprehensive income	<u>₩ (18,753)</u>	<u>₩ (296)</u>
Dividends received from investees	₩ 1,645	₩ -

*(in millions of Korean won)*

	<b>2018</b>	
	<b>Lotte Asahi Liquor Company Ltd.</b>	<b>PT LOTTE RND CENTER INDONESIA</b>
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	<u>₩ 9,287</u>	<u>₩ (277)</u>
Dividends received from investees	₩ 1,875	₩ -

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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)*

	2019				
	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	Book amount
Lotte Asahi Liquor Company Ltd.	₩ 20,553	49.99%	₩ 10,277	₩ 12,271	₩ 22,548
PT LOTTE RND CENTER INDONESIA	1,364	33.33%	455	-	455

*(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	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

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**16. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019							
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	Total
Beginning balance	₩ 1,016,969	₩ 387,840	₩ 48,835	₩ 516,401	₩ 4,813	₩ 172,521	₩ 18,311	₩ 2,165,690
Acquisition	-	495	103	7,063	3,777	43,105	87,135	141,678
Transfer	7,253	4,082	837	5,455	-	5,635	(31,136)	(7,874)
Disposal	(5,375)	(3,191)	(78)	(5,172)	(41)	(4,741)	-	(18,598)
Depreciation	-	(14,160)	(4,160)	(53,888)	(1,810)	(48,254)	-	(122,272)
Impairment loss	(23,208)	(39,169)	(5,326)	(59,159)	(50)	(14,620)	-	(141,532)
Reversal of impairment loss	-	-	-	535	-	-	-	535
Exchange differences	(1,301)	(98)	-	(1,425)	(6)	(208)	-	(3,038)
Ending balance	₩ 994,338	₩ 335,799	₩ 40,211	₩ 409,810	₩ 6,683	₩ 153,438	₩ 74,310	₩ 2,014,589
Acquisition cost	₩ 1,029,112	₩ 544,452	₩ 121,612	₩ 957,807	₩ 15,094	₩ 671,230	₩ 74,310	₩ 3,413,617
Accumulated depreciation	-	(149,332)	(73,124)	(453,551)	(8,332)	(464,667)	-	(1,149,006)
Accumulated impairment loss	(34,774)	(59,321)	(8,277)	(94,446)	(79)	(53,125)	-	(250,022)

<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 <sup>1</sup>	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)

<sup>1</sup> During 2018, the Group newly acquired 52% of shares of Lotte Akhtar Beverages (Private) Limited and the entity was included in consolidation scope (Note 41).

Depreciation expense of ₩ 92,714 million (2018: ₩ 97,584 million) was charged to 'cost of sales', ₩ 27,990 million (2018: ₩ 30,444 million) to 'selling and administrative expenses', ₩ 1,568 million

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(2018: ₩ 1,391 million) to 'other expenses' for the year ended December 31, 2019, and 2018.

*Impairment of Assets*

The liquor segment of the Group's cash-generating unit (hereafter 'CGU') and Lotte Akhtar Beverages(Private) Limited("LTAB") of the beverage segment have been tested for impairment as accumulation of operating losses, accordingly, impairment loss, which is recognized for the years ended December 31, 2019, and 2018 are as follows:

(in millions of Korean won)

	2019		2018	
	Liquor segment	LTAB	Liquor segment	LTAB
<b>Impairment loss</b>				
Property, plant and equipment	₩ 139,230	₩ -	₩ 74,098	₩ -
Intangible assets	10,084	10,629	5,806	18,200
Right-of-use assets	5,797	-	-	-
	<u>₩ 155,111</u>	<u>₩ 10,629</u>	<u>₩ 79,904</u>	<u>₩ 18,200</u>

The recoverable amount of the CGU with the indication of impairment is calculated on a basis of the value in use. Discount rates for calculation of value in use are 4.14%~14.70%.

The impairment loss of the CGU is calculated in the range of ₩ 65,222 million and ₩ 229,098 million when the discount rate is decreased or increased by 0.3%.

*Assets provided as collateral*

As at December 31, 2019, land, buildings and machinery amounting up to ₩ 16,008 million (2018: ₩ 16,208 million) are provided as collateral for borrowings and payment of liquor tax. Meanwhile, the Group's current assets are collateralized in relation to short-term borrowings of Lotte Akhtar Beverages (Private) Limited (Note 35).

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**17. Investment Properties**

Changes in investment properties for the years ended December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

	<b>2019</b>					
	<b>Land</b>		<b>Buildings</b>		<b>Total</b>	
Beginning balance	₩	138,070	₩	8,647	₩	146,717
Transfer		(7,254)		(2,316)		(9,570)
Depreciation		-		(380)		(380)
Ending balance	₩	<u>130,816</u>	₩	<u>5,951</u>	₩	<u>136,767</u>
Acquisition cost	₩	130,816	₩	12,716	₩	143,532
Accumulated depreciation		-		(6,765)		(6,765)

*(in millions of Korean won)*

	<b>2018</b>					
	<b>Land</b>		<b>Buildings</b>		<b>Total</b>	
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)

Fair value of investment properties as at December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

	<b>2019</b>				<b>2018</b>			
	<b>Book amount</b>		<b>Fair value</b>		<b>Book amount</b>		<b>Fair value</b>	
Land	₩	130,816	₩	218,793	₩	138,070	₩	203,846
Buildings		5,951		5,951		8,647		8,647
	₩	<u>136,767</u>	₩	<u>224,744</u>	₩	<u>146,717</u>	₩	<u>212,493</u>

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

Income and expenses from investment properties for the years ended December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

	<b>2019</b>		<b>2018</b>	
Rental income	₩	4,763	₩	5,130
Operating expenses		(1,298)		(1,157)
Depreciation		(380)		(478)
	₩	<u>3,085</u>	₩	<u>3,495</u>

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**18.Intangible Assets**

Changes in intangible assets for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	2019							
	Goodwill		Intangible assets from business combination <sup>1</sup>		Others	Total		
Beginning balance	₩	49,640	₩	90,160	₩	11,897	₩	151,697
Acquisition		-		-		43		43
Transfer		-		-		167		167
Disposal		-		-		(68)		(68)
Amortization		-		(10,056)		(2,041)		(12,097)
Impairment loss		(10,629)		(9,675)		(408)		(20,712)
Exchange differences		(301)		(141)		(7)		(449)
Ending balance	₩	38,710	₩	70,288	₩	9,583	₩	118,581
Acquisition cost	₩	191,754	₩	260,075	₩	37,387	₩	489,216
Accumulated amortization		-		(174,635)		(27,066)		(201,701)
Accumulated impairment loss		(153,044)		(15,152)		(738)		(168,934)

<i>(in millions of Korean won)</i>	2018							
	Goodwill		Intangible assets from business combination <sup>1</sup>		Others	Total		
Beginning balance	₩	38,710	₩	111,962	₩	14,453	₩	165,125
Business combination <sup>2</sup>		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		(4,624)		(312)		(6)		(4,942)
Ending balance	₩	49,640	₩	90,160	₩	11,897	₩	151,697
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)

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

<sup>2</sup> During 2018, 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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Amortization of ₩ 453 million (2018: ₩ 816 million) is included in 'cost of sales', ₩ 11,644 million (2018: ₩ 21,019 million) to 'selling and administrative expenses' for the year ended December 31, 2019, and 2018.

