LG Household & Health Care Ltd. and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2019 and 2018
with the independent auditor's report

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Independent auditor's report

The Shareholders and Board of Directors
LG Household & Health Care Ltd.

Opinion

We have audited the accompanying consolidated financial statements of LG Household & Health Care Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (KIFRS).

Basis for opinion

We conducted our audit in accordance with Korean Auditing Standards (KGAAS). 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 that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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.

(1) Impairment tests of goodwill and others

As per Note 18 (Intangible assets), Goodwill, Brand value and Bottler's Agreement with indefinite useful lives ("Goodwill and others") amount to ₩902,644 million, ₩556,999 million and ₩166,777 million and comprise 13.90%, 8.58% and 2.57% of total assets in the statement of financial position, respectively. We have identified the impairment tests of goodwill and others as a significant risk considering the possibility of errors in allocating goodwill to the appropriate CGU (or CGU group), complexity of estimation of value in use and involvement of subjective judgement.

The main audit procedures that we conducted related to the considerations described above are as follows:

- Obtained an understanding and reviewed the appropriateness of the determination of CGU(or CGU group) and goodwill allocation through observation and inquiring with management.
- Evaluated the competence and objectivity of external specialists utilized by the Group through reviewing their profiles and confirming their certifications.
- We reviewed the rationality of assumptions used in impairment tests by reviewing the communication with internal and external specialists.
- We involved an EY internal valuation specialist to review the variable inputs used in the measurement methods and valuation models used in calculating the recoverable amount of the CGU (or CGU group) with an indication of impairment.
- We involved an EY internal valuation specialists to assist in reviewing business plans of CGU(or CGU group) with an indication of impairment.

(2) Business combination

As per Note 6 (Business combination), on August 14, 2019, the Group obtained control of New Avon Company through an acquisition of 100% equity interest transferring total consideration of ₩147,644 million. Through this business combination, goodwill of ₩103,473 million, and other intangible assets including brand value, technique value and customer relationship of ₩150,070 million increased. The Group evaluated fair value of acquired assets and liabilities and allocated consideration transferred in accordance with KIFRS 1103 *Business Combinations*. We have identified business combination as a significant risk considering the significant amount of consideration transferred, the complexity of determination of discount rates applied to the evaluation of identified intangible assets and uncertainty of accounting estimates in which the measurement results significantly change according to management's judgment.

The main audit procedures that we conducted related to the considerations described above are as follows:

- Obtained an understanding the transaction and reviewing of the Group's accounting policy for business combinations.
- Identified significant expense categories measured by the acquiree and examining whether it is part of the business combination.
- Evaluated the competence and objectivity of external specialists utilized by the Group through reviewing their profiles and confirming their certifications.
- Measured the fair value of assets and liabilities measured by external specialists utilized by the Group and reviewed the report of purchase price allocation.
- We involved an EY internal valuation specialist to evaluate the appropriateness of the evaluation method and assumptions.
- Compared and reviewed the financial prediction for fair value estimation and business plans approved by the management.
- Examined the occurrence of significant or irregular transactions between date of initial acquisition and date of acquisition of control.
- Reviewed the accuracy and completeness of disclosures in accordance with KIFRS 1103 *Business Combinations.*

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 KIFRS, 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, or has no realistic alternative but to do so.

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 KGAAS 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 KGAAS 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 Group'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 financial statements, including the disclosures, and whether the 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 partner in charge of the audit resulting in this independent auditor's report is Cho, Sung Yeon.

Ernst & Young Han Young

February 27, 2020

This audit report is effective as of February 27, 2020 the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

LG Household & Health Care Ltd. and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2019 and 2018

"The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group."

Suk Cha
Chief Executive Officer
LG Household & Health Care Ltd.

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of financial position
as of December 31, 2019 and 2018

(Korean won in millions)

	Notes		2019		2018
Assets					
Current assets					
Cash and cash equivalents	9,38,41,42,43	₩	647,104	₩	396,644
Short-term financial instruments	38,42,43		72,263		16,900
Trade receivables	10,39,42,43		611,045		556,088
Other receivables	10,39,42,43		34,606		25,780
Inventories	11		746,323		614,748
Other current financial assets	2,12,40,42,43		1,090		24
Other current assets	13		50,644		81,019
			2,163,075		1,691,203
Non-current assets					
Long-term financial instruments	38,42,43		24		24
Other long-term receivables	14,42,43		80,180		78,325
Investments in associates and joint ventures	8,15		56,559		52,393
Deferred tax assets	36		37,442		21,123
Property, plant and equipment	8,16,39,41		2,036,045		1,813,289
Right-of-use assets	8,2,40		273,157		-
Investment properties	8,17,42		42,239		45,184
Intangible assets	6,8,18,39,41		1,787,314		1,544,973
Other non-current financial assets	2,12,40,42,43		9,467		10,397
Other non-current assets	13,25		8,168		18,963
			4,330,595		3,584,671
Total assets		₩	**6,493,670**	₩	**5,275,874**

(Continued)

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of financial position
as of December 31, 2019 and 2018
(Korean won in millions)

Liabilities	**Notes**		**2019**		**2018**
Current liabilities					
Trade payables	19,39,42,43	₩	290,674	₩	215,581
Other payables	19,39,42,43		352,651		258,640
Short-term borrowings	10,20,41,42,43		287,644		210,810
Current portion of long-term borrowings	21,41,42,43		3,566		13,566
Current portion of long-term debentures	21,41,42,43		99,991		149,962
Income tax payable	36		200,761		192,628
Refund liabilities	22		17,507		16,700
Other current financial liabilities	2,23,40,41,42,43		351,652		199,699
Other current liabilities	24		166,758		101,297
			1,771,204		1,358,883
Non-current liabilities					
Long-term borrowings	21,41,42,43		3,566		7,132
Long-term other payables	19,42,43		8,646		-
Long-term debentures	21,41,42,43		30,000		99,907
Deposits received	42,43		5,386		7,325
Post-employment benefit liabilities	25		67,533		34,257
Deferred tax liabilities	36		95,549		119,996
Other non-current financial liabilities	2,23,40,41,42,43		227,136		23,937
Other non-current liabilities	24		47,562		30,417
			485,378		322,971
Total liabilities			2,256,582		1,681,854
Equity					
Issued capital	26		88,589		88,589
Share premium	27		97,326		97,326
Retained earnings	28		4,174,882		3,563,365
Accumulated other comprehensive loss	29		(96,636)		(121,625)
Other components of equity	30		(117,427)		(115,589)
Equity attributable to equity holders of the parent			4,146,734		3,512,066
Non-controlling interests	7		90,354		81,954
Total equity			4,237,088		3,594,020
Total liabilities and equity		₩	**6,493,670**	₩	**5,275,874**

The accompanying notes are an integral part of the consolidated financial statements.

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of income
for the years ended December 31, 2019 and 2018
(Korean won in millions, except per share amounts)

	Notes	2019	2018
Sales	8,39	₩ **7,685,424**	₩ **6,747,537**
Cost of sales	33,39	(2,917,246)	(2,696,414)
Gross profit		**4,768,178**	**4,051,123**
Selling and administrative expenses	31,33,35	(3,591,767)	(3,011,873)
Operating profit	8	**1,176,411**	**1,039,250**
Finance income	8,34,35	17,086	6,486
Finance costs	8,34,35	(17,773)	(12,707)
Other non-operating income	32,35	32,917	24,006
Other non-operating expenses	32,35	(123,480)	(99,711)
Share of profit(loss) of associates and joint ventures	8,15	6,920	(1,319)
Profit before tax	8	**1,092,081**	**956,005**
Income tax expense	36	(303,908)	(263,726)
Profit for the year		₩ **788,173**	₩ **692,279**
Profit for the year attributable to:			
Equity holders of the parent	37	₩ 778,098	₩ 682,743
Non-controlling interests	7	10,075	9,536
		₩ **788,173**	₩ **692,279**
Earnings per share			
attributable to equity holders of the parent:			
Basic and diluted earnings per ordinary share	37	₩ 46,431	₩ 40,740
Basic and diluted earnings per preferred share	37	46,481	40,790

The accompanying notes are an integral part of the consolidated financial statements.

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of other comprehensive income
for the years ended December 31, 2019 and 2018

(Korean won in millions)

	Notes	2019	2018
Profit for the year		**₩ 788,173**	**₩ 692,279**
Other comprehensive income (loss):			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Re-measurements gain (loss) on the net defined benefit plans	25	(11,691)	(11,814)
Net loss on valuation of financial asset at fair value through OCI	12,29,35	(1,907)	(765)
Net profit on disposal of financial asset at fair value through OCI	12,29,35	45	-
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**(13,553)**	**(12,579)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Share of other comprehensive loss of a joint venture	15,29	88	216
Exchange differences on translation of foreign operations	29	27,153	12,566
Net other comprehensive income (loss) to be reclassfied to profit or loss in subsequent periods		**27,241**	**12,782**
Other comprehensive income (loss) for the year, net of tax		**13,688**	**203**
Total comprehensive income for the year, net of tax		**₩ 801,861**	**₩ 692,482**
Total comprehensive income attributable to:			
Equity holders of the parent		₩ 792,025	₩ 683,409
Non-controlling interests		9,836	9,073
		₩ 801,861	**₩ 692,482**

The accompanying notes are an integral part of the consolidated financial statements.

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2019 and 2018
(Korean won in millions)

	Notes	Issued capital	Share premium	Retained earnings	Accumulated other comprehensive income (loss)	Other components of equity	Total	Non-controlling interests	Total equity
		Attributable to the equity holders of the parent							
As of January 1, 2018		₩ 88,589	₩ 97,326	₩ 3,044,143	₩ (132,784)	₩ (101,039)	₩ 2,996,235	₩ 85,548	₩ 3,081,783
Effect of adoption of							-		
new accounting standards		-	-	(1,394)	(725)	-	(2,119)	-	(2,119)
Profit for the year		-	-	682,743	-	-	682,743	9,536	692,279
Re-measurements gain									
on the net defined benefit plans	25	-	-	(11,202)	-	-	(11,202)	(612)	(11,814)
Net profit on valuation of									
available-for-sale financial assets	12,29,35	-	-	-	(731)	-	(731)	(34)	(765)
Share of other comprehensive loss									
of a joint venture	15,29	-	-	-	216	-	216	-	216
Exchange differences									
on translation of foreign operations	29	-	-	-	12,383	-	12,383	183	12,566
Total comprehensive income		-	-	671,541	11,868	-	683,409	9,073	692,482
Cash dividends	28,41	-	-	(150,909)	-	-	(150,909)	(10,825)	(161,734)
Changes in non-controlling interests and others		-	-	(16)	16	(14,550)	(14,550)	(1,842)	(16,392)
As of December 31, 2018		**₩ 88,589**	**₩ 97,326**	**₩ 3,563,365**	**₩ (121,625)**	**₩ (115,589)**	**₩ 3,512,066**	**₩ 81,954**	**₩ 3,594,020**

(Continued)

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2019 and 2018 (cont'd)
(Korean won in millions)

	Notes	Issued capital	Share premium	Retained earnings	Accumulated other comprehensive income (loss)	Other components of equity	Total	Non-controlling interests	Total equity
		Attributable to the equity holders of the parent							
As of January 1, 2019		₩ 88,589	₩ 97,326	₩ 3,563,365	₩ (121,625)	₩ (115,589)	₩ 3,512,066	₩ 81,954	₩ 3,594,020
Profit for the year		-	-	778,098	-	-	778,098	10,075	788,173
Re-measurements gain on the net defined benefit plans	25	-	-	(11,106)	-	-	(11,106)	(585)	(11,691)
Net loss on valuation of financial asset at fair value through OCI	12,29,35	-	-	-	(1,906)	-	(1,906)	-	(1,906)
Net profit on disposal of financial asset at fair value through OCI	12,29,35	-	-	45	-	-	45	-	45
Share of other comprehensive loss of a joint venture	15,29	-	-	-	88	-	88	-	88
Exchange differences on translation of foreign operations	29	-	-	-	26,807	-	26,807	346	27,153
Total comprehensive income		-	-	767,037	24,989	-	792,026	9,836	801,862
Cash dividends	28,41	-	-	(155,098)	-	-	(155,098)	(3,280)	(158,378)
Changes in non-controlling interests and others		-	-	(422)	-	(1,838)	(2,260)	1,844	(416)
As of December 31, 2019		**₩ 88,589**	**₩ 97,326**	**₩ 4,174,882**	**₩ (96,636)**	**₩ (117,427)**	**₩ 4,146,734**	**₩ 90,354**	**₩ 4,237,088**

The accompanying notes are an integral part of the consolidated financial statements.

LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2019 and 2018
(Korean won in millions)

	2019	2018
Operating activities		
Profit for the year	₩ 788,173	₩ 692,279
Adjustments to reconcile profit before tax to net cash flows provided by operating activities:		
Depreciation	223,941	135,694
Amortization	27,079	21,753
Post-employment benefits	46,397	43,993
Provision (reversal of provision) for allowance for doubtful accounts	231	(182)
Provision (reversal of provision) for other allowance for doubtful accounts	499	(958)
Interest expenses	13,870	10,136
Loss on foreign currencies translations	2,210	1,270
Gain on valuation of financial assets at FVPL	-	(910)
Loss on valuation of financial assets at FVPL	48	882
Net profit on disposal of financial asset at FVPL	(1,370)	-
Net loss on disposal of financial asset at FVPL	29	-
Loss on valuation of liabilities at FVPL	(1,405)	(527)
Loss on disposal of property, plant and equipment	7,472	10,130
Loss on disposal of investment properties	12	-
Loss on disposal of intangible assets	1,710	436
Loss on disposal of right-of-use assets	40	-
Impairment losses on property, plant and equipment	8,173	10,848
Impairmeı	2,076	932
Impairment losses on intangible assets	41,517	28,981
Income tax expenses	303,908	263,726
Interest income	(8,701)	(3,836)
Dividend income	(28)	(19)
Gain on foreign currencies translations	(1,772)	(992)
Gain on disposal of property, plant and equipment	(6,156)	(2,007)
Gain on disposal of investment properties	(113)	-
Gain on disposal of intangible assets	(227)	(60)
Gain on disposal of right-of-use assests	(58)	-
Share of (profit) loss of associates and joint ventures	(6,920)	1,319
Gain from assets contributed	-	(35)
Gain on bargains purchase	(550)	-
Working capital adjustments:		
Trade receivables	(22,582)	3,679
Other receivables	17,762	841
Inventories	(31,006)	(43,471)
Other current assets	(6,139)	(57,653)
Other current financial assets	735	-
Other non-current assets	-	(3,945)
Trade payables	2,411	(42,740)
Other payables	70,917	21,885
Refund liabilities	(875)	(7,971)
Other current financial liabilities	30,300	30,050
Other current liabilities	21,483	5,311
Deposits received	(2,383)	381
Payment of post-employment benefits	(4,565)	(4,439)
Transfer of post-employment benefit liabilities	(461)	961
Plan assets	(66,367)	(64,310)
Other non-current liabilities	6,463	7,046
Interest received	7,588	4,612
Dividends received	2,901	2,483
Interest paid	(10,180)	(11,629)
Income tax paid	(316,446)	(236,827)
Net cash flows provided by operating activities	**₩ 1,139,641**	**₩ 817,117**

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LG Household & Health Care Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2019 and 2018 (cont'd)
(Korean won in millions)

	2019	2018
Investing activities		
Decrease in short-term financial instruments	₩ 15,055	₩ 7,043
Decrease in other receivables	37,975	2,419
Decrease in long-term financial instruments	-	493
Decrease in other long-term receivables	64,308	19,766
Decrease in other non-current financial assets	559	-
Proceeds from sale of property, plant and equipment	12,660	3,296
Proceeds from sale of investment properties	340	-
Proceeds from sale of intangible assets	463	95
Net cash inflows due to the business combinations	2,666	-
Establishment of subsidaries	50,000	7,846
Increase in short-term financial instruments	(70,342)	(5,000)
Increase in other receivables	(254)	(695)
Increase in other long-term receivables	(65,427)	(11,320)
Acquisition of other non-current assets	-	(200)
Acquisition of property, plant and equipment	(326,089)	(356,285)
Acquisition of intangible assets	(8,974)	(7,843)
Net cash outflows due to the business combinations	(174,321)	(89,907)
Net cash flows used in investing activities	**(461,381)**	**(430,292)**
Financing activities		
Proceeds from short-term borrowings	271,711	323,463
Proceeds from long-term borrowings	-	2,356
Issuance of debentures	30,000	
Repayment of short-term borrowings	(323,426)	(237,236)
Repayment of long-term borrowings	-	(17,943)
Repayment of current portion of long-term borrowings	(13,566)	(7,121)
Repayment of current portion of long-term debentures	(150,000)	(261,718)
Repayment of long-term debentures	-	(720)
Repayment of convertible bonds	-	(5,378)
Decrease in lease liabilities	(80,342)	(139)
Acquisition of investments in subsidiaries	(5,190)	(11,876)
Dividends paid	(158,591)	(161,725)
Net cash flows used in financing activities	**(429,404)**	**(378,037)**
Net increase (decrease) in cash and cash equivalents	**248,857**	**8,788**
Cash and cash equivalents at January 1	**396,644**	**386,194**
Effect of exchange rate fluctuations on cash and cash equivalents	**(696)**	**225**
Exchange differences on translation of foreign operations	**2,299**	**1,437**
Cash and cash equivalents at December 31	**₩ 647,104**	**₩ 396,644**

The accompanying notes are an integral part of the consolidated financial statements.

1. Corporate information

LG Household & Health Care Ltd. (the "Company") was established through a spin-off from LG Corp. (formerly, LGCI) on April 1, 2001 and listed its ordinary shares on the KOSPI market of the Korea Exchange (KRX) on April 25, 2001. As of the current reporting date, the Company's headquarters is located at 58, Saemunan-ro, Jongno-gu, Seoul, Korea and the manufacturing plants are located in Cheongju, Ulsan, Onsan and Naju.