The Group recognized total research and development costs of ₩ 1,053 million (2018: ₩ 1,025 million) as expenses.

**Impairment Tests for Goodwill**

The table below summarizes goodwill allocation for each operating segment:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Beverage	₩	38,710	₩	49,640
Liquor		-		-
	₩	38,710	₩	49,640

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, 2019, are as follows:

**Beverage**

Sales growth rate <sup>1</sup>	7.94%~11.44%
Perpetual growth rate <sup>2</sup>	1.00%
Discount rate	6.05%~14.70%

<sup>1</sup> 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.

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

During 2019, as a result of impairment test for goodwill, impairment loss of ₩ 10,629 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, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade payables	₩ 87,403	₩ -	₩ 110,022	₩ -
Non-trade payables <sup>1</sup>	163,755	-	199,777	-
Accrued expenses	21,344	-	29,662	-
	₩ 272,502	₩ -	₩ 339,461	₩ -

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<sup>1</sup> Although the Group holds 66.7% of shares of Sanchung 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. Meanwhile, the Group acquired 33.3% of the shares of Sanchung Beverage Co.,Ltd. in July, 2019.

**20. Borrowings and Debentures**

Borrowings and debentures as at December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

	2019		2018	
	Current	Non-current	Current	Non-current
Short-term borrowings	₩ 26,453	₩ -	₩ 27,405	₩ -
Long-term borrowings	120,000	60,000	2,436	181,229
Debentures	389,950	838,808	169,911	1,028,674
	₩ 536,403	₩ 898,808	₩ 199,752	₩ 1,209,903

Details of short-term borrowings as at December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

Category	Creditor	Latest maturity date	Annual interest rate (%) as at December 31, 2019		
				2019	2018
General loans	Woori Bank	-	-	₩ -	₩ 300
General loans	Woori Bank	-	-	-	1,000
General loans	Woori Bank	2020.06.28	2.61~3.63	2,300	-
Facility loans	KEB Hana Bank	2020.03.28	3.32~3.39	6,000	-
Secured loans	Allied Bank Limited	2020.04.30	14.30	1,751	624
Secured loans	Askari Bank Limited	2020.01.31	14.30	2,784	3,354
Secured loans	JS Bank Limited	-	-	-	1,950
Secured loans	MCB Bank Limited	2020.03.31	14.23	7,236	7,896
Secured loans	United Bank Limited	2020.05.31	14.99~15.05	2,819	4,316
Secured loans	Sindh Bank Limited	2020.10.31	16.55~17.55	1,475	1,750
Secured loans	Soneri Bank Limited	2020.01.31	14.55	1,421	1,552
Secured loans	United Bank Limited	-	-	-	3,566
Letter of credit	KEB Hana Bank	2020.01.07	LIBOR+1.55	500	276
Sales loans	Woori Bank	-	-	167	821
				₩ 26,453	₩ 27,405

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Details of long-term borrowings as at December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

Category	Creditor	Latest maturity date	Annual interest rate (%) as at December 31,		2019	2018
			2019			
General loans	Tokyo Mitsubishi UFJ	2020.10.30	2.44		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	60,000
Facility loans	Woori Bank	-	-		-	350
Facility loans	Woori Bank	-	-		-	225
Secured loans	Askari Bank Limited	-	-		-	728
Secured loans	Faysal Bank Limited	-	-		-	151
Secured loans	PakChina Investment Co. Ltd	-	-		-	1,846
Secured loans	Sindh Bank Limited	-	-		-	365
					180,000	183,665
	Less: current portion				(120,000)	(21,389)
					₩ 60,000	₩ 181,229

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Details of debentures that consist of general debentures as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

Category	Issuance date	Repayment date	Annual interest rate (%) as at December 31, 2019	2019	2018	Payment for interests
43-2 <sup>nd</sup> non-guaranteed public debentures <sup>1</sup>	2014.11.07	2019.11.07	-	-	120,000	Payment at the end of every 3 months
44-2 <sup>nd</sup> non-guaranteed public debentures	2015.01.22	2020.01.22	2.32	170,000	170,000	Payment at the end of every 3 months
45-2 <sup>nd</sup> 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 <sup>rd</sup> 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 <sup>st</sup> non-guaranteed public debentures	2016.11.28	2019.11.28	-	-	50,000	Payment at the end of every 3 months
46-2 <sup>nd</sup> 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 <sup>st</sup> 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 <sup>nd</sup> 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 <sup>rd</sup> non-guaranteed public debentures	2017.04.21	2024.04.21	2.60	50,000	50,000	Payment at the end of every 3 months
48-1 <sup>st</sup> non-guaranteed public debentures	2018.01.18	2021.01.18	2.61	200,000	200,000	Payment at the end of every 3 months
48-2 <sup>nd</sup> non-guaranteed public debentures	2018.01.18	2023.01.18	2.92	50,000	50,000	Payment at the end of every 3 months
50-1 <sup>st</sup> non-guaranteed public debentures	2019.10.02	2022.09.30	1.69	70,000	-	Payment at the end of every 3 months
50-2 <sup>nd</sup> non-guaranteed public debentures	2019.10.02	2024.10.02	1.83	70,000	-	Payment at the end of every 3 months
50-3 <sup>rd</sup> non-guaranteed public debentures	2019.10.02	2029.10.02	2.31	60,000	-	Payment at the end of every 3 months
				<u>1,230,000</u>	<u>1,200,000</u>	
Less: discount on debentures				<u>(1,242)</u>	<u>(1,415)</u>	
				<u>1,228,758</u>	<u>1,198,585</u>	
Less: current portion				<u>389,950</u>	<u>169,911</u>	
Current portion of debentures				<u>390,000</u>	<u>170,000</u>	
Discount on current portion of debentures				<u>(50)</u>	<u>(89)</u>	
Non-current debentures				<u>₩ 838,808</u>	<u>1,028,674</u>	

<sup>1</sup> The Group borrows the funds for the purpose of obtaining a qualifying asset.

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**21. Derivative Instruments**

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, 2018
Exercise price	Average acquisition cost per share of Lotte Global Logistics Co., Ltd. x (1+internal rate of return) <sup>(N/365)</sup>

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 as at December 31, 2018. Meanwhile, the Group sold all shares and put options of Lotte Global Logistics Co.,LTD. during the current year.