As of December 31, 2019, the Company's issued capital amounts to ₩88,589 million (including preferred stock amounting to ₩10,498 million), and the Company's largest shareholder is LG Corp., which holds 34.03% of the Company's ordinary shares.

The Company is authorized to issue 70 million shares of common and preferred shares in total at the par value of ₩5,000 per share, and the shares issued and outstanding are comprised of 15,618,197 ordinary shares and 2,099,697 preferred shares as of December 31, 2019. Preferred shares are non-participating with no voting rights, and additional 1% per annum based on the face value of the shares will be paid in cash for preferred shares over the dividends on ordinary shares.

The accompanying consolidated financial statements, for the year ended December 31, 2019, consist of the Company and its subsidiaries (collectively, the "Group"), its associates and joint ventures.

Details of the subsidiaries and summarized financial information are provided in Note 5.

2. Basis of preparation and summary of significant accounting policies

2.1 Basis preparation

The Group prepares statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of Stock Companies*.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and others that have been measured at fair value. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest millions, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements and these significantly affect the financial position at the beginning of the earliest period presented.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

2.2 Basis of consolidation (cont'd)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment is recognized at fair value.

2.3 Summary of significant accounting policies

2.3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of KIFRS 1109 *Financial Instruments* is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. If the contingent consideration is not within the scope of KIFRS 1109, it is measured in accordance with the appropriate KIFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

2.3.1 Business combinations and goodwill (cont'd)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.3.2 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.3.3 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.4 Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.3.4 Fair value measurement (cont'd)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as investment properties and financial assets. Involvement of external valuers is decided upon by approval of chief financial officer. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re- measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the Group and the Group's external valuers present the valuation results to the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

	Notes
➢ Disclosure for valuation methods, significant estimates and assumptions	3, 42
➢ Quantitative disclosures of fair value measurement hierarchy	42
➢ Financial instruments(Including those carried at amortized cost)	42
➢ Investment properties	17,42

2.3.5 Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. Each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

2.3.5.1 Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

2.3.5 Foreign currencies(cont'd)

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

2.3.5.2 Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statements are translated at average exchange rates during the reporting period. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3.6 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful life of the assets as follows and assessed for impairment whenever there is an indication that the asset may be impaired:

	Useful lives (years)
Buildings	10 ~ 50
Structures	20 ~ 50
Machinery	5 ~ 12
Vehicles	4 ~ 10
Tools and equipment	2 ~ 20
Furniture and fixtures	2 ~ 15
Other property, plant and equipment ("Other PP&E")	5

2.3.6 Property, plant and equipment (cont'd)

At least the end of every reporting period, the Group reviews the residual values, useful lives and depreciation methods of assets, and if it judges after review that it is appropriate to change them, the Group applies changes in accounting estimates in accounting treatments. Depreciations are recognized in the consolidated statement of profit or loss in expense categories consistent with the function of the depreciate property, plant and equipment.

Property, plant and equipment are derecognized either when they have been disposed of (i.e., the date when the acquirer obtains control of the asset) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The gain or loss from the disposal is determined by the difference between the net disposal proceeds and the carrying amount of the asset. It is included in the income statement when the asset is derecognized.

2.3.7 Leases

At inception of a contract, the Group assesses whether the contract is or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.3.7.1 Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of a lease(i.e., the usable date of the underlying asset). Right-of-use assets are measured initially at cost, and subsequent to initial recognition, right-of-use assets are stated at depreciated cost less any accumulated impairment losses reflecting an adjustment from remeasurement of lease liabilities. Such cost includes the cost of recognized lease liabilities, initial direct cost, and lease payments less lease incentives paid before the commencement date of a lease. The asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease.

	Useful lives (years)
Buildings	1 ~ 15
Vehicles	3 ~ 5
IT equipment	1 ~ 6
Others	1 ~ 15

If the ownership of the underlying assets is transferred by the end of the lease term or the Group's decision of exercising the right to buy is reflected on the cost of right-of-use assets, depreciation is recognized over the estimated useful life of the asset.

The Group also determines whether the right- of-use asset is impaired and to account for any impairment loss identified., refer to note 2.3.12, impairment of non-financial assets.

2.3.7.2 Lease liabilities

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments and less any lease incentives receivable), variable lease payments that depend on an index or a rate, and initially measured using the index or rate as of the commencement date and amounts expected to be payable by the lessee under residual value guarantees. The exercise price of a purchase option if the Group is reasonably certain to exercise that and payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease, is also included.

2.3.7 Leases(cont'd)

The Group shall recognize in profit or loss on variable lease payments(not occurred from production of inventories) not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

After the commencement date, the Group shall measure the lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. The Group shall recognize the amount of the remeasurement of the lease liability as an adjustment to a change in the lease term, a change in the lease payments(e.g. change in lease payments due to modification of an index or a rate) or a change in the assessment of an option to purchase the underlying asset.

Lease liabilities of the Group is included in interest-bearing financial liabilities, refer to note 43.

2.3.7.3 Short-term leases and Leases of low-value assets

The Group applies the 'short-term lease' recognition exemptions on leases of machinery and facilities(i.e. leases term under 12 months from the commencement date and without an option to purchase). Also the Group applies the 'lease of low-value assets' recognition exemptions on leases(e.g. office equipment) for which the underlying asset is of low value. The Group recognizes lease payments on short-term leases and leases of low-value assets on accrual basis.

Group as a lessor
The Group classifies leases which does not transfer substantially all the risks and benefits of ownership of an asset as operating leases. The Group recognizes lease payments from operating leases as income on accrual basis and lease payments are included in sales in income statements. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2.3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3.9 Investment properties

Investment properties are measured initially at cost, including transaction costs. However, other costs occurred from ordinary management performance are expensed in the period in which they occur. Subsequent to initial recognition, investment properties are stated at depreciated cost less any accumulated impairment losses.

Investment properties, except for land, are depreciated on a straight-line basis over estimated useful life as follows and assessed for impairment whenever there is an indication that the investment properties may be impaired:

	Useful lives (years)
Buildings	25 ~ 50

At least the end of every reporting period, the Group reviews the residual values, useful lives and depreciation methods of investment properties, and if it judges after review that it is appropriate to change them, the Group applies changes in accounting estimates in accounting treatments. Depreciations are recognized in the consolidated statement of profit or loss in expense categories consistent with the function of the depreciate investment properties.

Investment properties are derecognized either when they have been disposed of (i.e., the date when the acquirer obtains control of the asset) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition. The amount of consideration to be included in the gain or loss from the derecognition of the investment property is determined in accordance with the requirements in KIFRS 1115 for determining the transaction price.

Transfers are made to (or from) investment property only when there is a change in use.

2.3.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

2.3.10 Intangible assets (cont'd)

Intangible assets are amortized on a straight-line basis over useful lives as follows. However, as there are no foreseeable limits to the periods over which industrial property rights and other intangible assets, such as brand value and Bottler's Agreement, are not amortized.

	Useful lives (years)
Industrial property rights	5 ~10
Software	3 ~ 6
Other intangible assets	5 ~ 15

Intangible assets are derecognized either when they have been disposed of (i.e., the date when the acquirer obtains control of the asset) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

Research and development costs
Research costs are expensed as incurred.

2.3.11 Inventories

Inventories are valued at the lower of cost and net realizable value. Initial cost of inventories includes acquisition of inventories, production or conversion costs and other costs incurred in bringing each product to its present location and conditions. Unit cost of inventories is determined by using the gross average method and the moving weighted-average method except for materials in transit which are stated at cost by specific identification method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.3.12 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

2.3.12 Impairment of non-financial assets (cont'd)

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill
Goodwill is tested for impairment annually at a certain time and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually at a certain time, individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.3.13 Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.3.14 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.3.14.1 Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under KIFRS 1115. Refer to the accounting policies in section (e) Revenue from contracts with customers.

2.3.14 Financial instruments – initial recognition and subsequent measurement (cont'd)

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)
The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

2.3.14 Financial instruments – initial recognition and subsequent measurement (cont'd)

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivatives and listed equity instruments that do not choose to make an irrevocable selection to treat change in fair value as other comprehensive income. Dividends to listed equity instruments are recognized in profit or loss at the time the rights are confirmed.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2.3.14 Financial instruments – initial recognition and subsequent measurement (cont'd)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.3.14.2 Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions
- Trade receivables, including contract assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. Information on the provision matrix for trade receivables the Group established is provided in Note 43.

The Group considers a financial asset in default when contractual payments are 1 year past since the occurrence. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.3.14.3 Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in KIFRS 1109 are satisfied. The Group has designated convertible preference shares (RCPS) issued by Tai Guk Pharm Co., Ltd as of fair value through profit or loss.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are a necessary part of the EIR.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note borrowings and debentures(Note 20, 21).

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

2.3.14.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.3.15 Derivative financial instruments

Initial recognition and subsequent measurement
Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

2.3.16 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium.

2.3.17 Non-current assets held for sale or distribution to equity holders of the parent and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution with be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale or as held for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been dispose of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose or a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss and other comprehensive income.

2.3.18 Cash dividend to equity holders of the parent

The Group recognizes a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorized and the distribution are no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

2.3.19 Pension benefits and other post-employment benefits

The Group operates a defined benefit pension plan in Korea, which require contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under ‘cost of sales’ and ‘selling and administrative expenses’ in the consolidated statement of profit or loss and other comprehensive income.

The Group operates a defined contribution pension plan. When an employee renders services for a certain period of time, the amount contributed by the Group, in exchange for the services, is expensed except for those included as part of acquisition costs of a plan asset. The contribution made by the Group in excess of the required funding amount for services rendered until the end of the reporting period is recorded as an asset to the extent that future contribution can be reduced or returned in cash due to the excessive contribution whereas the contribution amount that falls short of the required funding amount is recorded as pension liabilities.

2.3.20 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

2.3.21 Revenue from Contracts with Customers

The Group operates 3 business units, Beautiful, Healthy, Refreshing, and the Group provides finished goods, merchandises and services through contracts with customers. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the goods or services before transferring them to the customer.

Sale of goods and merchandise
Revenue from the sale of goods and merchandise is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, consideration payable to the customer, identifying performance obligations, and principal and agent.

Providing technical skill
Revenue is recognized over the period in which the providing technical skill is provided based on the time elapsed. The normal credit term is 30 to 90 days.

Contract balance

1) Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in the Note 2.3.14.

2) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Assets and liabilities arising from rights of return

Right of return assets
Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities
A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

2.3.22 Taxes

2.3.22.1 Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2.3.22.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill
- An asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

2.3.22.3 Sales tax

Expenses and assets are recognized net of the amount of sales tax:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

2.3.23 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The loan or assistance is initially recognized and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and the proceeds received.

2.4 New and amended standards and interpretations

The Group applied KIFRS 1116 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2.4.1 KIFRS 1116 Leases

KIFRS 1116 supersedes KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under KIFRS 1116 is substantially unchanged from KIFRS 1017. Lessors will continue to classify leases as either operating or finance leases using similar principles as in KIFRS 1017. Therefore, KIFRS 1116 does not have an impact for leases where the Group is the lessor.

The Group adopted KIFRS 1116 using the full retrospective method of adoption, with the date of initial application of January 1, 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying KIFRS 1017 and KIFRS 2104 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

2.4.1 KIFRS 1116 Leases (cont'd)

Impact on the consolidated statement of financial position (increase/(decrease)) is as follows (Korean won in millions):

		Increase(Decrease)
Assets		
Long-term other receivables	₩	(1,091)
Right-of-use assets		118,294
Other current financial assets(Finance lease receivables)		174
Other non-current financial assets(Finance lease receivables)		247
Total assets	₩	117,624
Liabilities		
Other current financial liabilities(lease liabilities)		53,311
Other non-current financial liabilities(lease liabilities)		64,313
Total liabilities	₩	117,624

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of KIFRS 1116, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease that transferred substantially all the risks and rewards incidental to ownership to the Group was classified as a finance lease and the other was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease Operating lease payments were recognized as an operating expense in the income statement on a straight-line basis over the lease term. Prepaid or unpaid lease payments were recognized as advance payments and other payables, respectively.

Upon adoption of KIFRS 1116, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.3.7 Leases beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases
The Group does not have lease agreement previously classified as finance leases.

Leases previously classified as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

2.4.1 KIFRS 1116 Leases (cont'd)

Lease liabilities as of January 1, 2019, and adjustment details of operating leases as of December 31, 2018 are as follow (Korean one in millions)

Operating leases as of December 31, 2018	₩	139,423
The incremental borrowing rate at the January 1, 2019		2.08% ~ 6.95%
Contract discount at the January 1,2019		(13,676)
Less:		(8,123)
Contract relevant to short-term leases		(3,923)
Contract relevant to leases of low-value assets		(4,200)
Lease liabilities as of January 1, 2019	₩	117,624
Other current financial liabilities (lease liabilities)		53,311
Other non-current financial liabilities (lease liabilities)		64,313

2.4.2 KIFRS 2123 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of KIFRS 1012 *Income Taxes*. It does not apply to taxes or levies outside the scope of KIFRS 1012, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

2.4.3 Amendments to KIFRS 1109: Prepayment Features with Negative Compensation

Under KIFRS 1109, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to KIFRS 1109 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

2.4.4 Amendments to KIFRS 1019: Plan Amendment, Curtailment or Settlement

The amendments to KIFRS 1019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

2.4.5 Amendments to KIFRS 1028: *Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies KIFRS 1109 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in KIFRS 1109 applies to such long-term interests. The amendments also clarified that, in applying KIFRS 1109, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying KIFRS 1028 *Investments in Associates and Joint Ventures*. The amendments are retrospectively applied from the fiscal year beginning on or after January 1, 2019, and can be early adopted. These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

2.4.6 Annual Improvements 2015-2017 Cycle

KIFRS 1103 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted and disclosure required. These amendments will apply on future business combinations of the Group.

KIFRS 1111 Joint Arrangements

An entity 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 as defined in KIFRS 1103. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted and disclosure required. These amendments are currently not applicable to the Group but may apply to future transactions.

KIFRS 1012 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group’s current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

2.4.6 Annual Improvements 2015-2017 Cycle (cont'd)

KIFRS 1023 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

2.5 Authorization date

The consolidated financial statements for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on January 29, 2020.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial instruments risk management and policies (Note 43).
- Sensitivity analyses disclosures (Notes 25, 42 and 43).

3.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue from contracts with customers
For judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers, refer to notes 2.3.21 Revenue from contracts with customers.

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew and recognizes right-of-use assets and lease liabilities

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3.2.1 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that non-financial assets may be impaired. The Group performs impairment tests for intangible assets with indefinite useful lives and goodwill every year or when there is an indication of impairment. The Group performs impairment tests for other non-financial assets if there is an indication that their book value is not recoverable. To calculate use value, management estimates expected future cash flows arising from cash generating units (CGU) or assets, and selects an appropriate discount rate to compute the present value of the expected future cash flows. Details including sensitivity analyses of key assumptions are disclosed in Note 18.

3.2.2 Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group’s historical observed default rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables and contract assets is disclosed in Note 43.

3.2.3 Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has tax losses carried forward that may be used to offset taxable income elsewhere in the Group. However, those tax losses are unable to offset taxable income of the Group and the Group has determined that it cannot recognize deferred tax assets on the tax losses carried forward. Further details on taxes are disclosed in Note 36.

3.2.4 Defined benefit plans (pension benefits)

The cost of the defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers market yields on high quality corporate bonds. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. Further details on taxes are disclosed in Note 25.

3.2.5 Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3.2.6 Provision for decommissioning

The Group has recognized a provision for decommissioning obligations associated with leased buildings. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the plant from the site and the expected timing of those costs.