**22. Other Financial Liabilities**

Details of other financial liabilities as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Guarantee deposit	₩ 8,519	₩ 15,302	₩ 15,753	₩ 15,873
Derivative liabilities	-	-	-	8,937
	<u>₩ 8,519</u>	<u>₩ 15,302</u>	<u>₩ 15,753</u>	<u>₩ 24,810</u>

**23. Net Defined Benefit Liabilities**

Details of net defined benefit liabilities recognized in the statements of financial position as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Present value of funded defined benefit obligations	₩ 207,924	₩ 195,360
Fair value of plan assets	(205,926)	(178,657)
Net defined benefit liabilities	<u>₩ 1,998</u>	<u>₩ 16,703</u>

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Movements in the defined benefit obligations for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Beginning balance	₩	195,360	₩	192,698
Current service cost		29,661		31,281
Interest expense		5,586		5,796
Remeasurements:				
Actuarial gain from change in demographic assumptions		-		(1,038)
Actuarial loss (gain) from change in financial assumptions		(4,935)		3,042
Actuarial loss (gain) from experience adjustments		(4,258)		(11,017)
Transfer from/to associate		(1,218)		(1,835)
Benefit payments		(12,272)		(23,567)
Ending balance	₩	<u>207,924</u>	₩	<u>195,360</u>

Movements in the fair value of plan assets for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Beginning balance	₩	178,657	₩	175,691
Interest income		5,420		5,657
Remeasurements:				
Return on plan assets		(1,944)		(2,679)
Benefit payments		(12,014)		(22,288)
Transfer from/to associate		(1,311)		(1,724)
Contributions		37,118		24,000
Ending balance	₩	<u>205,926</u>	₩	<u>178,657</u>

Plan assets as at December 31, 2019 and 2018, consist of:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
	<b>Quoted price</b>	<b>In %</b>	<b>Quoted price</b>	<b>In %</b>
Equity instruments	₩ 88,281	42.87	₩ 67,720	37.91
Debt instruments	72,426	35.17	71,775	40.17
Cash and cash equivalents	45,219	21.96	39,162	21.92
	₩ <u>205,926</u>	<u>100.00</u>	₩ <u>178,657</u>	<u>100.00</u>

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Remeasurements recognized in other comprehensive income for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Before tax effects	₩	7,249	₩	6,334
Tax effects		(1,757)		(1,533)
After tax effects	₩	<u>5,492</u>	₩	<u>4,801</u>

The significant actuarial assumptions as at December 31, 2019 and 2018, are as follows:

<i>(in percentage, %)</i>	<b>2019</b>	<b>2018</b>
Discount rate	2.80	3.16
Salary growth rate	3.00	3.52

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

<i>(in percentage)</i>	<b>Impact on defined benefit obligation</b>		
	<b>Changes in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	1.00%	7.67% decrease	8.89% increase
Salary growth rate	1.00%	8.79% increase	7.77% decrease

The group is exposed to the most significant risk from a decrease in discount rate, high-quality 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.

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 ₩ 2,991 million (2018: ₩ 1,318 million).

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*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, 2020, are ₩ 28,372 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2019, is as follows:

<i>(in millions of Korean won)</i>		<b>Less than 1 year</b>		<b>Between 1-2 years</b>		<b>Between 2-5 years</b>		<b>Over 5 years</b>		<b>Total</b>
Pension benefits	₩	27,804	₩	14,662	₩	37,957	₩	127,501	₩	207,924

The weighted average duration of the defined benefit obligation is 8.98 years.

**24. Tax Expense and Deferred Tax**

Income tax expense for the years ended December 31, 2019 and 2018, consists of:

<i>(in millions of Korean won)</i>		<b>2019</b>		<b>2018</b>
Current tax:				
Current tax on profits for the year	₩	16,597	₩	26,236
Adjustments in respect of prior years		13,053		(149)
Total current tax		<u>29,650</u>		<u>26,087</u>
Deferred tax:				
Changes in deferred tax		(21,362)		(46,753)
Deferred tax relating to items that are charged or credited directly to equity		(2,198)		1,754
Total deferred tax		<u>(23,560)</u>		<u>(44,999)</u>
Income tax expense (benefits)	₩	<u>6,090</u>	₩	<u>(18,912)</u>



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

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) before income tax expense	₩ (137,916)	₩ (68,926)
Tax at domestic tax rates applicable to profits in the respective countries	(33,522)	(16,218)
Tax effects of:		
Income not subject to tax	(3,704)	(179)
Expenses not deductible for tax purposes	20,775	17,822
Refund or additional payment of income taxes	13,053	(149)
Effects on changes in unrecognized deferred tax	8,052	(18,061)
Tax credits and others	(84)	(129)
Others	1,520	(1,998)
	<u>39,612</u>	<u>(2,694)</u>
Income tax expense(benefits)	₩ 6,090	₩ (18,912)

The aggregate current and deferred tax relating to items that are charged or credited directly to equity for the years ended December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
	<b>Tax effect</b>	<b>Tax effect</b>
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩ (441)	₩ 3,282
Gain (loss) on valuation of derivative instruments	-	5
Remeasurements of net defined benefit liability	(1,757)	(1,533)
	<u>₩ (2,198)</u>	<u>₩ 1,754</u>

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The analysis of deferred tax assets and liabilities as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 136,796	₩ 113,096
Deferred tax asset to be recovered within 12 months	16,860	25,002
	<u>153,656</u>	<u>138,098</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(231,619)	(231,149)
Deferred tax liability to be recovered within 12 months	(2,349)	(8,819)
	<u>(233,968)</u>	<u>(239,968)</u>
Deferred tax liabilities, net	₩ <u>(80,312)</u>	₩ <u>(101,870)</u>

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The movements in deferred tax assets and liabilities for the years ended December 31, 2019 and 2018, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	2019					
	Beginning balance	Adjustments	Profit or loss	Equity	Exchange differences	Ending balance
Depreciation	₩ (8,744)	₩ -	₩ 2,652	₩ -	₩ 204	₩ (5,888)
Non-deductible provision for impairment	3,878	-	(9)	-	-	3,869
Accrued income	(20)	-	(41)	-	-	(61)
Deposits for uncollectible empty bottles	(612)	-	-	-	-	(612)
Provision for returns	3,059	-	132	-	-	3,191
Annual leaves	2,622	-	189	-	-	2,811
Impairment loss on packaging	1,714	-	(1,160)	-	-	554
Long-term employee benefit obligations	4,496	-	920	-	-	5,416
Valuation allowance of inventories	1,890	-	136	-	-	2,026
Provision for severance benefits	43,860	61	5,587	(2,227)	-	47,281
Severance insurance	(43,222)	-	(6,441)	470	-	(49,193)
Revaluation of land	(139,621)	-	587	-	117	(138,917)
Valuation of available-for-sale securities	2,366	-	(3,509)	(441)	-	(1,584)
Valuation of derivative instruments	2,162	-	(2,162)	-	-	-
Impairment loss on property, plant and equipment, and intangible assets	19,924	-	30,271	-	-	50,195
Goodwill	17,957	-	(5,864)	-	-	12,093
Lease	-	-	(700)	-	-	(700)
Others	(13,579)	801	2,110	-	(125)	(10,793)
	<u>₩ (101,870)</u>	<u>₩ 862</u>	<u>₩ 22,698</u>	<u>₩ (2,198)</u>	<u>₩ 196</u>	<u>₩ (80,312)</u>

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	2018						
	Beginning balance	Adjustments	Business combination	Profit or loss	Equity	Exchange differences	Ending balance
Depreciation	₩ (9,093)	₩ -	₩ (3,742)	₩ 3,665	₩ -	₩ 426	₩ (8,744)
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	42,497	-	-	3,544	(2,181)	-	43,860
Severance insurance	(41,210)	-	-	(2,660)	648	-	(43,222)
Revaluation of land	(137,918)	-	(2,187)	236	-	-	(139,621)
Valuation of available-for-sale securities	(3,114)	2,198	-	-	3,282	-	2,366
Valuation of derivative instruments	1,255	-	-	902	5	248	2,162
Impairment loss on property, plant and equipment, and intangible assets	-	-	-	19,924	-	-	19,924
Goodwill	-	-	-	17,957	-	-	17,957
Others	(14,809)	-	1,824	(375)	-	(219)	(13,579)
	<u>₩ (144,973)</u>	<u>₩ 2,198</u>	<u>₩ (4,105)</u>	<u>₩ 42,801</u>	<u>₩ 1,754</u>	<u>₩ 485</u>	<u>₩ (101,870)</u>