3.2.7 Special taxation for investment and promoting win-win cooperation

The Group shall pay an additional surtax where the use of corporate earnings on qualifying investments, wage increase and win-win cooperation fall below a certain portion of its taxable income. As the Group considers the surtax on its undistributed earnings when computing its corporate income tax, the Group's income tax may change arising from changes in investment, wage growth, or win-win cooperation.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

4.1 Amendments to KIFRS 1103: Definition of a Business

In October 2018, the KASB issued amendments to the definition of a business in KIFRS 1103 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

4.2 Amendments to KIFRS 1001 and KIFRS 1008: *Definition of Material*

In October 2018, the IASB issued amendments to KIFRS 1001 *Presentation of Financial Statements* and KIFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

5. Subsidiaries

The consolidated subsidiaries as of December 31, 2019 and 2018 are as follows:

Subsidiary	Equity ownership (%) 2019	Equity ownership (%) 2018	Country of domicile	Year-end	Principal business
Coca-Cola Beverage Co.	90.00	90.00	Korea	Dec. 31	Production and sales of soft drink
TheFaceShop Co., Ltd.	100.00	100.00	Korea	Dec. 31	Production and sales of cosmetics
HAITAI HTB CO., LTD.	100.00	100.00	Korea	Dec. 31	Production and sales of soft drink
Hankook Beverage Co., Ltd.	100.00	100.00	Korea	Dec. 31	Production and sales of food and beverage
CNP Cosmetics Co., Ltd.	100.00	100.00	Korea	Dec. 31	Sales of cosmetics
K&I Co., Ltd.	100.00	100.00	Korea	Dec. 31	Import and sales of household items
FMG Co., Ltd.(*1)	77.20	70.00	Korea	Dec. 31	Production of cosmetics
Balkeunnuri Co., Ltd.	100.00	100.00	Korea	Dec. 31	Operation of stores and management of service staff
Oriental Biomed lab. Ltd.(*2)	100.00	70.00	Korea	Dec. 31	Production and sales of cosmetics
LG Farouk Co.	50.00	50.00	Korea	Dec. 31	Import and sales of household items
Ulleung Mountain Chu Spring Water Development Co., Ltd.(*3)	-	100.00	Korea	Dec. 31	Production and sales of mineral water
Tai Guk Pharm Co., Ltd.	92.71	92.71	Korea	Dec. 31	Production and sales of Pharmaceutical products
JS Pharmaceutical Co., Ltd.	100.00	100.00	Korea	Dec. 31	Production and sales of Pharmaceutical products
Ulleung Mountain Chu Spring Water Co., Ltd.(*4)	87.03	-	Korea	Dec. 31	Production and sales of mineral water
Rucipello Korea Co., Ltd.(*5)	76.00	-	Korea	Dec. 31	Sales of household items
MiGenstory Co., Ltd.(*6)	100.00	-	Korea	Dec. 31	Genetic analysis services
LG Household & Health Care International Trading (Shanghai) Co., Ltd.	100.00	100.00	China	Dec. 31	Sales of household items and cosmetics
Beijing LG Household Chemical Co., Ltd.	78.00	78.00	China	Dec. 31	Production and sales of household items
Hangzhou LG Cosmetics Co., Ltd.	100.00	100.00	China	Dec. 31	Production and sales of cosmetic raw materials
LG HOUSEHOLD AND HEALTH CARE COSMETICS R AND D (SHANGHAI) CO.,LTD	100.00	100.00	China	Dec. 31	Research and development of cosmetics
THEFACESHOP (Shanghai) Co., Ltd	100.00	100.00	China	Dec. 31	Sales of cosmetics
THEFACESHOP TRADE (Guangdong) Co., Ltd.	100.00	100.00	China	Dec. 31	Sales of cosmetics
Avon Manufacturing(Guangzhou), Ltd.(*7)	100.00	-	China	Dec. 31	Manufacturing of cosmetic
Ginza Stefany Inc.	100.00	100.00	Japan	Dec. 31	Sales of cosmetics and household items
Everlife Co., Ltd.	100.00	100.00	Japan	Dec. 31	Mail order sales of health food and others
Toiletry Japan Inc.	70.00	70.00	Japan	Dec. 31	Sales of household items
FMG&MISISON CO ., Ltd(Formerly, Avon Products co., Ltd.)	100.00	100.00	Japan	Dec. 31	Production and sales of cosmetics and health food
Live & Live Co., Ltd.	100.00	100.00	Japan	Dec. 31	Insurance brokerage business
Fleuve Beaute Inc.	100.00	100.00	Japan	Dec. 31	Production and sales of cosmetics
Evermere Holdings Company(*8)	-	100.00	Japan	Dec. 31	Sales of cosmetics
Evermere Cosmetics Company(*8)	-	100.00	Japan	Dec. 31	Production and sales of cosmetics
Everlifeagency Co., Ltd	100.00	100.00	Japan	Dec. 31	Advertising agency business
LG H&H Tokyo R&D Center Inc.(*9)	100.00	-	Japan	Dec. 31	Research and development of cosmetics
LG Vina Cosmetics Company Limited	60.00	60.00	Vietnam	Dec. 31	Production and sales of household items and cosmetics
LG H&H USA Inc. (Formerly LG Household & Health Care America Inc.)(*10)	100.00	100.00	USA	Dec. 31	Sales of household items and cosmetics
New Avon Company(*11)	100.00	-	USA	Dec. 31	Sales of household items and cosmetics
LG Household & Health Care (Taiwan) Ltd.	100.00	100.00	Taiwan	Dec. 31	Sales of household items and cosmetics
Everlife H&B Co., Ltd.	100.00	100.00	Taiwan	Dec. 31	Sales of health food
LG Household & Health Care (Thailand) Limited	100.00	100.00	Thailand	Dec. 31	Sales of cosmetics
LG H&H HK LIMITED(*12)	100.00	80.00	Hong Kong	Dec. 31	Sales of cosmetics
TFS Singapore Private Limited	100.00	100.00	Singapore	Dec. 31	Sales of cosmetics
Avon Canada Inc.(*13)	100.00	-	Canada	Dec. 31	Sales of cosmetics
FRUITS & PASSION BOUTIQUES INC.(*13)	-	100.00	Canada	Dec. 31	Sales of cosmetics
FRUITS & PASSION IMMOBILIER INC.(*13)	-	100.00	Canada	Dec. 31	Real estate leases
3390306 CANADA INC.(*13)	-	100.00	Canada	Dec. 31	Sales of cosmetics
LG HOUSEHOLD & HEALTH CARE MALAYSIA SDN. BHD.	100.00	100.00	Malaysia	Mar. 31	Sales of cosmetics

5. Subsidiaries (cont'd)

(*1) The Group's equity interest increased to 77.20% due to the recapitalization during the year ended December 31, 2019.

(*2) Due to expiration of the forward contract with existing shareholders of Oriental Biomed lab. Ltd., the Group acquired residual 30% of equity interest during the year ended December 31, 2019.

(*3) Ulleung Mountain Chu Spring Water Development Co., Ltd. was liquidated during the year ended December 31, 2019.

(*4) On January 23, 2019, the Group established Ulleung Mountain Chu Spring Water Co., Ltd. along with Ulleung County, acquiring 87.03% of equity interest, expecting to increase its market competitiveness in production and sales of mineral water.

(*5) On January 30, 2019, the Group acquired 76% equity interest of Rucipello Korea Co., Ltd. expecting to increase its market competitiveness in oral care business by the acquisition.

(*6) On March 13, 2019 the Group exercised the right of conversion on MiGenstory Co., Ltd. and acquired 10% of additional equity interest, obtaining control of the company. The Group also acquired 40% equity interest from existing shareholders. In addition, the Group invested in ₩ 3 billion as recapitalization.

(*7)On February 15, 2019, The Face Shop Co., Ltd., one of subsidiaries, acquired 100% equity interest of Avon Manufacturing(Guangzhou), Ltd.

(*8) On January 1, 2019, Ginza Stefany Inc., one of the subsidiaries, merged the companies.

(*9) On August 23, 2019, the Group established LG H&H Tokyo R&D Center Inc., investing 100% of equity interest.

(*10) On February 2020, LG Household and Health Care America, Inc., one of subsidiaries, changed it corporate name to LG H&H USA Inc.

(*11) On August 14, 2019, the Group acquired 100% of equity interest of New Avon Company expecting to increase its market competitiveness in North American cosmetic business by the acquisition.

(*12) Due to the expiration of the forward contract with existing shareholders of LG Household & Health Care International Trading (Shanghai) Co., Ltd., the Group acquired residual 20% of equity interest during the year ended December 31, 2019.

(*13) The FaceShop Co., Ltd., one of subsidiaries, acquired 100% of equity interest of Avon Canada Inc. expecting to increase its market competitiveness in North American cosmetic business by the acquisition. On October 1, 2019, Avon Canada Inc., FRUITS & PASSION BOUTIQUES INC., FRUITS & PASSION IMMOBILIER INC., and 3390306 CANADA Inc. were merged into one company. The existing corporation is FRUITS & PASSION BOUTIQUES INC. and changed corporate name to Avon Canada Inc.

5. Subsidiaries (cont'd)

Financial information of the subsidiaries as of December 31, 2019 and 2018 is as follows (Korean won in millions):

	2019					
Subsidiary	Total assets	Total liabilities	Total equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Coca-Cola Beverage Co.	₩ 852,715	₩ 209,591	₩ 643,124	₩ 1,264,891	₩ 98,770	₩ 93,919
TheFaceShop Co., Ltd.	352,907	138,977	213,930	314,639	(5,298)	(5,427)
HAITAI HTB CO., LTD.	421,951	162,894	259,057	386,731	2,762	1,435
Hankook Beverage Co., Ltd.	32,753	2,959	29,794	24,075	(3,235)	(3,295)
CNP Cosmetics Co., Ltd.	36,841	10,908	25,933	102,772	13,642	13,477
K&I Co., Ltd.	5,678	3,339	2,339	15,442	258	258
FMG Co., Ltd.	37,728	15,754	21,974	61,952	1,847	1,437
Balkeunnuri Co., Ltd.	1,246	379	867	2,816	114	95
Oriental Biomed lab. Ltd.	5,066	303	4,763	4,173	1,216	1,216
LG Farouk Co.	1,863	13	1,850	299	(27)	(27)
Tai Guk Pharm Co., Ltd.	122,670	30,424	92,246	53,692	3,049	1,946
JS Pharmaceutical Co., Ltd.	3,309	3,845	(536)	6,656	624	434
Ulleung Mountain Chu Spring Water Co., Ltd.	52,460	23	52,437	-	455	455
Rucipello Korea Co., Ltd.	1,529	1,294	235	3,770	163	238
MiGenstory Co., Ltd.	2,871	232	2,639	-	(381)	(381)
LG Household & Health Care International Trading (Shanghai) Co., Ltd.	441,150	233,256	207,894	855,704	82,198	82,346
Beijing LG Household Chemical Co., Ltd.	40,791	17,204	23,587	28,371	1,133	2,205
Hangzhou LG Cosmetics Co., Ltd.	11,558	739	10,819	18,754	(1,091)	(859)
LG HOUSEHOLD AND HEALTH CARE COSMETICS R AND D (SHANGHAI) CO.,LTD	4,109	1,556	2,553	4,269	160	200
THEFACESHOP (Shanghai) Co., Ltd	53,645	63,491	(9,846)	87,540	7,036	6,428
THEFACESHOP TRADE (Guandong) Co., Ltd.	-	-	-	-	-	-
Avon Manufacturing(Guangzhou), Ltd	89,763	20,654	69,109	47,489	(2,122)	(1,992)
Ginza Stefany Inc.	374,678	187,142	187,536	153,272	12,450	12,450
Everlife Co., Ltd.	227,360	21,143	206,217	129,083	12,436	12,436
Toiletry Japan Inc.	4,172	3,204	968	9,525	262	262
FMG&MISSION CO., Ltd (Formerly Avon Products co., Ltd)	64,905	31,502	33,403	102,756	14,875	14,989
Live & Live Co., Ltd.	193	37	156	55	(3)	(3)
Fleuve Beaute Inc.	93	149	(56)	-	(8)	(8)
Everlifeagency Co., Ltd.	8,997	5,951	3,046	60,249	977	977
LG H&H Tokyo R&D Center Inc.	1,200	192	1,008	433	(56)	(131)
LG Vina Cosmetics Company Limited	17,105	6,264	10,841	33,449	783	1,142
LG H&H USA Inc. (Formerly LG Household & Health Care America Inc.)	24,478	10,256	14,222	39,983	1,508	1,934
New Avon Company	359,707	415,118	(55,411)	168,285	(15,124)	19,280
LG Household & Health Care (Taiwan) Ltd.	17,691	10,969	6,722	44,199	(111)	492
Everlife H&B Co., Ltd.	122	1	121	-	(4)	(3)
LG Household & Health Care (Thailand) Limited	11,164	3,270	7,894	10,959	448	1,290
LG H&H HK LIMITED	39,371	21,702	17,669	81,442	5,820	393
TFS Singapore Private Limited	20,208	13,751	6,457	27,241	282	573
Avon Canada Inc.	90,906	77,354	13,552	64,030	(8,825)	4,854
LG household & health care Malaysia SDN. BHD.	14,093	7,219	6,874	18,637	634	916

5. Subsidiaries (cont'd)

	2018					
Subsidiary	Total assets	Total liabilities	Total equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Coca-Cola Beverage Co.	₩ 712,941	₩ 163,736	₩ 549,205	₩ 1,197,451	₩ 89,560	₩ 84,219
TheFaceShop Co., Ltd.	281,160	61,802	219,358	386,557	1,341	1,156
HAITAI HTB CO., LTD.	418,394	160,772	257,622	356,446	747	(145)
Hankook Beverage Co., Ltd.	35,643	2,555	33,088	38,156	1,311	1,269
CNP Cosmetics Co., Ltd.	31,966	9,508	22,458	79,804	9,446	9,579
K&I Co., Ltd.	3,722	1,640	2,082	14,526	325	325
FMG Co., Ltd	31,371	15,330	16,041	53,101	1,652	1,417
Balkeunnuri Co., Ltd.	1,097	325	772	2,512	137	121
Oriental Biomed lab. Ltd.	3,874	328	3,546	3,279	1,019	1,019
LG Farouk Co.	1,896	19	1,877	237	(60)	(60)
Ulleung Mountain Chu Spring Water Development Co., Ltd.	1,202	1,200	2	-	1	1
Tai Guk Pharm Co., Ltd.	111,098	20,798	90,300	48,813	(2,123)	(3,513)
JS Pharmaceutical Co., Ltd.	2,127	3,098	(971)	5,286	91	6
LG Household & Health Care International Trading (Shanghai) Co., Ltd.	292,175	167,759	124,416	609,398	60,829	59,740
Beijing LG Household Chemical Co., Ltd.	39,359	3,045	36,314	27,987	1,355	1,134
Hangzhou LG Cosmetics Co., Ltd.	16,609	4,931	11,678	23,825	554	481
LG HOUSEHOLD AND HEALTH CARE COSMETICS R AND D (SHANGHAI) CO.,LTD	2,874	521	2,353	4,197	114	99
THEFACESHOP (Shanghai) Co., Ltd	17,607	44,344	(26,737)	42,947	(5,471)	(5,235)
THEFACESHOP TRADE (Guandong) Co., Ltd.	-	-	-	-	-	-
Ginza Stefany Inc.	325,666	170,169	155,497	130,963	8,419	8,419
Everlife Co., Ltd.	205,309	26,586	178,723	113,889	10,242	10,242
Toiletry Japan Inc.	4,326	3,651	675	8,860	(271)	(271)
FMG&MISSION CO., Ltd (Formerly Avon Products co., Ltd)	41,723	24,095	17,628	49,143	3,126	3,054
Live & Live Co., Ltd.	214	62	152	71	17	17
Fleuve Beaute Inc.	89	135	(46)	62	(58)	(58)
Evermere Holdings Company	13,419	14,236	(817)	421	157	157
Evermere Cosmetics Company	28,300	6,768	21,532	1,810	(242)	(242)
Everlifeagency Co., Ltd.	6,826	4,851	1,975	47,299	755	755
LG Vina Cosmetics Company Limited	15,307	5,608	9,699	32,836	367	623
LG Household & Health Care America Inc.	20,321	8,032	12,289	34,669	2,175	2,631
LG Household & Health Care (Taiwan) Ltd.	18,694	12,197	6,497	46,746	(820)	(690)
Everlife H&B Co., Ltd.	119	1	118	-	(4)	(10)
LG Household & Health Care (Thailand) Limited	7,396	791	6,605	552	(263)	(117)
LG H&H HK LIMITED	35,395	22,118	13,277	75,269	6,213	6,213
TFS Singapore Private Limited	10,917	5,032	5,885	28,194	1,377	1,479
FRUITS & PASSION BOUTIQUES INC.	16,461	14,926	1,535	40,986	(441)	(515)
FRUITS & PASSION IMMOBILIER INC.	79	46	33	-	-	-
3390306 CANADA INC.	257	-	257	-	-	-
LG household & health care Malaysia SDN. BHD.(formerly Questeam Sdn. Bhd.)	12,887	6,929	5,958	16,563	1,104	1,195

The financial information of the above subsidiaries as of December 31, 2019 and 2018 is based on their separate financial statements.

6. Business combinations

6.1 General

<2019>
A. Acquisition of Rucipello Korea Co., Ltd. by the Company
On January 30, 2019, the Company acquired 76% of equity interest of Rucipello Korea Co., Ltd. expecting to increase its market competitiveness in oral care business by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of *Rucipello Korea Co., Ltd*. from the acquisition date to the end of the current reporting period.

B. Acquisition of power on MiGenstory Co., Ltd. by the Company
On March 13, 2019 the Company exercised its right of conversion on MiGenstory Co., Ltd. and acquired 10% of additional equity interest, obtaining control of the company. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of the MiGenstory Co., Ltd. from the acquisition date to the end of the current reporting period.

C. Acquisition of Avon Manufacturing(Guangzhou), Ltd. by The FaceShop Co., Ltd.
On February 15, 2019 *The FaceShop Co., Ltd.*, a subsidiary of the Company, obtained control of *Avon Manufacturing (Guangzhou),Ltd.* through an acquisition of 100% of equity interest in *Avon Canada*, which is primarily engaged in the manufacturing of cosmetics, and the Group expects to increase its competitiveness in Chinese cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of Avon Manufacturing(Guangzhou), Ltd. from the acquisition date to the end of the current reporting period.

D. Acquisition of 'Whoo' exclusive distribution business by LG HOUSEHOLD&HEALTH CARE MALAYSIA SDN. BHD.
On January 1, 2019, *LG HOUSEHOLD&HEALTH CARE MALAYSIA SDN. BHD.*, a subsidiary of the Company, acquired the 'Whoo' exclusive distribution business of Flawless Skin Care Sdn. Bhd. The Group expects to increase its competitiveness in Malaysian cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of 'Whoo' exclusive distribution business from the acquisition date to the end of the current reporting period.

E. Acquisition of Avon Canada Inc. by The FaceShop Co., Ltd.
On August 14, 2019 *The FaceShop Co., Ltd.*, a subsidiary of the Company, obtained control of *Avon Canada* through an acquisition of 100% of equity interest in *Avon Canada*, which is primarily engaged in the sale of cosmetics, and the Group expects to increase its competitiveness in North American cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of Avon Canada Inc. from the acquisition date to the end of the current reporting period.

F. Acquisition of New Avon Company by the Company
On August 14, 2019, the Group obtained control of Avon Products Co., Ltd. through an acquisition of 100% of equity interest in New Avon Company, which is primarily engaged in the sale of cosmetics, and the Group expects to increase its competitiveness in North American cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of New Avon Company from the acquisition date to the end of the current reporting period.

6. Business combinations (cont'd)

<2018>

A. Acquisition of Tai Guk Pharm Co., Ltd. by the Group

The Group expects to increase its market competitiveness by the acquisition of the Tai Guk Pharm Co., Ltd., which is specializing in skin care products. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of the Tai Guk Pharm Co., Ltd. from the acquisition date to the end of the current reporting period.

B. Acquisition of Avon Products Co., Ltd. by Ginza Stefany Inc.

On July 4, 2018, Ginza Stefany Inc., a subsidiary of the Company, obtained control of Avon Products Co., Ltd. through an acquisition of 100% equity interest in Avon Products Co., Ltd., which is primarily engaged in the sale of cosmetics, and the Group expects to increase its competitiveness in Japanese cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of Avon Products Co., Ltd. from the acquisition date to the end of the current reporting period.

C. Acquisition of 'Whoo' exclusive distribution business by LG Household & Health Care (Thailand) Limited

On July 23, 2018, LG Household & Health Care (Thailand) Limited, a subsidiary of the Company, acquired the 'Whoo' exclusive distribution business of MILLE (THAILAND) COMPANY Ltd. The Group expects to increase its competitiveness in Thai cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of 'Whoo' exclusive distribution business from the acquisition date to the end of the current reporting period.

D. Acquisition of Evermere Holdings Company by Ginza Stefany Inc.

On October 1, 2018, Ginza Stefany Inc., a subsidiary of the Company, obtained control of Evermere Holdings Company through an acquisition of 100% equity interest in Evermere Holdings Company, which is primarily engaged in the sale of cosmetics, and the Group expects to increase its competitiveness in Japanese cosmetics market by the acquisition. The acquisition is accounted for using the acquisition method. The consolidated financial statements for the current reporting period include the financial performance of Evermere Holdings Company from the acquisition date to the end of the current reporting period.

6.2 Identifiable assets and liabilities

Details of identifiable assets and liabilities acquired are as follows (Korean won in millions):
<2019>

	Rucipello Korea Co., Ltd.	MiGenstory Co., Ltd.	Avon Manufacturing (Guangzhou), Ltd.	Malaysian 'Whoo' exclusive distribution business	Avon Canada Inc.	New Avon Company
Assets:						
Cash and cash equivalents	₩ 76	₩ 109	₩ 3,318	₩ -	₩ 2,558	₩ 45,021
Trade receivables	447	-	8,703	-	3,757	17,545
Other receivables	55	72	26,355	-	26,288	16,782
Inventories	420	-	12,249	440	8,127	78,185
Other current assets	1	49	345	-	1,241	13,146
Property, plant and equipment	78	35	38,127	210	2,309	34,665
Right-of-use assets	92	-	6,705	-	19,678	138,094
Deferred tax assets	45	-	437	-	379	-
Other non-current assets	-	-	3	-	-	528
Total assets	1,214	265	96,242	650	64,337	343,966
Liabilities:						
Trade payables	₩ 138	₩ -	₩ 10,961	₩ -	₩ 4,937	₩ 56,284
Other payables	122	240	3,695	-	10,527	63,128
Short-term borrowings	610	-	-	-	15,950	116,131
Lease liabilities	90	-	-	-	19,678	146,810
Other current liabilities	32	5	21	-	15,456	28,846
Deferred tax liabilities	-	-	-	267	-	-
Allowance for Severance and Retirement Benefits	356	27	-	-	15,795	33,207
Other non-current liabilities	-	-	-	-	843	17,698
Total liabilities	₩ 1,348	₩ 272	₩ 14,677	₩ 267	₩ 83,186	₩ 462,104
(a) Fair value of net assets	₩ (134)	₩ (7)	₩ 81,565	₩ 383	₩ (18,849)	₩ (118,138)
(b) Intangible assets arising from acquisition	6	29	-	1,113	5,233	162,309
(c) Goodwill arising from acquisition (*1)	3,598	1,560	-	824	13,616	103,473
(d) Gain on bargain purchase	-	-	(550)	-	-	-
(e) Non-controlling interests	-	(8)	-	-	-	-
(f) Fair value of convertible bond	-	(525)	-	-	-	-
(g) Fair value of Investment in associate	-	(1,049)	-	-	-	-
Total consideration transferred [(a)+(b)+(c)+(d)+(e)+(f)+(g)]	₩ 3,470	₩ -	₩ 81,015	₩ 2,320	₩ -	₩ 147,644

(*1) Goodwill consists of expected synergy effects arising from business combination

<2018>

	Tai Guk Pharm Co., Ltd.	Avon Products Co., Ltd.	'Whoo' exclusive distribution business	Evermere Holdings Company
Assets:				
Cash and cash equivalents	₩ 7,846	₩ 31,097	₩ -	₩ 1,522
Trade receivables	26,982	7,322	-	448
Other receivables	495	2,972	-	-
Inventories	9,318	12,346	312	1,451
Other current assets	632	-	-	-
Property, plant and equipment	31,360	2,644	250	13,942
Deferred tax assets	7,227	7,964	-	-
Other non-current assets	789	2,755	-	3,249
Total assets	₩ 84,649	67,100	562	20,612
Liabilities:				
Trade payables	14,919	10,975	-	182
Other payables	10,119	9,534	-	1,392
Short-term borrowings	26,224	27,134	-	1,591
Long-term borrowings	12,750	1,065	-	9,955
Other current liabilities	13,640	-	-	-
Deferred tax liabilities	-	8,514	-	-
Other non-current liabilities	5,776	5,243	-	1,515
Total liabilities	₩ 83,428	₩ 62,465	₩ -	₩ 14,635
(a) Fair value of net assets	1,221	4,635	562	5,977
(b) Intangible assets arising from acquisition	3,885	25,993		982
(c) Goodwill arising from acquisition (*1)	38,304	75,878	1,747	7,677
(d) Non-controlling interests	446	-	-	-
Total consideration transferred[(a)+(b)+(c)+(d)]	₩ 43,856	₩ 106,506	₩ 2,309	₩ 14,636

(*1) Goodwill consists of expected synergy effects arising from business combination.

6.3 Net cash flows arising from acquisitions of subsidiaries and business transfers

Net cash flows arising from acquisitions of subsidiaries and business transfers (Korean won in millions):

	2019					
	Rucipello Korea Co., Ltd.	MiGenstory Co., Ltd.	Avon Manufacturing (Guangzhou), LTd	Malaysian 'Whoo' exclusive distribution business	Avon Canada Inc.	New Avon Company
Total consideration transferred(*1)	₩ 3,470	₩ -	₩ 81,015	₩ -	₩ -	₩ 147,644
Less: payables(*2)	-	-	(8,558)	-	-	-
Less: Cash and cash equivalents of subsidiary acquired	(76)	(109)	(3,318)	-	(2,557)	(45,021)
Less: Liabilities from retained investment acquired	(833)	-		-	-	-
Net cash and cash equivalents paid (Received) to obtain control	2,561	(109)	69,139	-	(2,557)	102,623

(*1) No consideration transferred was occurred exercising the right of conversion on MiGenstory Co., Ltd. during the year ended December 31, 2019, and total consideration of ₩2,320 million for the acquisition of Malaysian 'Whoo' exclusive distribution business was paid during the year ended December 31, 2018.

(*2) The payables were deposited in escrow accounts on the closing date of February 15, 2019, If outstanding claims do not exist for 24 months after the close of the transaction date, they will be paid to existing shareholders of Avon Manufacturing (Guangzhou), Ltd. The amount deposited in the escrow account is recognized as a long-term guarantee deposit in the consolidated statement of financial position.

	2018			
	Tai Guk Pharm Co., Ltd.	Avon Products Co., Ltd.	'Whoo' exclusive distribution business	Evermere Holdings Company
Total consideration transferred(*1)	₩ -	₩ 106,506	₩ 2,309	₩ 14,636
Less: Cash and cash equivalents of subsidiary acquired	(7,846)	(31,097)	-	(1,522)
Net cash and cash equivalents paid (Received) to obtain control(*2)	₩ (7,846)	₩ 75,409	₩ 2,309	₩ 13,114

(*1) Total consideration transferred of ₩43,856 million for the acquisition of Tai Guk Pharm Co., Ltd. was paid during the year ended December 31, 2017.

(*2) Exchange differences of ₩925 million on translation of foreign operations have not been included. The incidental costs incurred in the acquisition are recorded as selling and administrative expenses in the consolidated statements of income.

6.4 Incurred costs attributable to business combinations

Costs attributable to business combinations in 2019 and 2018 include legal fees and due diligence fees. The Group paid ₩1,279 million and ₩3,436 million in 2019 and 2018, respectively, which are recorded as selling and administrative expenses in the consolidated statements of income.

6.5 Contributed revenue from business combinations (Korean won in millions):

	2019					
	Rucipello Korea Co., Ltd.	MiGenstory Co., Ltd.	Avon Manufacturing (Guangzhou), LTd	Malaysian 'Whoo' exclusive distribution business	Avon Canada Inc.	New Avon Company
Sales	₩ 3,770	₩ -	₩ 47,489	₩ 2,305	₩ 27,841	₩ 168,285
Profit(loss) for the year	163	(381)	(2,122)	(463)	(2,259)	(15,124)

	2018			
	Tai Guk Pharm Co., Ltd.	Avon Products Co., Ltd.	'Whoo' exclusive distribution business	Evermere Holdings Company
Sales	₩ 49,938	₩ 49,217	₩ 552	₩ 1,970
Profit(loss) for the year	(2,444)	4,515	(263)	493

7. Non-controlling interests

The major financial information of the Group's non-controlling interests in subsidiaries as of and for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019						
	Coca-Cola Beverage Co.	Beijing LG Household Chemical Co., Ltd.	LG Vina Cosmetics Company Limited	Tai Guk Co., Ltd.	Other individually immaterial subsidiaries	Intra-group eliminations	Total
NCI percentage	10.00%	22.00%	40.00%	7.29%			
Non-current assets	₩ 705,111	₩ 17,684	₩ 4,960	₩ 78,429			
Current assets	326,120	23,107	12,416	35,197			
Non-current liabilities	(73,452)	(13,041)	(1,423)	(9,844)			
Current liabilities	(175,491)	(4,163)	(4,842)	(21,811)			
Net assets	782,288	23,587	10,841	81,971			
Carrying amount of NCI	78,229	5,189	4,336	5,976	₩ 2,777	₩ (6,153)	₩ 90,354
Sales	1,266,919	28,371	33,449	55,680			
Profit (loss) for the year	95,765	1,133	783	(3,275)			
OCI	(4,912)	1,072	359	(1,293)			
Total comprehensive income	90,853	2,205	1,142	(4,568)			
Profit allocated to NCI	9,577	249	313	(239)	98	77	10,075
OCI allocated to NCI	9,085	485	457	(333)	64	78	9,836
Cash flows from operating activities	16,666	1,283	1,353	801			
Cash flows from investment activities	(6,416)	2,226	(318)	(2,846)			
Cash flows from financing activities	(1,008)	(3,543)	(223)	(27)			
Net increase (decrease) in cash and cash equivalents	₩ 9,242	₩ (34)	₩ 812	₩ (2,072)			

The financial information above reflects adjustments in fair value as of the business combination date.

	2018						
	Coca-Cola Beverage Co.	Beijing LG Household Chemical Co., Ltd.	LG Vina Cosmetics Company Limited	Tai Guk Co., Ltd.	Other individually immaterial subsidiaries	Intra-group eliminations	Total
NCI percentage	10.00%	22.00%	40.00%	7.29%			
Non-current assets	₩ 690,569	4,060	4,570	47,249			
Current assets	202,864	35,299	10,737	60,956			
Non-current liabilities	(52,855)	-	(1,309)	(8,049)			
Current liabilities	(149,143)	(3,045)	(4,299)	(13,617)			
Net assets	691,435	36,314	9,699	86,539			
Carrying amount of NCI	69,139	7,989	3,892	6,309	₩ 1,202	₩ (6,577)	₩ 81,954
Sales	1,202,355	27,987	32,836	49,938			
Profit (loss) for the year	91,078	1,355	367	(2,535)			
OCI	(5,382)	(221)	256	(1,476)			
Total comprehensive income	85,696	1,134	623	(4,011)			
Profit allocated to NCI	9,108	298	147	(185)	(111)	279	9,536
OCI allocated to NCI	8,570	249	249	(292)	(39)	336	9,073
Cash flows from operating activities	13,102	743	269	(1,053)			
Cash flows from investment activities	(7,552)	(850)	(335)	(476)			
Cash flows from financing activities	(10,000)	-	(667)	3,335			
Net increase (decrease) in cash and cash equivalents	₩ (4,450)	₩ (107)	₩ (733)	₩ 1,806			

8. Operating segment information

For management purposes, the Group is organized into business units based on its products and services and has three operating segments, as follows:

Industry	Products or services	Major customers
Healthy	Detergents, shampoos, toothpastes and others	Department stores, wholesalers and others
Beautiful	Skin care, make-up and others	Department stores, duty-free shop, cosmetic stores, wholesalers and others
Refreshing	Coca Cola and other beverage drinks	Wholesalers and others

8. Operating segment information (cont'd)

Details of assets and liabilities of each operating segment as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019			
	Healthy	Beautiful	Refreshing	Total
Assets:				
Segment assets:				
Investments in associates and joint ventures	₩ 56,513	₩ 46	₩ -	₩ 56,559
Property, plant and equipment	319,798	518,027	863,710	1,701,535
Intangible assets	120,267	1,410,118	208,850	1,739,235
Other assets	439,962	938,975	431,569	1,810,506
	936,540	2,867,166	1,504,129	5,307,835
Unallocated assets				1,185,835
Total assets				₩ 6,493,670
Liabilities:				
Segment liabilities	327,826	1,240,268	307,220	1,875,314
Unallocated liabilities				381,268
Total liabilities				₩ 2,256,582

	2018			
	Healthy	Beautiful	Refreshing	Total
Assets:				
Segment assets:				
Investments in associates and joint ventures	₩ 49,364	₩ 3,029	₩ -	₩ 52,393
Property, plant and equipment	256,133	238,422	837,087	1,331,642
Intangible assets	146,997	1,123,213	210,335	1,480,545
Other assets	448,865	785,851	261,348	1,496,064
	901,359	2,150,515	1,308,770	4,360,644
Unallocated assets				915,230
Total assets				₩ 5,275,874
Liabilities:				
Segment liabilities	249,957	657,533	271,367	1,178,857
Unallocated liabilities				502,997
Total liabilities				₩ 1,681,854

8. Operating segment information (cont'd)

Summarized financial information for each operating segment for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019			
	Healthy	Beautiful	Refreshing	Total
Revenue from contracts with customers				
Recognized at a point in time				
Selling finished goods and merchandise	₩ 1,480,537	₩ 4,703,057	₩ 1,449,577	₩ 7,633,171
Recognized over time				
Providing services	6,829	41,605	1,003	49,437
	1,487,366	4,744,662	1,450,580	7,682,608
Rental income	801	1,147	868	2,816
Total sales	1,488,167	4,745,809	1,451,448	7,685,424
Operating profit	125,962	897,708	152,741	1,176,411
Finance income	3,540	11,498	2,048	17,086
Finance costs	(2,469)	(13,471)	(1,833)	(17,773)
Share of profit (loss) of associates and joint ventures	6,874	46	-	6,920
Profit before tax	107,406	837,784	146,891	1,092,081
Depreciation	34,552	123,899	65,490	223,941
Amortization	3,323	22,098	1,658	27,079

	2018			
	Healthy	Beautiful	Refreshing	Total
Revenue from contracts with customers				
Recognized at a point in time				
Selling finished goods and merchandise	₩ 1,452,630	₩ 3,875,430	₩ 1,378,997	₩ 6,707,057
Recognized over time				
Providing services	8,257	28,576	903	37,736
	1,460,887	3,904,006	1,379,900	6,744,793
Rental income	346	1,400	998	2,744
Total sales	1,461,233	3,905,406	1,380,898	6,747,537
Operating profit	120,375	782,668	136,207	1,039,250
Finance income	2,355	3,550	581	6,486
Finance costs	(3,072)	(8,054)	(1,581)	(12,707)
Share of profit (loss) of associates and joint ventures	1,568	(2,887)	-	(1,319)
Profit before tax	106,009	722,240	127,756	956,005
Depreciation	24,171	61,528	49,995	135,694
Amortization	3,679	16,747	1,327	21,753

8. Operating segment information (cont'd)

The information of revenue and non-current assets based on the location of the customers as of and for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		
	Sales	Property, plant and equipment	Intangible assets
Korea	₩ 5,589,413	₩ 1,984,341	₩ 1,380,131
China	1,016,398	90,191	10,666
Japan	412,828	53,817	231,667
Asia - other	353,832	22,432	6,308
North America	276,535	200,660	158,542
Central and South America	852	-	-
Europe	24,011	-	-
Others	11,555	-	-
	₩ 7,685,424	₩ 2,351,441	₩ 1,787,314

	2018		
	Sales	Property, plant and equipment	Intangible assets
Korea	₩ 5,304,995	₩ 1,779,324	₩ 1,308,384
China	763,347	20,435	10,094
Japan	322,324	46,707	194,992
Asia - other	229,577	8,898	18,231
North America	86,952	3,109	13,273
Central and South America	1,099	-	-
Europe	23,660	-	-
Others	15,583	-	-
	₩ 6,747,537	₩ 1,858,473	₩ 1,544,973

Revenue information above is based on the location of customers and non-current asset information is based on the country of location.

There is no single customer who takes more than 10% of the total sales of the Group for the years ended December 31, 2019 and 2018.