Details of unrecognized deductible temporary differences as deferred tax assets as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)	2019	2018	Remarks
Goodwill and others	₩ 51,475	₩ 18,200	No plan for sale
Treasury stock	3,332	3,332	No plan for sale

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**25.Provisions**

Details of provisions as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Current	Non-current	Current	Non-current
Provision for returns	₩ 3,640	₩ 9,544	₩ 2,829	₩ 9,810
Provision for restoration costs	-	1,634	-	-
	₩ 3,640	₩ 11,178	₩ 2,829	₩ 9,810

Changes in provisions for the years ended December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		
	Beginning balance	Increase	Ending balance
Provision for returns	₩ 12,639	₩ 545	₩ 13,184
Provision for restoration costs	-	1,634	1,634
	₩ 12,639	₩ 2,179	₩ 14,818

(in millions of Korean won)

	2018		
	Beginning balance	Increase	Ending balance
Provision for returns	₩ 10,886	₩ 1,753	₩ 12,639

**26.Other Liabilities**

Details of other liabilities as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019		2018	
	Current	Non-current	Current	Non-current
Withholdings	₩ 7,748	₩ -	₩ 4,590	₩ -
Advance received	249	-	390	-
Unearned revenue	479	-	521	-
Withholdings of value added tax	16,020	-	21,844	-
Liquor tax	68,078	-	89,818	-
Long-term employee benefit liabilities	-	22,380	-	18,577
	₩ 92,574	₩ 22,380	₩ 117,163	₩ 18,577

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**27.Share Capital and Others**

(a) *Share capital*

During 2019, The Group's total number of authorized shares to be issued by the Articles of incorporation has changed from 2,400,000 shares (par value: ₩ 5,000 per share), to 24,000,000 shares (par value: ₩ 500 per share). The total number of ordinary shares and preferred shares issued are 7,993,460 shares and 775,310 shares, respectively as at December 31, 2019.

(b) *Hybrid bonds*

For the year ended December 31, 2019, the Group issued hybrid capital and the details of hybrid bonds are as follows:

(in millions of Korean won)

Category	Type	Issuance date	Maturity date <sup>1</sup>	Annual interest rate (%) as at December 31, 2019 <sup>2</sup>	Amount
49 <sup>th</sup> hybrid bonds <sup>3</sup>	Non-registered and non-guaranteed subordinated debentures	2019.01.28	2049.01.28	3.49%	₩ 150,000
	Issuance costs				(540)
					<u>₩ 149,460</u>

<sup>1</sup> The maturity can be extended with prior notice depending on the choice of the Group.

<sup>2</sup> The interest rates will be adjusted after three years from the date of issuance.

<sup>3</sup> Terms of issuance for Bond-Type hybrid bond are as follows:

Category	49 <sup>th</sup> hybrid bonds
Issued amount	₩ 150,000 million
Maturity date	30 years (at maturity, it can be extended on the Group's decision)
Interest rates	-2019.01.28 ~ 2022.01.28 : fixed rate 3.49% per year -2022.01.28 ~ 2049.01.28 : yield rate of government bond with 3 year maturity + added interest rate + 1.50% (step-up margin)
Interest payment conditions	Payment after 3 months, extending payment is possible selectively
Others	Exercising Call Option is possible after 3 years from issuance and every payment date of interest

The hybrid bonds issued by the Group's subsidiaries are classified as equity because there are no contractual obligations to deliver the financial assets. Also, the hybrid bonds are subordinated debenture that takes priority of ordinary share at the time of liquidation or bankruptcy.

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(c) *Other equity*

Details of other equity as at December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Share premium	₩ 2,729	₩ 2,729
Other capital adjustments	(25,208)	(25,104)
Loss on capital reduction	(755,650)	(755,650)
Treasury shares	(68,630)	(68,630)
	<u>₩ (846,759)</u>	<u>₩ (846,655)</u>

**28. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as at December 31, 2019 and 2018, consist of:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	₩ 4,960	₩ (7,406)
Share of other comprehensive income of associate	(317)	(100)
Cumulative effect of foreign currency translation	(7,874)	(6,218)
	<u>₩ (3,231)</u>	<u>₩ (13,724)</u>

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Beginning balance	₩ (13,724)	₩ 8,110
Changes in accounting policy	-	(6,881)
Beginning balance, after adjustments	<u>(13,724)</u>	<u>1,229</u>
Gain (loss) on valuation of financial assets at fair value through other comprehensive income		
Gain (loss) on valuation	1,822	(13,564)
Tax effects	(441)	3,282
Transfer of gain on disposal of equity investments at fair value through other comprehensive income		
Realized gain	14,492	-
Tax effects	(3,507)	-
Gain on valuation of derivative instruments		
Gain (loss) on valuation	-	(19)
Tax effects	-	5
Share of other comprehensive income of associate		

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Gain (loss) on valuation	(217)	1,561
Tax effects	-	-
Cumulative effect of foreign currency translation		
Loss on valuation	(1,656)	(6,218)
Tax effects	-	-
Ending balance	<u>₩ (3,231)</u>	<u>₩ (13,724)</u>

**29.Retained Earnings**

Retained earnings as at December 31, 2019 and 2018, consist of:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Legal reserves				
Earned profit reserves <sup>1</sup>	₩	3,473	₩	3,473
Revaluation reserves <sup>2</sup>		241,524		241,524
Discretionary reserves				
Revaluation surplus		457,652		457,652
Other discretionary reserves		1,235,656		1,295,656
Retained earnings before appropriation		<u>(30,023)</u>		<u>84,959</u>
	₩	<u>1,908,282</u>	₩	<u>2,083,264</u>

<sup>1</sup> 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.

<sup>2</sup> 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>	<b>2019</b>		<b>2018</b>	
Revenue from contracts with customers				
Sales of finished goods	₩	1,980,417	₩	1,922,106
Sales of merchandise		439,089		414,599
Revenue from other sources: rental income and others		10,021		9,573



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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>	<b>2019</b>		<b>2018</b>	
Contract assets - inventory expected for return	₩	1,708	₩	1,865
Total contract assets	₩	1,708	₩	1,865
Contract liabilities - current provisions	₩	3,640	₩	2,828
Contract liabilities - non-current provisions		9,544		9,810
Total contract liabilities	₩	13,184	₩	12,638

**31. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Salaries	₩	184,165	₩	172,693
Bonus		33,990		31,305
Post-employment benefits		22,688		22,775
Employee benefits		62,448		55,782
Travel expenses		3,376		3,150
Communication expenses		2,993		2,943
Utility expenses		2,278		3,333
Rental expenses		13,256		28,746
Repair expenses		17,643		16,850
Vehicle maintenance expenses		15,079		14,750
Insurance premium		2,001		1,992
Freight expenses		124,824		120,780
Commission expenses		97,136		84,990
Sales commission expenses		6,754		9,707
Supplies expenses		13,020		10,851
Advertising expenses		138,703		140,213
Depreciation		53,235		30,444
Amortization		11,644		21,019
Promotional expense		20,908		25,212
Taxes and dues		20,335		16,097
Others		24,967		27,419
	₩	871,443	₩	841,051

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**32. Breakdown of Expenses by Nature**

Details of nature of expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Changes in inventories	₩	(16,841)	₩	(8,037)
Purchase of raw materials and merchandise		1,127,539		1,138,669
Employee benefits expenses		354,250		335,637
Depreciation and amortization		162,108		150,341
Freight expenses		142,643		139,734
Advertising expenses		138,706		140,215
Other expenses		413,456		364,767
	₩	<u>2,321,861</u>	₩	<u>2,261,326</u>

**33. Other Income and Expenses**

Details of other income for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Gain on foreign currency transactions	₩	2,434	₩	2,793
Gain on disposal of property, plant and equipment		3,379		2,194
Reversal of impairment loss on property, plant and equipment		535		-
Gain on disposal of right-of-use assets		1		-
Gain on disposal of intangible assets		-		3
Miscellaneous gains		18,351		3,336
Gain from insurance		-		688
	₩	<u>24,700</u>	₩	<u>9,014</u>

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Details of other expenses for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Loss on foreign currency transactions	₩	2,922	₩	2,693
Loss on disposal of property, plant and equipment		8,277		7,204
Impairment loss on property, plant and equipment		141,532		78,608
Impairment loss on right-of-use assets		5,797		-
Loss on disposal of intangible assets		-		187
Impairment loss on intangible assets		20,712		24,006
Impairment loss on investments in associates		22,646		-
Donations		4,306		11,589
Depreciation of idle assets	₩	1,581	₩	1,391
Miscellaneous losses		21,214		1,794
	₩	<u>228,987</u>	₩	<u>127,472</u>

**34. Finance Income and Costs**

Details of finance income for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Dividend income	₩	990	₩	803
Gain on foreign currency translation		443		639
Gain on valuation of financial assets at fair value through profit or loss		6		-
Gain on valuation of derivative instruments		105		-
Financial guarantee income		-		25
	₩	<u>1,544</u>	₩	<u>1,467</u>

Details of finance costs for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Interest expenses	₩	39,081	₩	37,917
Loss on foreign currency translation		304		273
Loss on valuation of financial assets at fair value through profit or loss		9		6
Loss on valuation of derivative instruments		-		3,729
Other impairment loss		6		1,923
	₩	<u>39,400</u>	₩	<u>43,848</u>

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**35.Contingencies and Commitments**

Details of the Group's major financial commitments as at December 31, 2019 and 2018, are as follows:

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

	Financial institutions	Credit line			
		2019		2018	
	Woori Bank	USD	10,000	USD	13,000
Letters of credit	KEB Hana Bank <sup>1</sup>	USD	38,500	USD	38,500
			-	EUR	4,359
	Shinhan Bank	USD	5,000	USD	5,000
	KEB Hana Bank <sup>1</sup>	KRW	25,000	KRW	25,000
	Shinhan Bank	KRW	5,000	KRW	5,000
	Tokyo Mitsubishi UFJ	KRW	60,000	KRW	60,000
	Mizuho Corporate Bank, Ltd	KRW	120,000	KRW	120,000
	Askari Bank Limited	PKR	430,000	PKR	585,000
	Faysal Bank Limited		-	PKR	90,000
General loans	PakChina Investment Co. Ltd.		-	PKR	375,000
		Sindh Bank Limited	PKR	700,000	PKR
	Allied Bank Limited	PKR	500,000	PKR	100,000
	The Bank of Punjab	PKR	750,000	PKR	650,000
	JS Bank Limited	PKR	275,000	PKR	250,000
	MCB Bank Limited	PKR	1,080,000	PKR	1,030,000
	United Bank Limited		-	PKR	450,000
	Soneri Bank Limited	PKR	200,000	PKR	200,000
	Kookmin Bank	KRW	7,000	KRW	9,000
	Busan Bank	KRW	2,000	KRW	2,000
Bank overdraft	Shinhan Bank	KRW	16,000	KRW	16,000
		KEB Hana Bank <sup>1</sup>	KRW	22,000	KRW
	Woori Bank	KRW	6,000	KRW	6,000
	Kookmin Bank	KRW	20,000	KRW	25,000
	KEB Hana Bank	KRW	30,000	KRW	30,000
Purchase card	Woori Bank	KRW	80,000	KRW	50,000
		Industrial Bank of Korea	KRW	100,000	KRW
	Lotte Card Co., Ltd.		-	KRW	60,000
CP	Shinhan Bank	KRW	60,000	KRW	60,000
Sales loans	Shinhan Bank	KRW	30,000	KRW	30,000

<sup>1</sup> 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, 2019, the Group has been named as a defendant in 6 pending litigations amounting to ₩ 307 million (2018: 6 litigations amounting to ₩ 139 million) in claims, and as a plaintiff in 16 litigations amounting to ₩ 15,117 million (2018: 30 litigations amounting to ₩ 13,563 million). The ultimate outcome of the above litigations cannot be determined as at December 31, 2019.

#### *Technology license agreement*

As at December 31, 2019, the Group has entered into technology license agreement with DEL Monte Fresh Produce Company and others, and paid its royalty as 1.10% ~ 5.00% of sales amount or paid by straight line basis.

#### *Brand Use Agreement and others*

As at December 31, 2019, 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, 2019, 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, 2019, the Group is provided payment guarantees amounting to ₩ 1,618 million (2018: ₩ 1,894 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 (2018: ₩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 (2018: PKR 10,000 thousand), PKR 10,356 thousand (2018: PKR 10,356 thousand), PKR 15,150 thousand (2018: 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.

The Group sold all shares and put options of Lotte Global Logistics Co.,LTD. during the current year.

In 2018, the Group acquired 52% shares of Lotte Akhtar Beverages (Private) Limited for PKR 4,843,000,000.

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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 Concentrate Manufacturing Company of Ireland. The Group is exclusively manufacturing and selling the product of PepsiCo. Inc and The Concentrate Manufacturing Company of Ireland in Lahore and Kasur region under the treaties listed above.

In case that the Group wants to transfer the shares of Lotte Asahi Liquor Company Ltd. to the third party, Asahi Group Holdings, Ltd. (Asahi Group) can exercise its call option for the shares of the Group, under arrangements with other shareholders. In addition, if Asahi Group transfers Lotte Asahi Liquor Company Ltd.'s shares to the third party by resulting Asahi Group's percentage of ownership falls below 50%, with the Group's demand, Asahi Group is required to acquire the Group's shares under the same conditions to transfer the shares to the third party.

*Collateral*

Details of assets pledged as collateral for payment of liquor tax and others as at December 31, 2019, are as follows:

*(in millions of Korean won)*

<b>Asset pledged as collateral</b>	<b>Secured party</b>	<b>Carrying amount</b>	<b>Secured amount</b>	<b>Remark</b>
Land and buildings	GS Caltex Corporation	₩ 7,487	₩ 300	Security for cash-settled gas gift card
Land and buildings	East Incheon Tax office	6,087	395	Security for liquor tax payment of plant in Bupyeong
Land and buildings	North Incheon Tax office	5,634	5,705	Security for liquor tax payment of plant in Bupyeong
Land	Chungju Tax office	10,180	4,808	Security for liquor tax payment of plant in Chungju
Land, buildings and machinery	Woori Bank	3,779	4,800	Security for borrowings
		<u>₩ 33,167</u>	<u>₩ 16,208</u>	

The Group's current assets are collateralized in relation to short-term borrowings of Lotte Akhtar Beverages (Private) Limited.