9. Cash and cash equivalents

Details of cash and cash equivalents as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Cash on hand	₩ 434	₩ 1,789
Deposits	646,670	394,699
Other cash equivalents	-	156
	₩ 647,104	₩ 396,644

10. Trade and other receivables

Trade and other receivables are presented net of allowance for doubtful accounts. The gross amounts of trade and other receivables as of December 31, 2019 and 2018 are summarized as follows (Korean won in millions):

	2019	2018
Trade receivables	₩ 621,676	₩ 566,838
Other receivables	32,122	21,533
Other loans and receivables	5,157	5,746
	₩ 658,955	₩ 594,117

Changes in the allowance for doubtful accounts for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019			
	Trade Receivable	Other Receivable	Other loans and receivable	Total
Jan. 1, 2019	₩ 10,750	₩ 1,357	₩ 143	₩ 12,250
Impairment	231	760	(81)	910
Write-off	(2,034)	-	-	(2,034)
Increase from business combination	1,535	745	-	2,280
Foreign exchange differences	149	(244)	(7)	(102)
Dec. 31, 2019	₩ 10,631	₩ 2,618	₩ 55	₩ 13,304

	2018			
	Trade Receivable	Other Receivable	Other loans and receivable	Total
Jan. 1, 2018	₩ 6,423	₩ 1,086	₩ -	₩ 7,509
Changes in accounting policies	(730)	196	-	(534)
Impairment	(182)	83	141	42
Write-off	(2,316)	(10)	-	(2,326)
Increase from business combination	7,291	-	-	7,291
Foreign exchange differences	262	2	(1)	263
Others	2	-	3	5
Dec. 31, 2018	₩ 10,750	₩ 1,357	₩ 143	₩ 12,250

10. Trade and other receivables (cont'd)

Details of trade receivables transferred or discounted that do not meet the requirements for derecognition and continue to be recognized at their book value as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018	Remark
Trade receivables	₩ 50,200	₩ 25,948	With recourse

The Group recognizes the nominal value of trade receivables transferred or discounted as short-term borrowings.

11. Inventories

Inventories as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019			2018		
	Acquisition costs	Provision for valuation	Book value	Acquisition costs	Provision for valuation	Book value
Merchandise	₩ 396,811	₩ (63,155)	₩ 333,656	₩ 284,426	₩ (32,537)	₩ 251,889
Finished goods	206,225	(7,173)	199,052	199,015	(5,678)	193,337
Work-in-progress	35,757	(2,001)	33,756	33,493	(153)	33,340
Raw materials	102,555	(4,244)	98,311	82,726	(4,396)	78,330
Supplies	21,231	(2,105)	19,126	11,699	(933)	10,766
Materials-in-transit	62,422	-	62,422	47,086	-	47,086
	₩ 825,001	₩ (78,678)	₩ 746,323	₩ 658,445	₩ (43,697)	₩ 614,748

Changes in provision for loss on valuation of inventories for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
January 1	₩ 43,697	₩ 26,096
Increase from business combination	31,862	6,198
Loss on valuation of inventories	3,569	11,356
Foreign exchange differences	(450)	47
December 31	₩ 78,678	₩ 43,697

12. Other financial assets

Other financial assets as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018	
	Current	Non-current	Current	Non-current
Accrued income	₩ 690	₩ -	₩ 24	₩ -
Financial assets at fair value through profit and loss	-	4,052	-	3,783
Financial assets at fair value through OCI	-	3,610	-	6,291
Lease receivable	399	1,758	-	-
Others	-	47	-	323
	₩ 1,089	₩ 9,467	₩ 24	₩ 10,397

Changes in the financial assets at fair value through profit and loss for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Jan. 1	₩ 6,291	₩ 43,071
Effect of adoption of new accounting standards(remeasurement)	-	(832)
Acquisitions	1	-
Disposals	(10)	-
Transfers(*1)	-	(35,023)
Gain(loss) on valuation	(2,672)	(925)
Dec. 31	₩ 3,610	₩ 6,291

(*1) The Group obtained control of Tai Guk Pharm Co., Ltd. and they were transferred to investment in subsidiaries for the year ended December 31, 2018.

13. Other assets

Other current assets as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018	
	Current	Non-current	Current	Non-current
Advanced payments	₩ 20,159	₩ 19	₩ 60,780	₩ -
Prepaid expenses	23,515	4,557	17,592	6,584
Prepaid value added tax	3,604	-	1,110	-
Prepaid income tax	838	-	490	-
Defined benefit assets(Note 25)	-	3,592	-	12,379
Others	2,528	-	1,047	-
	₩ 50,644	₩ 8,168	₩ 81,109	₩ 18,963

14. Other long-term receivables

Other long-term receivables are presented net of allowance for doubtful accounts. The gross amounts of other long-term receivables as of December 31, 2019 and 2018 are summarized as follows (Korean won in millions):

	2019	2018
Long-term loans	₩ 119	₩ 188
Guarantee deposits	79,747	77,542
Others	5,928	5,766
	₩ 85,794	₩ 83,496

Changes in the allowance for doubtful accounts for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		
	Long-term loans	Guarantee deposits	Total
Jan. 1, 2019	₩ 163	₩ 4,778	₩ 4,941
Changes in accounting policies	-	-	-
Impairment	-	(180)	(180)
Write-off	-	(167)	(167)
Recovery	(13)	-	(13)
Increase from business combination	-	-	-
Foreign exchange differences	(60)	141	81
Dec. 31, 2019	₩ 90	₩ 4,572	₩ 4,662

	2018		
	Long-term loans	Guarantee deposits	Total
Jan. 1, 2018	₩ 53	₩ 3,332	₩ 3,385
Changes in accounting policies	-	2,545	2,545
Impairment	-	(1,183)	(1,183)
Increase from business combination	13	23	36
Foreign exchange differences	97	61	158
Dec. 31, 2018	₩ 163	₩ 4,778	₩ 4,941

The present value discounts of other long-term receivables for the years ended December 31, 2019 and 2018 are ₩ 952 million and ₩ 230 million respectively.

15. Investment in associates and joint ventures

Investment in associates and joint ventures as of December 31, 2019 and 2018 are as follows (Korean won in millions):

Company	Country of domicile	Principal business	Year-end	2019 Number of shares held	2019 Equity ownership (%)	Dec. 31, 2019	2018 Number of shares held	2018 Equity ownership (%)	Dec. 31, 2018
Investment in associates									
LG Uni-charm Co. Ltd.	Korea	Manufacture of paper based hygiene products	Dec. 31	1,470,000	49.00	₩ 56,195	1,470,000	49.00	₩ 52,214
Coty Korea Ltd.	Korea	Import and wholesale trade of cosmetics and others	Dec. 31	62,172	49.50	46	62,172	49.50	-
						₩ 56,241			₩ 52,214
Investment in joint ventures									
Emery Oleochemicals Rika (M) Sdn. Bhd.	Malaysia	Manufacturing raw material	Dec. 31	21,875,000	20.00	₩ 227	21,875,000	20.00	₩ -
Clean Soul Ltd.	Korea	Household product sales	Dec. 31	5,000	50.00	91	5,000	50.00	179
MiGenstory Co., Ltd.(*1)	Korea	Genetic analysis services	Dec. 31	-	-	-	10,000	50.00	-
						₩ 318			₩ 179
						₩ 56,559			₩ 52,393

(*1)On March 13, 2019 the Group exercised its right of conversion on MiGenstory Co., Ltd. and acquired 10% of additional equity interest, obtaining control over the company.

Changes in book values of investments in associates and joint ventures for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

Company	Jan. 1, 2019	Dividends received	Share of profit of associates or joint ventures	Foreign exchange differences	Dec. 31, 2019
	2019				
Investment in associates					
LG Uni-charm Co., Ltd.	₩ 52,214	₩ (2,818)	₩ 6,799	₩ -	₩ 56,195
Coty Korea Ltd.	-	-	46	-	46
	₩ 52,214	₩ (2,818)	₩ 6,845	₩ -	₩ 56,241
Investment in joint ventures					
Emery Oleochemicals Rika (M) Sdn. Bhd.	₩ -	₩ (54)	₩ 163	₩ 118	₩ 227
Clean Soul Ltd.	179	-	(88)	-	91
	₩ 179	₩ (54)	₩ 75	₩ 118	₩ 318
	₩ 52,393	₩ (2,872)	₩ 6,920	₩ 118	₩ 56,559

15. Investment in associates and joint ventures (cont'd)

	2018						
			Share of profit (loss) of joint				
Company	Jan. 1, 2018	Dividends received	The Group's share of profit(loss)	Impairment	Share of other comprehensive loss of a joint venture	Others	Dec. 31, 2018
Investment in associates							
LG Uni-charm Co., Ltd.	₩ 49,011	₩ (2,205)	₩ 5,408	-	₩ -	₩ -	₩ 52,214
Coty Korea Ltd.	-	-	-	-	-	-	-
	₩ 49,011	₩ (2,205)	₩ 5,408	-	₩ -	₩ -	₩ 52,214
Investment in joint ventures							
Emery Oleochemicals Rika (M) Sdn. Bhd.	₩ 3,853	₩ (259)	₩ 113	(3,999)	₩ 292	₩ -	₩ -
Clean Soul Ltd.	132	-	47	-	-	-	179
MiGenstory Co., Ltd	2,519	-	(2,888)	-	-	369	-
	₩ 6,504	₩ (259)	₩ (2,728)	(3,999)	₩ 292	₩ 369	₩ 179
	₩ 55,515	₩ (2,464)	₩ 2,680	(3,999)	₩ 292	₩ 369	₩ 52,393

Summarized financial information of the associates and joint ventures as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019						
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating profit	Profit for the year
Investment in associates							
LG Uni-charm Co., Ltd.	₩ 97,435	₩ 47,316	₩ 25,863	₩ 1,745	₩ 137,642	₩ 16,573	₩ 13,665
Coty Korea Ltd.	12,137	2,552	8,016	670	25,610	4,987	4,773
	₩ 109,572	₩ 49,868	₩ 33,879	₩ 2,415	₩ 163,252	₩ 21,560	₩ 18,438
Investment in joint ventures							
Emery Oleochemicals Rika (M) Sdn. Bhd.	₩ 29,667	₩ 7,026	₩ 3,812	₩ 888	₩ 49,308	₩ 392	₩ 829
Clean Soul Ltd.	723	6	548	-	3,495	(181)	(176)
	₩ 30,390	₩ 7,032	₩ 4,360	₩ 888	₩ 52,803	₩ 211	₩ 653
	₩ 139,962	₩ 56,900	₩ 38,239	₩ 3,303	₩ 216,055	₩ 21,771	₩ 19,091

	2018						
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating profit	Profit for the year
Investment in associates							
LG Uni-charm Co., Ltd.	₩ 90,750	₩ 49,636	₩ 28,871	₩ 2,285	₩ 147,809	₩ 14,010	₩ 11,562
Coty Korea Ltd.	8,918	1,490	9,686	197	18,960	935	749
	₩ 99,668	₩ 51,126	₩ 38,557	₩ 2,482	₩ 166,769	₩ 14,945	₩ 12,311
Investment in joint ventures							
Emery Oleochemicals Rika (M) Sdn. Bhd.	₩ 27,594	₩ 6,763	₩ 3,369	₩ 958	₩ 64,838	₩ 182	₩ 547
Clean Soul Ltd.	806	6	456	-	4,177	91	91
MiGenstory Co., Ltd.	1,449	90	564	1,171	-	(5,741)	(5,775)
	₩ 29,849	₩ 6,859	₩ 4,389	₩ 2,129	₩ 69,015	₩ (5,468)	₩ (5,137)
	₩ 129,517	₩ 57,985	₩ 42,946	₩ 4,611	₩ 235,784	₩ 9,477	₩ 7,174

15. Investment in associates and joint ventures (cont'd)

Summarized financial information of the associates and joint ventures, and reconciliation with the carrying amount of the investment in the consolidated financial statements as of December 31, 2019 and 2018 and the years then ended is set out below (Korean won in millions):

	2019					
Company	Net assets	Equity of net assets	Variance of investment	Internal transaction	Accumulated loss	Book value
Investment in associates						
LG Uni-charm Co., Ltd.	₩ 117,143	₩ 57,400	₩ 944	₩ (2,149)	₩ -	₩ 56,195
Coty Korea Ltd.	6,003	2,972	56	(2,982)	-	46
	₩ 123,146	₩ 60,372	₩ 1,000	₩ (5,131)	₩ -	₩ 56,241
Investment in joint ventures						
Emery Oleochemicals Rika (M) Sdn. Bhd.	₩ 31,993	₩ 6,399	₩ -	₩ (5)	₩ (6,167)	₩ 227
Clean Soul Ltd.	181	91	-	-	-	91
	₩ 32,174	₩ 6,490	₩ -	₩ (5)	₩ (6,167)	₩ 318
	₩ 155,320	₩ 66,862	₩ 1,000	₩ (5,136)	₩ (6,167)	₩ 56,559

	2018							
Company	Net assets	Equity of net assets	Variance of investment	Internal transaction	Accumulated loss	Accumulated non-reflected loss	Others(*1)	Book value
Investment in associates								
LG Uni-charm Co., Ltd.	₩ 109,230	₩ 53,523	₩ 944	₩ (2,253)	₩ -	₩	₩	₩ 52,214
Coty Korea Ltd.	525	260	56	(1,383)	1,067			-
	₩ 109,755	₩ 53,783	₩ 1,000	₩ (3,636)	₩ 1,067	₩	₩	₩ 52,214
Investment in joint ventures								
Emery Oleochemicals Rika (M) Sdn. Bhd.	₩ 30,030	₩ 6,006	₩ -	₩ (1)	₩ (6,167)	₩ 162	₩ -	₩ -
Clean Soul Ltd.	356	179	-	-	-	-	-	179
MiGenstory Co., Ltd.	(196)	(98)	-	(271)	-	-	369	-
	₩ 30,190	₩ 6,087	₩ -	₩ (272)	₩ (6,167)	₩ 162	₩ 369	₩ 179
	₩ 139,945	₩ 59,870	₩ 1,000	₩ (3,908)	₩ 5,100	₩ 162	₩ 369	₩ 52,393

(*1) Because book value of the joint ventures does not exist as of December 31, 2018, due to accumulated loss, the share of loss of joint ventures were reflected at financial assets at fair value through profit and loss.

Emery Oleochemics Rika (M) Sdn. Bhd., Clean Soul Ltd. and MiGenstory Co., Ltd., are the companies that manufacture raw materials, sell household goods and analyze genes, respectively, are joint ventures where the Group is involved. The Group has a right to the net assets of these companies. Therefore, the Group classified investment assets of these companies as joint ventures.

16. Property, plant and equipment

Book values of property, plant and equipment as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019									
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Furniture and fixtures	Other PP&E	Construction-in-progress	Total
Book value as of Jan. 1, 2019	₩ 618,355	₩ 586,052	₩ 48,390	₩ 309,861	₩ 12,748	₩ 31,347	₩ 118,673	₩ 3,510	₩ 84,352	₩ 1,813,288
Acquisition cost	618,355	734,881	78,397	746,206	57,860	148,924	436,204	27,358	84,352	2,932,537
Accumulated depreciation	-	(148,829)	(29,645)	(432,614)	(45,092)	(117,409)	(304,932)	(23,848)	-	(1,102,369)
Accumulated impairment loss	-	-	(362)	(3,731)	-	(168)	(12,190)	-	-	(16,451)
Government grants	-	-	-	-	(20)	-	(409)	-	-	(429)
Increase from business combination	2,564	42,744	3,671	8,242	4	455	16,856	-	2,871	77,407
Acquisitions	6,848	955	253	2,991	580	5,019	34,038	46	256,231	306,961
Disposals	(2,368)	(2,832)	(527)	(1,198)	(111)	(221)	(6,606)	-	(266)	(14,129)
Depreciation	-	(18,891)	(3,233)	(51,297)	(4,103)	(17,331)	(48,516)	(1,419)	-	(144,790)
Impairment loss	-	(1,397)	(190)	(3,831)	(8)	(120)	(2,627)	-	-	(8,173)
Others(*1)	20,736	15,343	5,580	54,550	6,210	15,820	7,840	188	(122,405)	3,862
Foreign exchange differences	1,075	808	(65)	(45)	3	16	186	3	(362)	1,619
Book value as of Dec. 31, 2019	₩ 647,210	₩ 622,782	₩ 53,879	₩ 319,273	₩ 15,323	₩ 34,985	₩ 119,844	₩ 2,328	₩ 220,421	₩ 2,036,045
Acquisition cost	647,210	828,006	86,608	841,397	58,534	165,195	455,451	26,782	220,421	3,329,604
Accumulated depreciation	-	(202,405)	(32,447)	(515,142)	(43,189)	(129,531)	(324,356)	(24,454)	-	(1,271,524)
Accumulated impairment loss	-	(2,819)	(282)	(6,982)	(8)	(679)	(10,968)	-	-	(21,738)
Government grants	-	-	-	-	(14)	-	(283)	-	-	(297)

(*1) Others includes amounts transferred out from machinery and equipment to finance lease receivables of (-)₩2,353 million from, construction-in-progress to intangible assets of (-)₩11,645 million, amounts transferred in resulting from the capitalization of borrowing costs of ₩2,908 million (at the capitalization rate of 2.47%), amounts transferred out from advanced payments to construction-in-progress of ₩764 million and amounts resulted from recording the reconstruction provision for decommissioning of ₩1,335 million.

	2018									
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Furniture and fixtures	Other PP&E	Construction-in-progress	Total
Book value as of Jan. 1, 2018	₩ 570,756	₩ 355,155	₩ 40,057	₩ 286,992	₩ 10,679	₩ 30,325	₩ 122,570	₩ 4,142	₩ 195,918	₩ 1,616,594
Acquisition cost	570,756	481,470	65,918	674,836	57,225	145,654	442,669	27,318	195,918	2,661,764
Accumulated depreciation	-	(126,315)	(25,499)	(386,712)	(46,520)	(115,306)	(309,552)	(23,176)	-	(1,033,080)
Accumulated impairment loss	-	-	(362)	(1,132)	-	(23)	(10,016)	-	-	(11,533)
Government grants	-	-	-	-	(26)	-	(531)	-	-	(557)
Increase from business combination	13,631	24,615	1,603	6,684	3	204	1,627	-	73	48,440
Acquisitions	-	3,159	163	3,108	908	4,639	38,666	-	279,254	329,897
Disposals	(158)	(5,524)	(271)	(1,470)	(188)	(211)	(3,315)	-	-	(11,137)
Depreciation	-	(15,856)	(2,734)	(45,920)	(3,854)	(16,578)	(48,788)	(1,654)	-	(135,384)
Impairment loss	-	-	-	(2,801)	-	(151)	(7,896)	-	-	(10,848)
Others	32,884	223,654	9,534	63,267	5,197	13,083	15,801	1,022	(390,901)	(26,459)
Foreign exchange differences	1,242	849	38	1	3	36	8	-	8	2,185
Book value as of Dec. 31, 2018	₩ 618,355	₩ 586,052	₩ 48,390	₩ 309,861	₩ 12,748	₩ 31,347	₩ 118,673	₩ 3,510	₩ 84,352	₩ 1,813,288
Acquisition cost	618,355	734,881	78,397	746,206	57,860	148,924	436,204	27,358	84,352	2,932,537
Accumulated depreciation	-	(148,829)	(29,645)	(432,614)	(45,092)	(117,409)	(304,932)	(23,848)	-	(1,102,369)
Accumulated impairment loss	-	-	(362)	(3,731)	-	(168)	(12,190)	-	-	(16,451)
Government grants	-	-	-	-	(20)	-	(409)	-	-	(429)

(*1) Others includes amounts transferred out from construction-in-progress to intangible assets of (-)₩10,590 million, amounts transferred out from land and buildings to investment property of (-)₩19,332 million and amounts transferred in resulting from the capitalization of borrowing costs of ₩3,464 million (at the capitalization rate of 2.76%).

16. Property, plant and equipment (cont'd)

Details of property, plant and equipment pledged as security by the Group as of December 31, 2019 are as follows:

	Pledged asset	Book value	Pledged amount	Type	Borrowing amount	Mortgage
HAITAI HTB CO., LTD.	Land, building, and equipment, etc.	₩ 29,178	₩ 26,000	General loan	₩ -	Kookmin Bank Co.,Ltd.
FMG Co., Ltd.	Land and building	21,285	13,200	General loan	7,132	Shinhan Bank Co., Ltd.
LG Vina Cosmetics Company Limited	Building and equipment	889	2,956	Operating capital loan	-	Shinhan Vina Bank

17. Investment property

Book values of investment properties as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019			
	Land	Buildings	Structures	Total
Book value as of Jan. 1, 2019	₩ 23,565	₩ 21,591	₩ 28	₩ 45,184
Acquisition cost	23,876	35,157	130	59,163
Accumulated depreciation	-	(12,504)	(40)	(12,544)
Accumulated impairment loss	(311)	(1,062)	(62)	(1,435)
Disposals	(185)	(55)	-	(240)
Depreciation	-	(648)	(2)	(650)
Impairment loss	(6)	(2,070)	-	(2,076)
Foreign exchange differences	21	-	-	21
Book value as of Dec. 31, 2019	₩ 23,395	₩ 18,818	₩ 26	₩ 42,239
Acquisition cost	23,678	35,061	130	58,869
Accumulated depreciation	-	(13,113)	(42)	(13,155)
Accumulated impairment loss	(283)	(3,130)	(62)	(3,475)

	2018			
	Land	Buildings	Structures	Total
Book value as of Jan. 1, 2018	₩ 18,332	₩ 8,705	₩ 30	₩ 27,067
Acquisition cost	18,643	13,815	130	32,588
Accumulated depreciation	-	(4,980)	(38)	(5,018)
Accumulated impairment loss	(311)	(130)	(62)	(503)
Depreciation	-	(308)	(2)	(310)
Impairment loss	-	(932)	-	(932)
Transfers(*1)	5,207	14,126	-	19,333
Foreign exchange differences	26	-	-	26
Book value as of Dec. 31, 2018	₩ 23,565	₩ 21,591	₩ 28	₩ 45,184
Acquisition cost	23,876	35,157	130	59,163
Accumulated depreciation	-	(12,504)	(40)	(12,544)
Accumulated impairment loss	(311)	(1,062)	(62)	(1,435)

(*1) Transfers represent amounts transferred out from property, plant and equipment to investment properties.

Details of income recognized in connection with investment properties for the years ended 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Rental income	₩ 211	₩ 1,056
Administration expense	1,163	2,202

The fair values of investment properties as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Fair values of investment properties	₩ 44,717	₩ 45,006

The Group did not revaluate the fair values of investment properties as the Group concluded that the changes in fair values subsequent the latest valuation are not significant.

18. Intangible assets

Changes in intangible assets for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019											
		Goodwill		Industrial property rights		Software		Facility usage rights		Others (*1)		Total
Jan. 1, 2019	₩	824,930	₩	23,708	₩	40,757	₩	18,491	₩	637,087	₩	1,544,973
Acquisitions		-		4,666		1,861		446		2,417		9,390
Disposals		-		(555)		(1,243)		(38)		(110)		(1,946)
Increase from business combination		123,071		14		12,487		-		156,188		291,760
Transfers (*2)		(20,735)		-		11,713		125		(68)		(8,965)
Impairment		(40,259)		-		-		-		(1,258)		(41,517)
Amortization		-		(3,881)		(13,023)		-		(10,175)		(27,079)
Foreign exchange differences		15,637		26		110		-		4,925		20,698
Dec. 31, 2019	₩	902,644	₩	23,978	₩	52,662	₩	19,024	₩	789,006	₩	1,787,314

(*1) Other intangible assets include Bottler's Agreements, brand values and customer relationships.

(*2) Transfers consist of intangible assets of ₩11,645 million which were transferred from construction-in-progress.

	2018											
		Goodwill		Industrial property rights		Software		Facility usage rights		Others (*1)		Total
Jan. 1, 2018	₩	711,005	₩	22,343	₩	36,664	₩	18,527	₩	604,260	₩	1,392,799
Acquisitions		-		4,954		1,895		-		901		7,750
Disposals		-		(435)		-		(36)		-		(471)
Increase from business combination		122,511		464		1,044		-		28,909		152,928
Transfers (*2)		-		-		10,590		-		-		10,590
Impairment		(28,981)		-		-		-		-		(28,981)
Amortization		-		(3,625)		(10,184)		-		(7,944)		(21,753)
Foreign exchange differences		20,395		7		748		-		10,961		32,111
Dec. 31, 2018	₩	824,930	₩	23,708	₩	40,757	₩	18,491	₩	637,087	₩	1,544,973

(*1) Other intangible assets include Bottler's Agreements, brand values and customer relationships.

(*2) Transfers consist of intangible assets which were transferred from construction-in-progress.

Total research and development costs incurred for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018
Cost of sales	₩	11,923	₩	9,599
Selling and administrative expenses		26,047		21,118
	₩	37,970	₩	30,717

To perform impairment tests for goodwill, goodwill is allocated to units at the lowest level that can supervise information on goodwill for the purpose of internal control of the Group. The units are not higher than the operating segments of the Group described in Note 8.

18. Intangible assets (cont'd)

Goodwill allocated to the cash generating units as of December 31, 2019 and 2018 are as follows (Korean won in millions):

Cash generating units	2019	2018
Domestic beautiful (*1)	₩ 253,076	₩ 298,269
Domestic healthy (*1)	70,781	73,501
Domestic refreshing	34,503	34,503
Everlife Co., Ltd.	231,123	220,194
Ginza Stefany Inc.	95,132	83,089
FMG&MISSION CO., Ltd (Formerly Avon Products co., Ltd)	79,555	75,793
Evermere Holdings Company	-	7,971
TFS Singapore Private Limited.	13,475	12,843
LG HOUSEHOLD & HEALTH CARE MALAYSIA SDN. BHD. (formerly, Questeam Sdn. Bhd.)	4,523	3,495
LG Household & Health Care (Thailand) Limited	1,113	1,773
Avon Canada Inc.(*1)	13,211	6,662
LG H&H HK LIMITED	7,119	6,837
New Avon Company	99,033	-
	₩ 902,644	₩ 824,930

(*1) TheFaceShop Co., Ltd. and CNP Cosmetics Co., Ltd. cash generating units are included in Domestic beautiful, while Tai Guk Pharm Co., Ltd. is included in Domestic healthy.

The value in use of the above cash generating units was assessed by discounting future cash flows to be generated as the cash generating units continue to operate. Unless stated otherwise, the value in use in 2019 was assessed similarly from the value in use assessed in 2018. The value in use was calculated based on the following key assumptions:

- Cash flows were estimated based on past experiences, actual operating results and budget forecasts for the next five years
- Sales growth rates for the next five years have been calculated based on the past trends of the average growth rates, and the cash flows after the next five years were calculated based on a perpetual growth rate of 1%
- To determine recoverable amounts per cash generating unit, the cash generating unit's weighted average cost of capital was used as a discount rate. The weighted average costs of capital of main cash generating units are as follows:

Cash generating units	2019	2018
Domestic beautiful	11.26% ~ 12.35%	11.33% ~ 12.32%
Domestic healthy	11.59% ~ 16.81%	11.30% ~ 12.28%
Domestic refreshing	6.12%	6.10%
Everlife Co., Ltd.	7.42%	7.26%
Ginza Stefany Inc.	7.36%	7.24%
FMG&MISSION CO., Ltd (Formerly Avon Products co., Ltd)	7.44%	6.12%
Evermere Holdings Company	-	6.12%
TFS Singapore Private Limited.	6.35%	7.13%
LG HOUSEHOLD & HEALTH CARE MALAYSIA SDN. BHD. (formerly, Questeam Sdn. Bhd.)	8.95%	9.52%
LG Household & Health Care (Thailand) Limited	9.24%	12.34%
Avon Canada Inc.	8.89%	5.97%
LG H&H HK LIMITED	7.58%	7.49%
New Avon Company	8.66%	-

18. Intangible assets (cont'd)

The value in use calculated based on major assumptions indicates estimates on the future trends of cosmetics, beverage and health food businesses and as a result of impairment tests based on internal and external data (historical data), the value in use of each cash generating unit exceeded the carrying amount, except for TheFaceShop Co., Ltd. cash generating unit.

As of December 31, 2019, the recoverable amounts of the cash generating units, to which goodwill is allocated, are ₩10,243 billion, which exceeds the book value of ₩4,127 billion by ₩6,116 billion.

However, the recoverable amounts of The Face Shop Co., Ltd. cash generating unit and Tai Guk Pharm Co., Ltd. are ₩335,809 million and ₩97,375 million respectively, which are not exceed the book value of ₩360,267 million and ₩104,189. Therefore, the Group recognized impairment loss of ₩24,458 million and ₩6,814 million, which is included in other non-operating expense.

On October 1, 2019, FRUITS & PASSION BOUTIQUES INC., a subsidiary of TheFaceShop Co., Avon was merged into Avon Canada Inc..(Refer to note 5)

Before the merger, the recoverable amount and the book value of FRUITS & PASSION BOUTIQUES INC.'s cash generating unit were ₩13,518 million and ₩21,790 million respectively. With recoverable amounts not exceeding the book value, the Group recognized impairment loss of ₩7,427 million on goodwill and ₩1,151 million on brand value, which is included in other non-operating expense. As of December 31, 2019, the recoverable amounts of Avon Canada Inc.'s cash generating unit exceeded the book value after merger.

The Group recognized impairment loss of ₩1,560 million on the full goodwill balance of MiGenstory Co., Ltd., which the Group acquired during the year ended December 31, 2019. The amount is included in other non-operating expense.

Details of intangible assets with indefinite useful lives, which are allocated to the cash generating units as of December 31, 2019 and 2018 are as follows (Korean won in millions):

Cash generating units	2019	2018	Details
Domestic beautiful	₩ 218,013	₩ 218,013	Brand value
Domestic healthy	30,487	30,487	Brand value
Domestic refreshing	166,777	166,777	Bottler's Agreement of Coca-cola Beverage Co.
Everlife Co., Ltd.	87,013	82,898	Brand value
Ginza Stefany Inc.	65,784	62,674	Brand value
FMG&MISSION CO., Ltd (Formerly Avon Products co., Ltd)	17,179	16,366	Brand value
Avon Canada Inc.	5,010	5,669	Brand value
New Avon Company	133,513	-	Brand value
	₩ 723,776	₩ 582,884	

Key assumptions used in impairment tests for cash generating units inclusive of intangible assets with indefinite useful lives are the same as those used in goodwill impairment tests, and as a result of the impairment tests, the value in use exceeds the carrying amounts.

19. Trade and other payables

Details of trade and other payables as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018
	Current	Non-current	Current
Trade payables	₩ 290,674	₩ -	₩ 215,581
Other payables:			
Non-trade payables	348,996	8,646	254,780
Container deposit liabilities	3,655	-	3,860
	352,651	8,646	258,640
	₩ 643,325	₩ 8,646	₩ 474,221

20. Short-term borrowings

Details of short-term borrowings as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	Lender	Annual interest rate as of Dec. 31, 2019 (%)	2019	2018
Commercial Paper	Shinhan Bank Co., Ltd.	1.99	₩ 30,000	₩ 20,000
	Citibank Japan Ltd.	JPY TIBOR 3M + 0.48	5,317	-
	Mirae Asset Daewoo Co., Ltd	-	-	20,000
General loan	Shinhan Bank Co.,Ltd.	2.85 ~ 2.91	3,265	11,356
	Kookmin Bank Co.,LTD	3.92	540	-
	Bank Of China Seoul Branch Co.,Ltd.	2.36	13,000	4,000
	Sumitomo Mitsui Banking Corp. Seoul Branch	2.26	9,000	5,000
	Sumitomo Mitsui Banking Corp.	JPY TIBOR 3M + 0.45	31,904	1,520
	Mitzbissi Tokyo UFJ Bank Seoul Branch CO.,LTD.	2.26	12,000	7,000
	Mitzbissi Tokyo UFJ Bank CO.,LTD.	JPY TIBOR 3M + 0.48	21,269	
	Mizuho Bank, Ltd.	-	-	7,091
	Citibank Canada Ltd.	-	-	4,102
	Citibank Taiwan Ltd.	-	-	3,475
	Citibank Japan Ltd. and others	-	-	101,318
	Citibank	3.01	111,149	-
Receivable-backed loan (*1)	Citibank Korea Inc. and others	1.85 ~ 3.04	50,200	25,948
			₩ 287,644	₩ 210,810

(*1) The Group has entered into factoring arrangements with recourse on its export trade receivables discounted with recourse with Citibank Korea Inc. and other financial institutions. Outstanding amounts have been recorded as short-term borrowings.

21. Long-term borrowings and debentures

Details of long-term borrowings as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	Lender	Maturity	Annual interest rate as of Dec. 31, 2019 (%)	2019	2018
Long-term facility loan	Shinhan Bank Co., Ltd.	Nov. 25, 2021	2.87	₩ 7,132	₩ 10,698
	Mitzbissi Tokyo UFJ Bank Seoul Branch CO.,LTD	-	-	-	10,000
				7,132	20,698
Less: Current portion of long-term borrowings				(3,566)	(13,566)
				₩ 3,566	₩ 7,132

Details of long-term debentures as of December 31, 2019 and 2018 are as follows (Korean won in millions):

Series of debentures	Maturity	Coupon rate as of Dec. 31, 2019 (%)	2019	2018
Unsecured debentures No.11-2	Apr. 14, 2019	-	₩ -	₩ 150,000
Unsecured debentures No.12-2	Feb. 06, 2020	2.23	100,000	100,000
Debentures No. 1	Feb. 12, 2022	2.79	20,000	-
Debentures No. 2	Feb. 18, 2022	2.79	10,000	-
			130,000	250,000
Less: Discount on debentures			(9)	(131)
Less: Current portion of long-term debentures			(99,991)	(149,962)
			₩ 30,000	₩ 99,907

22. Refund liabilities

Changes in refund liabilities for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
January 1	₩ 16,700	₩ 10,249
Additions	12,432	7,753
Utilization	(13,307)	(15,066)
Increase from business combination	1,547	13,690
Foreign exchange differences	135	74
December 31	₩ 17,507	₩ 16,700

The Group recognized right of returns when settles those refund liabilities, which are amounts of the Group's right to withdraw the products from customers. The amounts of right of return assets included in other current assets as of December 31, 2019 and 2018 are ₩1,892 million and ₩381 million, respectively.

23. Other financial liabilities

Details of other financial liabilities as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018	
	Current	Non-current	Current	Non-current
Accrued expenses	₩ 272,801	₩ 6,704	₩ 197,247	₩ -
Dividends payable	128	-	117	-
Lease liabilities	77,890	198,587	17	29
Financial liabilities at fair value through profit and loss	-	1,576	-	1,900
Others (*1)	833	20,269	2,318	22,008
	₩ 351,652	₩ 227,136	₩ 199,699	₩ 23,937

(*1) As share purchase agreement prescribes that the group purchase the remining shares from shareholders of FMG Co., Ltd., Tai Guk Pharm Co., Ltd., and Rucipello Korea Co., Ltd., the Group recognized the amount of the remaining shares estimated value as financial liabilities.

24. Other liabilities

Details of other liabilities as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018	
	Current	Non-current	Current	Non-current
Contract liabilities	₩ 78,273	₩ 259	₩ 27,008	₩ 302
Advance received	17,235	9,952	16,752	-
Withholdings of value added tax	46,522	-	36,570	-
Withholdings	20,071	-	16,816	-
Other long-term employee benefits liabilities	-	33,698	-	27,287
Other provision	4,134	3,653	3,574	2,828
Others	522	-	576	-
	₩ 166,757	₩ 47,562	₩ 101,296	₩ 30,417

Changes in contract liabilities for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	Deferred revenue	Advance received	Unearned income	Total
January 1, 2019	₩ 25,709	₩ 1,046	₩ 555	₩ 27,310
Increase from business combination	41,628	271	-	41,899
Revenue recognized	(58,782)	(1,011)	(165)	(59,958)
Additions	62,077	8,211	(26)	70,262
Foreign exchange differences	(941)	(68)	28	(981)
December 31, 2019	₩ 69,691	₩ 8,449	₩ 392	₩ 78,532

Performance obligation relating to ₩259 million of unearned income as of December 31, 2019, is expected to be fulfilled after 1 year.