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The amount of contract for acquisition of property, plant and equipment that has not occurred as at December 31, 2019 and 2018, is as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Property, plant and equipment	₩ 39,563	₩ -

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, 2019 and 2018, is as follows:

*(a) Basic earnings (loss) per share*

Basic earnings (loss) per ordinary share for the years ended December 31, 2019 and 2018, are as follows:

<i>(in Korean won and in number of shares)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) attributable to the equity holders of the Parent Company (A)	₩ (142,432,425,123)	₩ (48,050,263,946)
(-) Interest expense of hybrid securities (B)	4,847,753,425	-
(-) Profit (loss) attributable to preferred shares of the Parent Company (C)	(11,421,313,277)	(3,724,232,681)
Profit (loss) attributable to the ordinary equity holders of the Parent Company (D=A-B-C)	₩ (135,858,865,271)	₩ (44,326,031,265)
Weighted average number of ordinary shares outstanding <sup>1</sup> (E)	7,573,350	757,335
Basic earnings (loss) per ordinary share (F=D÷E)	₩ (17,939)	₩ (58,529)

Basic earnings (loss) per preferred share<sup>2</sup> for the years ended December 31, 2019 and 2018, are as follows:

<i>(in Korean won and in number of shares)</i>	<b>2019</b>	<b>2018</b>
Profit (loss) attributable to preferred shares of the Parent Company (A)	₩ (11,421,313,277)	₩ (3,724,232,681)
Weighted average number of preferred shares outstanding <sup>1</sup> (B)	636,850	636,850
Basic earnings (loss) per preferred share (C=A÷B)	₩ (17,934)	₩ (5,848)

<sup>1</sup> On May 3, 2019, the Parent Company executed a 10-for-1 stock split from ₩ 5,000 per share to

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₩ 500 per share to expand the outstanding number of shares. The basic earnings (loss) per share for 2018 was recalculated as the weighted average number of ordinary shares and preferred shares outstanding reflecting the stock split for 2019.

<sup>2</sup> It is determined as a preferred share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share.

#### (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, 2018, amounting to ordinary dividend of ₩ 20,448 million and preferred dividend of ₩ 1,723 million, was paid in April, 2019 (2018: ordinary dividend of ₩ 24,992 million and preferred dividend of ₩ 2,105 million).

### 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, 2019 and 2018, are as follows:

	2019	2018
Significant influence on the Group	Lotte Corporation <sup>1</sup>	Lotte Corporation <sup>1</sup>
Associate	Lotte Asahi Liquor Company Ltd.	Lotte Asahi Liquor Company Ltd.
Other related parties <sup>2</sup>	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., 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, Lotte Confectionery Co., Ltd., and others
Others <sup>3</sup>	Hotel Lotte Co., Ltd., Lotte Engineering & Construction Co., Ltd., Lotte Global 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 Foods Co., Ltd., CS Mart Co., Ltd., and others

<sup>1</sup> 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.



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

<sup>3</sup> 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.

Significant transactions with related parties and accounts receivable, payable balances with related parties as at December 31, 2019 and 2018, are as follows.

Details of the outstanding balances arising from sales/purchases of goods and services as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Sales	Income and others <sup>1</sup>	Purchase and others <sup>2</sup>	Acquisition of property, plant and equipment
<b>Significant influence on the Group</b>				
Lotte Corporation <sup>3</sup>	₩ 3,226	₩ 4,281	₩ 11,535	₩ -
<b>Associate</b>				
Lotte Asahi Liquor Company Ltd.	59	1,645	-	-
<b>Other related parties</b>				
Lotte giants baseball club	-	-	2,500	-
LOTTE LIQUOR JAPAN	43,320	-	1,120	-
Daehong Communications Inc.	24	6	21,748	-
KOREA SEVEN CO., LTD.	101,157	-	2,136	-
BaekHak Beverage Co., Ltd.	100	2,476	34,495	-
CH Beverage Co., Ltd.	238	859	23,325	-
LOTTEGRS Co., Ltd.	20,278	18	37	-
MJA Wine Co., Ltd.	10,040	-	7	-
Lotte Changbai beverage co.,LTD	-	-	195	-
LOTTE DATA COMMUNICATION COMPANY <sup>4</sup>	-	-	8,993	14,938
Lotte Confectionery Co., Ltd.	456	108	10,111	-
Others	14,410	174	1,995	29
<b>Others</b>				
Lotte Aluminum Co., Ltd.	294	-	220,651	9,802
Lotte Global Logistics Co., Ltd. <sup>5</sup>	398	-	129,933	20
Lotte Shopping Co., Ltd.	50,229	2	2,646	1,512
Lotte Engineering & Construction Co., Ltd. <sup>6</sup>	2,857	-	117	680
Lotte Trading Co., Ltd.	15	-	32,742	-
Lotte Foods Co., Ltd.	2,830	602	23,386	-

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CS Mart Co., Ltd.	12,150	-	349	-
Others	10,776	8	17,035	333
	<u>₩ 272,857</u>	<u>₩ 10,179</u>	<u>₩ 545,056</u>	<u>₩ 27,314</u>

(in millions of Korean won)

	2018			
	Sales	Income and others <sup>1</sup>	Purchase and others <sup>2</sup>	Acquisition of property, plant and equipment
<b>Significant influence on the Group</b>				
Lotte Corporation <sup>3</sup>	₩ 2,808	₩ 5	₩ 10,530	₩ -
<b>Associate</b>				
Lotte Asahi Liquor Company Ltd.	120	1,883	-	-
<b>Other related parties</b>				
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 <sup>4</sup>	2	85	10,754	4,652
Lotte Confectionery Co., Ltd.	1,793	320	9,582	14
Others	11,463	167	3,366	15
<b>Others</b>				
Lotte Aluminum Co., Ltd.	296	1	237,960	10,651
Lotte Logistics Co., Ltd. <sup>5</sup>	65,349	430	124,228	16
Lotte Shopping Co., Ltd.	54,474	3,256	5,358	-
Lotte Engineering & Construction Co., Ltd. <sup>6</sup>	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
	<u>₩ 277,585</u>	<u>₩ 11,444</u>	<u>₩ 598,085</u>	<u>₩ 18,250</u>

<sup>1</sup> This includes dividend income, rental income and others.

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<sup>2</sup> This includes purchase of inventories, commission expenses, rental expenses, dividends paid, interest expenses from lease transactions and others.

<sup>3</sup> This includes brand fees, business management service fees incurred after Lotte Corporation was established and cost to sell shares of Lotte Global Logistics Co., Ltd.

<sup>4</sup> LOTTE DATA COMMUNICATION COMPANY merged with Hyundai Information Technology Co.,Ltd, which was a subsidiary, on July 1, 2019.

<sup>5</sup> Lotte Global Logistics Co., Ltd., merged with Lotte Logistics Co., Ltd. on March 1, 2019, and the outstanding balance arising from transactions as at December 31, 2019 includes the amount of transactions with Lotte Logistics Co., Ltd. by February 2019. In addition, the amount of transaction with Lotte Logistics Co., Ltd. is net of logistic costs deducted.