	Deferred revenue	Advance received	Unearned income	Total
January 1, 2018	₩ 24,230	₩ 2,481	₩ 735	₩ 27,446
Revenue recognized	(77,367)	(2,457)	(277)	(80,101)
Additions	78,984	1,015	95	80,094
Foreign exchange differences	(138)	7	2	(129)
December 31, 2018	₩ 25,709	₩ 1,046	₩ 555	₩ 27,310

Performance obligation relating to ₩302 million of unearned incomefor as of December 31, 2018, is expected to be fulfilled after 1 year.

24. Other liabilities (cont'd)

Details of other provisions as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018	
	Current	Non-current	Current	Non-current
Provision for decommissioning(*1)	₩ -	₩ 3,323	₩ -	₩ 2,683
Provision for supporting subcontractors(*2)	3,852	-	3,574	-
Restructuring provision	-	276	-	145
Others	282	54	-	-
	₩ 4,134	₩ 3,653	₩ 3,574	₩ 2,828

(*1) The Group estimates the costs to remove or demolish leasehold improvements and to restore leased land to its original condition upon expiry of the lease, and recognizes provisions for the costs on an annual basis.

(*2) The Group estimates the costs to purchase and destruct raw materials, subcontractors possessed to produce the Group's finished goods, which would not be used because of certain discontinued plans, and recognizes provisions for the costs on an annual basis.

25. Employee Benefits

Details of the severance and retirement benefit liabilities as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Present value of defined benefit obligations (*1)	₩ 981,946	₩ 338,723
Fair value of plan assets	(918,005)	(316,845)
Less: Defined benefit assets (Note 13)	(3,592)	(12,379)
	₩ 67,533	₩ 34,257

(*1) The present value of defined benefit liabilities is the amount after deducting the national pension plan. The national pension plan amount as of December 31, 2019 and 2018 are ₩237 million and ₩249 million, respectively.

Changes in the present value of the defined benefit obligation for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
January 1	₩ 338,723	₩ 295,919
Current service costs	45,511	43,879
Past service costs	-	(731)
Interest costs	13,880	9,059
Re-measurement gain(loss) in OCI:		
Actuarial changes arising from changes in demographic assumptions	3,502	433
Actuarial changes arising from changes in financial assumptions	131	12,026
Gain from experience adjustments	15,073	(1,188)
Benefit paid	(48,960)	(27,798)
Transfer in	(807)	879
Increase from business combination	640,560	6,220
Others		-
Foreign exchange differences	(25,667)	25
December 31	₩ 981,946	₩ 338,723

25. Employee Benefits (cont'd)

Details of expenses recognized for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Defined benefit plans		
Service costs:		
Current service costs	₩ 45,511	₩ 43,879
Past service costs	-	(731)
Net interest on post-employment benefit liabilities:		
Interest costs on defined benefit obligation	13,880	9,059
Interest income on plan assets	(12,994)	(8,215)
Administrative expenses on plan assets	1,204	448
	47,601	44,440
Defined contribution plans	3,035	2,034
Others	1,668	578
	₩ 52,304	₩ 47,052

Among total costs for the years ended December 31, 2019 and 2018, ₩11,184 million and ₩10,579 million are included in cost of goods sold, and ₩41,120 million and ₩36,473 million are included in selling and administrative expenses.

The Group has no unpaid contribution to the defined contribution plans as of December 31, 2019.

Changes in the fair value of plan assets for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
January 1	₩ 316,845	₩ 270,880
Interest income (*1)	12,994	8,215
Re-measurement factors of defined benefits obligation	(653)	(3,110)
Employee contributions	67,571	64,758
Benefit paid from plan assets	(44,395)	(23,360)
Increase from business combination	573,979	669
Others (*2)	(8,336)	(1,207)
December 31	₩ 918,005	₩ 316,845

(*1) Interest income earned from plan assets for the years ended December 31, 2019 and 2018 amounted to ₩12,341 million and ₩5,105 million, respectively.

(*2) Others include transfers of plan assets between affiliates of (-)₩345 million and (-)₩82 million, and administration expenses of (-)₩1,204 million and (-)₩448 million for the years ended December 31, 2019 and 2018, respectively, foreign exchange differences of (-)₩6,787 million for the year ended December 31, 2019 and plan assets settlement of (-)₩677 million for the year ended December 31, 2018.

Components of plan assets as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
ELS	₩ -	₩ 2,745
ELB	252,720	213,130
Fixed income fund	196,900	82,763
Others	468,385	18,207
	₩ 918,005	₩ 316,845

25. Employee Benefits (cont'd)

The principal actuarial assumptions as of December 31, 2019 and 2018 are as follows:

	2019	2018
Expected rate of increase in salaries	2.61% ~ 10.00%	2.61% ~ 9.26%
Discount rate (*1)	1.1% ~ 3.91%	1.45% ~ 3.45%

(*1) In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency. The weighted average duration of the severance and retirement benefit obligations of the Group is 8.12 years ~ 15.09 years and 7.4 years ~ 12.24 years, respectively as of December 31, 2019 and 2018.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts as below (Korean won in millions):

	1% discount rate increase	1% discount rate decrease
Changes in expected rate of increase in salaries	₩ 22,652	₩ (14,671)
Changes in discount rate	(30,399)	38,800

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the actuarial assumptions.

26. Issued capital

Details of issued capital as of December 31, 2019 are as follows (Korean won in millions except per share amount):

	Number of shares issued	Par value	Issued capital
Ordinary share	15,618,197	₩ 5,000	₩ 78,091
Preferred share	2,099,697	5,000	10,498
	17,717,894		₩ 88,589

27. Share premium

Details of share premium as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Paid-in capital in excess of par value	₩ 54,794	₩ 54,794
Other share premium	42,532	42,532
	₩ 97,326	₩ 97,326

28. Retained earnings and dividends

Details of retained earnings as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Legal reserves (*1)	₩ 44,310	₩ 44,310
Voluntary reserves (*2)	2,493,886	2,048,181
Unappropriated retained earnings	1,636,686	1,470,874
	₩ 4,174,882	₩ 3,563,365

(*1) In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

(*2) In accordance with the *Restriction of Special Taxation Act*, the amount appropriated as a research and human resource development reserve can be deducted in the calculation of excess retained earnings for corporate income tax reporting purposes, and the reversal of the reserve can be transferred to voluntary reserves and utilized for dividends.

Details of dividends paid for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions except per share amount):

	2019				
	Total number of shares issued	Number of treasury shares	Number of shares	Dividend per share	Total dividends
Ordinary share	15,618,197	958,412	14,659,785	₩ 9,250	₩ 135,603
Preferred share	2,099,697	3,438	2,096,259	9,300	19,495
	17,717,894	961,850	16,756,044		₩ 155,098

	2018				
	Total number of shares issued	Number of treasury shares	Number of shares	Dividend per share	Total dividends
Ordinary share	15,618,197	958,411	14,659,786	₩ 9,000	₩ 131,938
Preferred share	2,099,697	3,438	2,096,259	9,050	18,971
	17,717,894	961,849	16,756,045		₩ 150,909

29. Accumulated other comprehensive income (loss)

Details of accumulated other comprehensive income (loss) as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Loss on valuation of financial assets at fair value through OCI	₩ (2,307)	₩ (400)
Share of other comprehensive loss from equity method investments	(1,544)	(1,632)
Exchange differences on translation of foreign operations	(92,785)	(119,593)
	₩ (96,636)	₩ (121,625)

30. Other components of equity

Details of other components of equity as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Treasury shares	₩ (70,877)	₩ (70,877)
Others	(46,550)	(44,712)
	₩ (117,427)	₩ (115,589)

31. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Salaries	₩ 619,576	₩ 539,175
Provision for severance and retirement benefits	39,916	38,145
Employee welfare benefits	112,609	91,828
Depreciation	146,284	68,641
Amortization	26,444	21,182
Taxes and dues	37,618	32,041
Advertising	462,191	367,207
Research	2,053	1,035
Development	23,994	20,136
Commissions	1,771,119	1,480,279
Freight	205,325	164,261
Supplies	19,911	16,637
Repairs	11,660	9,685
Rents	10,692	72,508
Allowance (reversal of allowance) for doubtful accounts	231	(182)
Other selling and administrative expenses	102,144	89,295
	₩ 3,591,767	₩ 3,011,873

32. Other non-operating income and expense

Details of other non-operating income and expenses for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018
Other non-operating income:				
Reversal of other allowance for doubtful accounts	₩	-	₩	958
Gain on foreign currencies transactions		9,340		7,198
Gain on foreign currencies translations		1,359		594
Gain on disposition of property, plant and equipment		6,156		2,007
Gain on disposition of investment properties		113		-
Gain on disposition of intangible assets		227		60
Gain on bargain purchase		550		-
Others		15,172		13,189
	₩	32,917	₩	24,006
Other non-operating expenses:				
Other allowance for doubtful accounts	₩	499	₩	-
Loss on foreign currencies transactions		8,320		8,072
Loss on foreign currencies translations		1,135		772
Loss on disposition of property, plant and equipment		7,472		10,130
Loss on disposition of investment properties		12		-
Loss on disposition of intangible assets		1,710		436
Impairment losses of property, plant and equipment		8,173		10,848
Impairment losses of investment properties		2,076		932
Impairment losses of intangible assets		41,517		28,981
Donations		43,089		27,559
Others		9,477		11,981
	₩	123,480	₩	99,711

33. Expenses categorized by nature

Details of expenses categorized by nature for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018
Changes in inventories	₩	(130,426)	₩	(67,564)
Increase from business combination		99,421		24,093
Purchase of raw materials and merchandise		2,330,084		2,089,749
Employee benefits		799,563		702,341
Depreciation and amortization		251,020		157,447
Commissions		1,805,553		1,512,204
Outsourcing service fee		418,762		395,792
Others		935,036		894,225
Total (*1)	₩	6,509,013	₩	5,708,287

(*1) Equal to the sum of cost of sales and selling and administrative expenses.

34. Finance income and cost

Details of finance income and finance cost for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Finance income:		
Interest income	₩ 8,701	₩ 3,836
Dividend income	28	20
Gain on foreign currency transactions	5,169	795
Gain on foreign currency translations	413	398
Gain on financial assets at fair value through profit or loss	-	910
Gain on disposal of financial assets at fair value through profit or loss	1,370	-
Gain on financial liabilities at fair value through profit or loss	1,405	527
	₩ 17,086	₩ 6,486
Finance costs:		
Interest expenses	₩ 13,870	₩ 10,136
Loss on foreign currency transactions	2,751	1,192
Loss on foreign currency translations	1,075	497
Loss on financial assets at fair value through profit or loss	48	882
Loss on disposal of financial assets at fair value through profit or loss	29	-
	₩ 17,773	₩ 12,707

35. Profit or loss of financial instruments by category

For the years ended December 31, 2019 and 2018, gains or losses on financial instruments by criteria are as follows (Korean won in millions):

	2019						
	Financial assets				Financial liabilities		
	Cash and cash equivalents	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial assets at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
Interest income	₩ 7,748	₩ -	₩ -	₩ 953	₩ -	₩ -	₩ 8,701
Interest expenses	-	-	-	-	-	(13,870)	(13,870)
Dividend income	-	28	-	-	-	-	28
Gain on foreign currency transactions	5,214	-	-	8,141	-	1,154	14,509
Loss on foreign currency transactions	(2,447)	-	-	(6,477)	-	(2,147)	(11,701)
Gain on foreign currency translations	359	-	-	829	-	584	1,772
Loss on foreign currency translations	(1,038)	-	-	(995)	-	(177)	(2,210)
Allowance for doubtful accounts	-	-	-	(231)	-	-	(231)
Other allowance for doubtful accounts	-	-	-	(499)	-	-	(499)
Loss on financial assets at fair value through profit or loss	-	(48)	-	-	-	-	(48)
Gain on disposal of financial assets at fair value through profit or loss	-	1,370	-	-	-	-	1,370
Loss on disposal of financial assets at fair value through profit or loss	-	(29)	-	-	-	-	(29)
Gain on financial liabilities at fair value through profit or loss	-	-	-	-	1,405	-	1,405
Loss on financial assets at fair value through OCI (Before tax)	-	-	(2,672)	-	-	-	(2,672)
Gain on disposal of financial assets at fair value through OCI	-	-	45	-	-	-	45
Total	₩ 9,836	₩ 1,321	₩ (2,627)	₩ 1,721	₩ 1,405	₩ (14,456)	₩ (2,800)

	2018						
	Financial assets				Financial liabilities		
	Cash and cash equivalents	Financial assets at fair value through profit or loss	Financial assets at fair value through OCI	Financial assets at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
Interest income	₩ 3,564	₩ -	₩ -	₩ 272	₩ -	₩ -	₩ 3,836
Interest expenses	-	-	-	-	-	(10,136)	(10,136)
Dividend income	-	20	-	-	-	-	20
Gain on foreign currency transactions	795	-	-	6,366	-	832	7,993
Loss on foreign currency transactions	(1,192)	-	-	(6,060)	-	(2,012)	(9,264)
Gain on foreign currency translations	340	-	-	454	-	198	992
Loss on foreign currency translations	(113)	-	-	(596)	-	(560)	(1,269)
Allowance for doubtful accounts	-	-	-	182	-	-	182
Other allowance for doubtful accounts	-	-	-	958	-	-	958
Gain on financial assets at fair value through profit or loss	-	910	-	-	-	-	910
Loss on financial assets at fair value through profit or loss	-	(882)	-	-	-	-	(882)
Gain on financial liabilities at fair value through profit or loss	-	-	-	-	527	-	527
Loss on financial assets at fair value through OCI (Before tax)	-	-	(925)	-	-	-	(925)
Total	₩ 3,394	₩ 48	₩ (925)	₩ 1,576	₩ 527	₩ (11,678)	₩ (7,058)

36. Income taxes

The major components of income tax expenses for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018
Current income tax	₩	336,410	₩	288,738
Effect of adoption of new accounting standards		-		723
Adjustments for prior year		(8,438)		(24,641)
Increase (decrease) due to consolidated tax return(*1)		-		1,495
Tax effect of temporary differences		(29,849)		15,116
Income tax recognized directly to equity		5,785		(17,705)
	₩	303,908	₩	263,726

(*1) Although the Group applied the consolidated income tax filing on the Group and 100% equity interest owned domestic subsidiaries until the prior year end in accordance with the Corporate Tax Act, for the current year ended the Group applied separate income tax filing due to an application of abandonment in the year ended December 31, 2018.

Income tax and deferred tax recognized directly to equity for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018
Remeasurement factor of defined benefit obligation	₩	7,668	₩	2,567
Gain on financial assets at fair value through OCI		765		160
Share of other comprehensive income from equity method investments		(31)		(76)
Exchange differences on translation of foreign operations		(2,617)		(20,356)
	₩	5,785	₩	(17,705)

The relationship between income tax expenses and the operating income for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018
Profit before income tax	₩	1,092,081	₩	956,005
Taxes at the statutory income tax rate		282,773		232,176
Adjustment:				
Tax effect of non-taxable (income)/expenses		2,444		(8,427)
Tax credits		(5,195)		(1,832)
Adjustments for prior year		(8,406)		(4,392)
Effect of consolidated tax reporting		-		1,495
Changes in unused tax loss carryforward		8,473		3,312
Tax effects on share of profit of subsidiaries and associates		(2,785)		11,661
Tax effects on depreciation of tangible assets at fair value assessment		(162)		3,768
Surtax on investment and promoting win-win cooperation		8,426		3,603
Others		18,340		22,362
Income tax expense	₩	303,908	₩	263,726
Effective tax rate		27.83%		27.59%

As of December 31, 2019, the tax effect of temporary differences has been calculated with the expected future tax rates of the fiscal years when the temporary differences are reversed.