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

Accounts receivable, payable balances with related parties as at December 31, 2019 and 2018, are as follows:

(in millions of Korean won)

	2019			
	Trade receivables	Other receivables <sup>1</sup>	Trade payables	Other payables <sup>2</sup>
<b>Significant influence on the Group</b>				
Lotte Corporation	₩ 1	₩ 1,398	₩ -	₩ 450
<b>Associate</b>				
Lotte Asahi Liquor Company Ltd.	-	1	-	112
<b>Other related parties</b>				
Daehong Communications Inc.	2	-	-	9,852
KOREA SEVEN CO., LTD.	6,319	-	-	113
Lotte aodeli beverage.co.LTD	7,725	-	-	-
MJA Wine Co., Ltd.	5,163	-	-	-
LOTTEGRS Co., Ltd.	5,411	4	-	-
BaekHak Beverage Co., Ltd.	-	8	2,459	-
LOTTE DATA COMMUNICATION COMPANY	-	-	-	1,906
LOTTE LIQUOR JAPAN	248	-	-	-
Lotte Confectionery Co., Ltd.	13	2,150	392	386
Others	3,791	661	1,601	891
<b>Others</b>				
Lotte Engineering & Construction Co., Ltd. <sup>3</sup>	8	-	-	506
Lotte Aluminum Co., Ltd.	-	26	15,838	1,269
Lotte Global Logistics Co., Ltd. <sup>5</sup>	-	-	177	9,937

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Lotte Shopping Co., Ltd.	4,463	8,587	-	9,250
Lotte Foods Co., Ltd.	60	3,046	1,721	2,037
Hotel Lotte Co., Ltd.	160	3,872	-	74
Lotte Trading Co., Ltd.	-	-	2,554	-
LOTTE CAPITAL CO., LTD.	-	-	-	3,190
LOTTE rental co.,Ltd.	-	1	-	4,180
Lotte auto lease co.,Ltd.	-	-	-	16,977
Others	1,417	2,997	569	569
	<u>₩ 34,781</u>	<u>₩ 22,751</u>	<u>₩ 25,311</u>	<u>₩ 61,699</u>

(in millions of Korean won)

	<b>2018</b>			
	<b>Trade receivables</b>	<b>Other receivables<sup>1</sup></b>	<b>Trade payables</b>	<b>Other payables<sup>2</sup></b>
<b>Significant influence on the Group</b>				
Lotte Corporation	₩ -	₩ 216	₩ -	₩ 448
<b>Associate</b>				
Lotte Asahi Liquor Company Ltd.	-	1	-	112
<b>Other related parties</b>				
Lotte Card Co., Ltd. <sup>3</sup>	-	-	-	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
<b>Others</b>				
Lotte Engineering & Construction Co., Ltd. <sup>4</sup>	6	-	-	27,622
Lotte Aluminum Co., Ltd.	-	519	16,874	3,008
Lotte Logistics Co., Ltd. <sup>5</sup>	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	1,628	445	1,959
	<u>₩ 42,301</u>	<u>₩ 18,189</u>	<u>₩ 26,711</u>	<u>₩ 88,915</u>

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<sup>1</sup> This includes leasehold deposits and others.

<sup>2</sup> This includes non-trade payables, accrued expenses, leasehold deposits received, liabilities from lease transactions, and others.

<sup>3</sup> Lotte Card Co., Ltd. was excluded from other related parties as at December 31, 2019, as the contract for the sale of shares to third parties was completed during the current year.

<sup>4</sup> 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 2<sup>nd</sup> plant as other payables.

<sup>5</sup> Lotte Global Logistics Co., Ltd., merged with Lotte Logistics Co., Ltd. on March 1, 2019

Although the above receivables are not impaired at the end of the reporting period, the Group established provisions for impairment amounting to ₩ 5,961 million and ₩ 2,079 million as at December 31, 2019 and 2018, respectively, in relation to the future expected credit losses, and recognized impairment loss amounting to ₩ 3,882 million and ₩ 1,815 million for the years ended December 31, 2019 and 2018, respectively.

Fund transactions with related parties for the years ended December 31, 2019 and 2018, are as follows:

*(in millions of Korean won)*

	<b>2019</b>
	<b>Repayments of lease liabilities</b>
<b>Others</b>	
LOTTE rental co.,ltd.	₩ 3,815
Lotte Shopping Co., Ltd.	4,402
Lotte auto lease co.,ltd.	2,069
LOTTE DATA COMMUNICATION COMPANY	99
LOTTE CAPITAL CO., LTD.	3,059
LOTTE PS NET	62
Hotel Lotte Pusan Co., LTD	4
Hotel Lotte Co., Ltd.	62
CANON KOREA BUSINESS SOLUTIONS INC.	1
Lotte Global Logistics Co.,LTD.	250
LOTTE ASSET DEVELOPMENT CO.,LTD	3
LOTTE Property&Development	1
Lotte Foods Co., Ltd.	10

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<i>(in millions of Korean won)</i>	2019				
	Loans	Repayments	Borrowings	Repayments	
<b>Others</b>					
Provident Fund Trust	₩	- ₩	- ₩	155 ₩	2,098

<i>(in millions of Korean won)</i>	2018				
	Loans	Repayments	Borrowings	Repayments	
<b>Others</b>					
Provident Fund Trust	₩	- ₩	- ₩	1,998 ₩	-
Lotte Changbai beverage co.,LTD		-	1,923	-	-

As at December 31, 2019, the Group has terminated 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.	₩	- ₩	- ₩	16,370 ₩	-

*Brand Use Agreement and others*

As at December 31, 2019, 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, 2019, 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.

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

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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:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Short-term employee benefits	₩	14,379	₩	12,478
Post-employment benefits		1,800		1,769
	₩	16,179	₩	14,247

### **39. Cash Flows**

Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>		<b>2018</b>	
Adjustments for <sup>1</sup> :				
Income tax expenses (benefits)	₩	6,090	₩	(18,912)
Interest income		(5,741)		(3,761)
Interest expenses		39,081		37,917
Dividend income		(990)		(803)
Loss on valuation of derivative instruments		-		3,729
Gain on valuation of derivative instruments		(105)		-
Gain on foreign currency translation		(443)		(639)
Loss on foreign currency translation		304		273
Gain on foreign currency transactions		(3)		(2)
Loss on foreign currency transactions		87		23
Long-term employee benefit expenses		5,543		8,107
Post-employment benefit		29,820		31,304
Depreciation		151,592		129,896
Amortization		12,097		21,835
Impairment loss		4,519		2,834
Other impairment loss		6		1,923
Gain on disposal of property, plant and equipment		(3,379)		(2,194)
Loss on disposal of property, plant and equipment		8,277		7,204
Gain on disposal of right-of-use assets		(1)		-

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<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Impairment loss on right-of-use assets	5,797	-
Impairment loss on property, plant and equipment	141,532	78,608
Reversal of impairment loss on property, plant and equipment	(535)	-
Gain on disposal of intangible assets	-	(3)
Loss on disposal of intangible assets	-	186
Impairment loss on intangible assets	20,712	24,006
Financial guarantee income	-	(25)
Loss on valuation of financial assets at fair value through profit or loss	9	6
Gain on valuation of financial assets at fair value through profit or loss	(6)	-
Share of profit of associates	9,180	(3,201)
Impairment loss on investments in associates	22,646	-
Miscellaneous losses	3	25
Others	-	90
	<u>₩ 446,092</u>	<u>₩ 318,426</u>
Change in operating assets and liabilities:		
Decrease (increase) in trade and other receivables	₩ 5,041	₩ 3,659
Increase in inventories	(17,450)	(9,112)
Increase in contract assets	158	(1,865)
Increase in other current assets	578	(5,657)
Increase in other current financial assets	(901)	(1,135)
Increase (decrease) in trade and other payables	(13,924)	(73,932)
Increase in current portion of provisions	811	1,706
Increase in provisions	(266)	46
Increase in other current financial liabilities	(7,282)	72
Increase (decrease) in other current liabilities	(24,548)	(17,666)
Increase (decrease) in other financial liabilities	(571)	(1,662)
Payment of post-employment benefits	(12,272)	(23,567)
Increase in plan assets	(25,104)	(1,712)
Payment of long-term employee benefits	(1,740)	(1,930)
	<u>₩ (97,470)</u>	<u>₩ (132,755)</u>

Non-cash investing and financing transactions that are not included in the statements of cash flows for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Reclassification of debentures to current portion	₩ 389,950	₩ 169,903
Reclassification of long-term borrowings to current	120,000	1,173



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portion		
Increase (decrease) in non-trade payables due to acquisition of property, plant and equipment, and intangible assets	(11,456)	(50,665)
Increase in right-of-use assets - implementation of Korean IFRS 1116 <i>Lease</i>	111,306	-
Decrease in derivative liabilities held for trading	8,832	-

Changes in liabilities arising from financial activities for the years ended December 31, 2019 and 2018, are as follows:

	<b>Liabilities from financing activities</b>			
	<b>Lease liabilities</b>	<b>Short-term borrowings</b>	<b>Long-term borrowings</b>	<b>Debentures</b>
<i>(in millions of Korean won)</i>				
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
At January 1, 2019	₩ 3,998	₩ 27,405	₩ 183,665	₩ 1,198,585
Cash flows	(28,758)	410	(3,579)	29,468
Increases	106,181	-	-	-
Exchange differences	102	(1,362)	(86)	-
Other non-financial changes	(301)	-	-	705
At December 31, 2019	₩ 81,222	₩ 26,453	₩ 180,000	₩ 1,228,758

**40.Changes in Accounting Policies**

As explained in Note 2.2, the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The lessee's incremental borrowing rates applied to the lease liabilities on January 1, 2019 were 2.07% ~ 10.20%.

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For leases previously classified as ‘finance leases’, the Group recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of Korean IFRS 1116 are only applied after that date. Details of adjustments recognized on adoption of Korean IFRS 1116 Lease at the date of initial application are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	₩	66,227
Add: finance lease liabilities recognized as at December 31, 2018		3,998
Less: short-term leases recognized on a straight-line basis		(2,887)
Less: low-value leases recognized on a straight-line basis		(328)
<b>Lease liability recognized as at January 1, 2019</b>		<b>67,010</b>
Of which are:		
Current lease liabilities		21,582
Non-current lease liabilities		45,428
	₩	67,010

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

*(a) Amounts recognized in the statement of financial position*

The statement of financial position shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	<b>December 31, 2019</b>		<b>January 1, 2019</b>	
Right-of-use assets				
Properties	₩	51,394	₩	50,642
Equipment <sup>1</sup>		6,398		7,102
Vehicles		22,756		12,450
	₩	80,548	₩	70,194

<sup>1</sup> This includes ₩ 4,401 million of finance lease assets, recognized as property, plant and equipment at January 1, 2019.

<i>(in millions of Korean won)</i>	<b>December 31, 2019</b>		<b>January 1, 2019</b>	
Lease liabilities				
Current	₩	24,455	₩	21,582

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Non-current	56,767	45,428
	<u>₩ 81,222</u>	<u>₩ 67,010</u>

(b) Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

(in millions of Korean won)

**2019**

Depreciation of right-of-use assets

Properties	₩	16,799
Equipment <sup>1</sup>		1,758
Vehicles		10,383
	<u>₩</u>	<u>28,940</u>

Interest expense relating to lease liabilities (included in finance cost) <sup>1</sup>	₩	1,157
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Expense relating to short-term leases (included in cost of goods sold and administrative expenses)		5,346
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Expense relating to leases of low-value assets that are not short-term leases (included in cost of goods sold and administrative expenses)		1,103
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Expense relating to variable lease payments not included in lease liabilities (included in cost of goods sold and administrative expenses)		32,166
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<sup>1</sup> Depreciation expense of ₩ 655 million relating to finance lease assets recognized as property, plant and equipment is included.

<sup>2</sup> Interest expense of ₩ 132 million of finance lease assets, recognized as property, plant and equipment is included.

The total cash outflow for leases in 2019 was ₩ 65,204 million.

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

- right-of-use assets: increase by ₩ 65,793 million
- prepayments: decrease by ₩ 471 million
- deposits: decrease by ₩ 2,310 million
- lease liabilities: increase by ₩ 63,012 million

(c) Practical expedients applied

In applying Korean IFRS 1116 for the first time, the Group has used the following practical expedients permitted by the standard:

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- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying Korean IFRS 1017 and Interpretation 2104 *Determining whether an Arrangement contains a Lease*.

*Finance lease - 2018*

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>	<b>2018</b>	
Cost- capitalized finance leases	₩	5,894
Accumulated depreciation		<u>(1,493)</u>
Net book amount	₩	<u>4,401</u>

From the current period, leased assets are presented as a separate line item in the consolidated statement of financial position.

The total of future minimum lease payment as at December 31, 2018, is as follows:

<i>(in millions of Korean won)</i>	<b>2018</b>	
<b>Total minimum lease payments</b>		
Within one year	₩	880
Later than one year but not later than five years		<u>3,263</u>
		<u>4,143</u>
<b>Unearned interest expenses</b>		<u>145</u>
<b>Net minimum lease payments</b>		

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Within one year	836
Later than one year but not later than five years	3,162
	<u>₩ 3,998</u>

The Group leases various vehicles, property and others as operating leases for the year ended December 31, 2018 and the leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From January 1, 2019, the Group has recognized right-of-use assets for these leases, except for short-term and low-value leases.

The total of future minimum lease payment for vehicle to the lessor as at December 31, 2018, is as follows:

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

The Group leases various offices, warehouses, equipment and cars. Lease contracts are typically made for fixed periods of 1 to 10 years, but may have extension options as described in (b) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate

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- Amounts expected to be payable by the Group (the lessee) under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise low-value office equipment.

#### *(a) Variable lease payments*

Some vehicle leases include variable conditions of lease payments due to the mileage arising from transportation. Variable lease payments that depend on the mileage arising from transportation are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

#### *(b) Extension and termination options*

Extension and termination options are included in leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Extension and termination options are included in some of vehicle lease contracts across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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**41. Business Combination**

*(a) 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 liabilities recognized as a result of the acquisition at the acquisition date, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>
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	<u>28,291</u>
Non-controlling interest <sup>1</sup>	(13,580)
Goodwill <sup>2</sup>	<u>33,754</u>
	<u>₩ 48,465</u>

<sup>1</sup> Non-controlling interest is measured at proportionate share of acquired net assets.

<sup>2</sup> Goodwill recognized from acquisition.

**42. Events After the Reporting Period**

After the reporting period, the Group has made a tender offer for the shares of PEPSI COLA PRODUCTS PHILIPPINES INC. in order to strengthen the beverage business in Philippine and secure management rights and will acquire the shares during 2020.