36. Income taxes (cont'd)

The Group offsets tax assets and liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Changes in deferred tax assets and liabilities for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019						
	Jan. 1, 2019	Business combinations	Credited to profit (charged to loss)	Credited (charged) to other comprehensive income	Foreign exchange difference	Others	Dec. 31, 2019
Property, plant and equipment	₩ (3,630)	₩ -	₩ 1,236	₩ -	₩ 156	₩ 10,724	₩ 8,486
Intangible assets	(134,920)	-	7,532	-	(9)	-	(127,397)
Provision for severance of retirement benefits	3,181	39	13,179	(7,668)	1	-	8,732
Provision for sales return	3,004	-	(563)	-	11	-	2,452
Inventories	10,219	-	5,882	-	29	-	16,130
Deferred revenue	4,916	-	(1,750)	-	5	-	3,171
Accrued payables	604	-	320	-	(1)	-	923
Other long-term employee benefits liabilities	6,700	-	1,641	-	-	-	8,341
Accrued expenses	42,796	2	13,789	-	25	-	56,612
Prepaid expenses	4,219	-	(134)	-	-	-	4,085
Subsidiaries	(43,702)	-	(179)	2,617	(112)	-	(41,376)
Associates	(4,496)	-	(1,141)	31	-	-	(5,606)
Others	5,505	4	(1,816)	-	63	-	3,756
Gains (losses) on financial assets at fair value	16	-	1,458	(765)	-	-	709
Subtotal	(105,588)	45	39,454	(5,785)	168	10,724	(60,982)
Tax loss carryforwards	6,716	-	(3,820)	-	(22)	-	2,874
	₩ (98,872)	₩ 45	₩ 35,634	₩ (5,785)	₩ 146	₩ 10,724	₩ (58,108)

	2018						
	Jan. 1, 2018	Effect of adoption of new accounting standards	Business combinations	Credited to profit (charged to loss)	Credited (charged) to other comprehensive income	Foreign exchange difference	Dec. 31, 2018
Property, plant and equipment	₩ (9,259)	₩ -	₩ 1,892	₩ 3,545	₩ -	₩ 192	₩ (3,630)
Intangible assets	(143,039)	-	(5,663)	13,866	-	(84)	(134,920)
Provision for severance of retirement benefits	4,434	-	854	461	(2,567)	(1)	3,181
Provision for sales return	2,182	-	2,596	(1,790)	-	16	3,004
Inventories	15,035	-	1,777	(6,576)	-	(17)	10,219
Deferred revenue	4,364	-	455	87	-	10	4,916
Accrued payables	754	-	150	(297)	-	(3)	604
Other long-term employee benefits liabilities	4,925	-	-	1,775	-	-	6,700
Accrued expenses	32,398	-	344	10,176	-	(122)	42,796
Prepaid expenses	5,670	-	-	(1,451)	-	-	4,219
Reserve for research and human resource development	(1,970)	-	-	1,970	-	-	-
Subsidiaries	(31,318)	-	-	(32,017)	20,356	(723)	(43,702)
Associates	(5,715)	-	-	1,143	76	-	(4,496)
Others	15,919	507	661	(11,706)	-	124	5,505
Gains (losses) on financial assets at fair value	(370)	216	-	330	(160)	-	16
Subtotal	(105,990)	723	3,066	(20,484)	17,705	(608)	(105,588)
Tax loss carryforwards	15,782	-	3,867	(13,060)	-	127	6,716
	₩ (90,208)	₩ 723	₩ 6,933	₩ (33,544)	₩ 17,705	₩ (481)	₩ 98,872

36. Income taxes (cont'd)

The amount of unused tax loss carryforwards and the expected years of their expiration (except for investments in subsidiaries) that are not recognized as deferred tax assets as of December 31, 2019 is as follows (Korean won in millions):

		Amount	Expected year of expiration
Unused tax loss carryforwards:			
2010	₩	15,910	2020
2011		12,128	2021
2012		10,959	2022
2013		11,968	2023
	₩	50,965	

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures, for which deferred tax assets and liabilities have not been recognized as of December 31, 2019 and 2018, are as follows (Korean won in millions):

		2019		2018
Deductible temporary differences:				
Subsidiaries	₩	191,360	₩	299,139
Associates		4,503		4,503
		195,863		303,642
Taxable temporary differences:				
Subsidiaries(*1)		(636,793)		(555,823)
	₩	(440,930)	₩	(252,181)

(*1) In respect of temporary differences associated with subsidiaries, the timing of the reversal of the temporary differences can be controlled by the holding company. Further, deferred tax liabilities are not recognized, as it is probable that the temporary differences will not reverse in the foreseeable future.

37. Earnings per share

Basic eearnings per share are calculated by dividing the net income attributable to shareholders of ordinary shares of the Company by the weighted average number of ordinary shares outstanding. Because diluted securities do not exist as of December 31, 2019, diluted earnings per share are the same as the basic earnings per share.

Basic earnings per ordinary share for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions except per share amount):

		2019		2018
Profit attributable to owners of the parent	₩	778,098	₩	682,743
Less: Profit for the year attributable to preferred stock		(97,435)		(85,506)
Profit for the year attributable to ordinary shares		680,663		597,237
Weighted average number of ordinary shares outstanding		14,659,785		14,659,786
Basic and diluted earnings per ordinary share	₩	46,431	₩	40,740

Basic earnings per preferred share for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions except per share amount):

		2019		2018
Profit for the year attributable to preferred stock	₩	97,435	₩	85,506
Weighted average number of preferred stock outstanding		2,096,259		2,096,259
Basic and diluted earnings per preferred share	₩	46,481	₩	40,790

38. Contingencies and commitments

As of December 31, 2019, the Group is a defendant in 20 lawsuits (litigation value: ₩58 million, NTS 13,000 thousand, USD 15,229 thousand, CAD 87,820 thousand, VND 154,854 thousand), and has filed 10 lawsuits as a plaintiff (litigation value: ₩7,574 million, CNY 1,300 thousand, INR 10,000 thousand). The Group did not recognize provisions as of December 31, 2019, due to inability to predict the outcome of the lawsuits .

The Group's significant commitments with financial institutions as of December 31, 2019 are as follows (Korean won in millions, foreign currencies in thousands):

Description of commitment	Currency	Limited amounts
Bank overdraft	JPY	1,700,000
	KRW	35,000
General loan	JPY	5,000,000
	KRW	152,900
	USD	135,000
Facility loan	KRW	7,434
Import LC (letter of credit)	KRW	7,300
	USD	24,800
At-sight LC (letter of credit)	USD	500
Guarantee of foreign currency payment	USD	100
B2B contract, etc.	KRW	164,000
Foreign currency purchased	USD	14,800
Commercial paper	JPY	500,000
Comprehensive credit limit including at-sight LC	USD	95,000

The Group has been provided with a payment guarantee of up to ₩13,747 million representing performance bonds contracts by Seoul Guarantee Insurance Company as of December 31, 2019.

Restricted deposits as of December 31, 2019 are as follows (Korean won in millions):

	Amount	Subject to usage limit
Short-term financial instruments	16,900	Win-win cooperation fund
Long-term financial instruments	24	Deposits for checking accounts
	₩ 16,924	

The Company has entered into a trademark contract with LG Corp. for its business operations.

The Group has entered into an office rent contract with LG Corp. for the head office and other spaces, and deposited ₩4,282 million for the rent.

The Group has entered into an agreement with Sunkist Growers Inc. to manufacture certain products and pays 1.5% of net sales of the products (minimum value: USD 1,000,000) as an ordinary engineering fee.

Coca-Cola Beverage Co., one of the Company's subsidiaries, entered into a contract to purchase extracts from Coca-Cola Korea Company (the "CCKC") on August 19, 2007. In accordance with the contract, the purchase price of the extracts was determined, based on net sales. The purchases amounted to ₩233,739 million and ₩212,833 million for the years ended December 31, 2019 and 2018, respectively.

38. Contingencies and commitments (cont'd)

In connection with the purchase agreement, Coca-Cola Beverage Co., a subsidiary the Company, has entered into an additional contract with CCKC to receive performance incentives based on the annual sales performance. As the sales requirements have been met during the year ended December 31, 2019, the Group has recognized ₩2,500 million to be received from CCKC, in other receivables.

39. Related party transactions

Details of related parties as of December 31, 2019 and 2018 are as follows:

Relationship	2019	2018
Entity with significant influence over the Group	LG Corp.	LG Corp.
Associates	LG Uni-charm Co., Ltd.	LG Uni-charm Co., Ltd.
	Coty Korea Co., Ltd.	Coty Korea Co., Ltd.
Joint ventures	Emery Oleochemicals Rika (M) Sdn. Bhd.	Emery Oleochemicals Rika (M) Sdn. Bhd.
	Clean Soul Ltd.	Clean Soul Ltd.
	-	MiGenstory Co., Ltd.(*3)
Others(*1)	S&I Co., Ltd. and others	S&I Co., Ltd. and others
Conglomerate affiliates(*2)	LG Group affiliates including LG Electronics Inc., and others	LG Group affiliates including LG Electronics Inc., and others

(*1) Others consist of the subsidiaries of LG Corp. which is the Group's largest shareholder.

(*2) Although these entities are not related parties of the Company in accordance with KIFRS 1024 *Related Party Disclosures,* they belong to the same large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

(*3) On March 13, 2019 the Group exercised the right of conversion on MiGenstory Co., Ltd. and acquired 10% of additional equity interest, including it as subsidiaries.

39. Related party transactions (cont'd)

Transactions with related parties for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019			
Relationship	Related companies	Sales and others	Purchases of inventories	Acquisitions of PP&E and intangible assets	Other expenses
Entity with significant influence over the Group	LG Corp.	₩ -	₩ -	₩ -	₩ 16,981
Associates	LG Uni-charm Co., Ltd	7,456	124,216	-	-
	Coty Korea Co., Ltd.	1,028	23,941	-	107
		8,484	148,157	-	107
Joint ventures	Emery Oleochemicals Rika (M) Sdn. Bhd.	289	10,406	-	-
	Clean Soul Ltd.	10	3,495	-	-
	MiGenstory Co., Ltd.	833	-	-	-
		1,132	13,901	-	-
Others	S&I Co., Ltd. and subsidiaries	826	60,162	4,752	41,952
	LG CNS Co., Ltd. and subsidiaries	3,848	-	9,343	22,974
	LG Management Development Institute	72	-	-	3,307
	LG sports Ltd.	62	-	-	810
		4,808	60,162	14,095	69,043
Conglomerate affiliates	LG Chem, Ltd. and subsidiaries	26,372	4,500	-	8,116
	LG Electronics Inc. and subsidiaries(*1)	933	-	21,475	5,335
	LG Display Co., Ltd. and subsidiaries	214	-	-	1
	LGI Corp, Ltd. and subsidiaries	354	5,218	-	43,270
	GIIR Ltd. and subsidiaries	-	-	-	18,269
	LG Hausys Ltd.	2,810	-	492	11,207
	SERVEONE Co., Ltd. and subsidiaries	532	22,587	777	4,348
	LG Uplus Corp. and subsidiaries	691	-	307	5,150
		31,906	32,305	23,051	95,696
		₩ 46,330	₩ 254,525	₩ 37,146	₩ 181,827

(*1) Although LG-Hitachi Water Solution Co., Ltd. was excluded from LG Electronics Inc. and subsidiaries during the year, transactions until December 31, 2019, are included up to the exclusion point from conglomerate affiliates.

		2018			
Relationship	Related companies	Sales and others	Purchases of inventories	Acquisitions of PP&E and intangible assets	Other expenses
Entity with significant influence over the Group	LG Corp.	₩ -	₩ -	₩ -	₩ 16,348
Associates	LG Uni-charm Co., Ltd	7,044	137,770	-	-
	Coty Korea Co., Ltd.	1,171	17,600	-	57
		8,215	155,370	-	57
Joint ventures	Emery Oleochemicals Rika (M) Sdn. Bhd.	308	13,804	-	-
	Clean Soul Ltd.	10	4,177	-	-
		318	17,981	-	-
Others	SERVEONE Co., Ltd. and subsidiaries	1,495	153,964	47,692	49,573
	LG CNS Co., Ltd. and subsidiaries	4,234	-	35,807	18,415
	LG Management Development Institute	100	-	-	2,957
	LG sports Ltd.	-	-	-	810
		5,829	153,964	83,499	71,755
Conglomerate affiliates	LG Chem, Ltd. and subsidiaries	29,291	5,235	-	7,518
	LG Electronics Inc. and subsidiaries	1,271	-	5,197	2,864
	LG Display Co., Ltd. and subsidiaries	118	-	-	1
	LGI Corp, Ltd. and subsidiaries	233	1,752	-	40,074
	GIIR Ltd. and subsidiaries	-	5	501	15,761
	LG Hausys Ltd.	2,308	-	248	11,969
	LG Uplus Corp. and subsidiaries	1,030	-	506	5,109
		34,251	6,992	6,452	83,296
		₩ 48,613	₩ 334,307	₩ 89,951	₩ 171,456

39. Related party transactions (cont'd)

As of December 31, 2019, and 2018, main outstanding balances related to transactions with related parties are as follows (Korean won in millions):

		2019			
		Receivables (*1)		Payables	
Relationship	Related companies	Trade receivables and others	Loans	Trade payables and others	Borrowings
Entity with significant influence over the Group	LG Corp.	₩ 4,282	₩ -	₩ 939	₩ -
Associates	LG Uni-charm Co., Ltd	2,981	-	17,397	-
	Coty Korea Co., Ltd.	177	-	4,916	-
		3,158	-	22,313	-
Joint ventures	Emery Oleochemicals Rika (M) Sdn. Bgd.	9	-	568	-
	Clean Soul Ltd.	1	-	289	-
		10	-	857	-
Others	SERVEONE Co., Ltd. and subsidiaries	10,636	-	11,558	-
	LG CNS Co., Ltd. and subsidiaries	412	-	3,992	-
	LG Management Development Institute	1,395	-	63	-
		12,443	-	15,613	-
Conglomerate affiliates	LG Chem, Ltd. and subsidiaries	1,772	-	702	-
	LG Electronics Inc. and subsidiaries	365	-	20,067	-
	LG Display Co., Ltd. and subsidiaries	6	-	-	-
	LGI Corp, Ltd. and subsidiaries	-	-	6,396	-
	GIIR Ltd. and subsidiaries	-	-	16,322	-
	LG Hausys Ltd.	257	-	2,189	-
	LG Uplus Corp. and subsidiaries	9	-	382	-
		2,409	-	46,058	-
		₩ 22,302	₩ -	₩ 85,780	₩ -

(*1) The Group recognizes an allowance for doubtful accounts of ₩38 million as of December 31, 2019, and recognized allowance for doubtful accounts of ₩12 million, during the year relating to the above receivables.

39. Related party transactions (cont'd)

		2018			
		Receivables (*1)		Payables	
Relationship	Related companies	Trade receivables and others	Loans	Trade payables and others	Borrowings
Entity with significant influence over the Group	LG Corp.	₩ 4,261	₩ -	₩ 1,038	₩ -
Associates	LG Uni-charm Co., Ltd	2,903	-	12,222	-
	Coty Korea Co., Ltd.	173	-	2,245	-
		3,076	-	14,467	-
Joint ventures	Emery Oleochemicals Rika (M) Sdn. Bgd.	-	-	321	-
	Clean Soul Ltd.	1	-	321	-
		1	-	642	-
Others	SERVEONE Co., Ltd. and subsidiaries	12,595	-	31,675	-
	LG CNS Co., Ltd. and subsidiaries	559	-	4,192	-
	LG Management Development Institute	1,401	-	8	-
		14,555	-	35,875	-
Conglomerate affiliates	LG Chem, Ltd. and subsidiaries	1,804	-	346	-
	LG Electronics Inc. and subsidiaries	450	-	2,270	-
	LGI Corp, Ltd. and subsidiaries	49	-	6,111	-
	GIIR Ltd. and subsidiaries	-	-	17,588	-
	LG Hausys Ltd.	207	-	2,063	-
	LG Uplus Corp. and subsidiaries	15	-	335	-
		2,525	-	28,713	-
		₩ 24,418	₩ -	₩ 80,735	₩ -

(*1) The Group recognizes an allowance for doubtful accounts of ₩26 million as of December 31, 2019, and recognized allowance for doubtful accounts of ₩11 million, during the year relating to the above receivables.

There were no funding transactions with related parties for the years ended December 31, 2019 and 2018.

In accordance with the resolution made in the shareholders' meeting held during the year, the Group paid dividends amounting to ₩49,163 million to LG Corp., while dividends received by the Group from related parties amounted to ₩2,872 million during the year ended December 31, 2019. (Refer to Note 15)

The Group has not provided any payment guarantee for related parties as of December 31, 2019.

The Group has not received any collateral or payment guarantee from related parties as of December 31, 2019.

Compensation of key management personnel of the Group for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Short-term employee benefits	₩ 30,576	₩ 25,405
Post-employment benefits	3,242	2,997
Others	-	478
	₩ 33,818	₩ 28,880

The above compensation is composed of classified benefits and total compensation for key management personnel [registered executives (including non-executives) and unregistered executives] who have crucial rights to and responsibilities for planning, operation and control of the business of the Group.

40. Leases

Group as a lessee

Book values and changes in right-of-use assets and lease liabilities for the year ended December 31, 2019 are as follows (Korean won in millions):

	Right-of-use assets						Lease liabilities
	Land	Buildings	Vehicles	IT equipment	Others	Total	
Book value as of Jan. 1, 2019	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 46
Effect of adopting new accounting standards	92	97,652	11,052	4,198	5,300	118,294	117,624
Establishment	197	55,123	5,192	2,569	12,433	75,514	74,777
Increase from business combination	6,705	149,069	76	61	8,658	164,569	166,578
Depreciation	(252)	(65,176)	(5,079)	(2,044)	(5,950)	(78,501)	-
Interest expense	-	-	-	-	-	-	4,548
Payment	-	-	-	-	-	-	(80,342)
Write-off due to mid-lease termination	-	(845)	(1,522)	(12)	(376)	(2,755)	(2,370)
Foreign exchange differences	9	(3,535)	-	5	(443)	(3,964)	(4,384)
Book value as of Dec. 31, 2019	6,751	232,288	9,719	4,777	19,622	273,157	276,477
Current							77,890
Non-current							198,587

Details of expenses from short-term leases and leases of low-value assets for the years ended December 31, 2019 are ₩10,139 million and ₩3,424 million, respectively.

Group as a lessor

Details of issued capital as of December 31, 2019 are as follows (Korean won in millions):

	Current	Non-current
Finance lease liabilities	₩ 399	₩ 1,758

Maturities of finance lease liabilities as of December 31, 2019 are as follows (Korean won in millions):

	Amount
Within 1 year	₩ 421
1 ~ 2 years	235
2 ~ 3 years	215
3 ~ 4 years	215
4 ~ 5 years	215
After 5 years	1,181

40. Leases (cont'd)

The Group has entered into operating leases for its equipment. Future lease payments receivable under the operating leases as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019			
	Within 1 year	1 ~ 5 years	After 5 years	Total
LG Chem, Ltd. and others	₩ 2,967	₩ -	₩ -	₩ 2,967

	2018			
	Within 1 year	1 ~ 5 years	After 5 years	Total
LG Chem, Ltd. and others	₩ 1,539	₩ 176	₩ -	₩ 1,715

In accordance with the operating lease contracts, the lease income that the Group recognized for the years ended December 31, 2019 and 2018 are ₩3,501 million and ₩3,809 million, respectively.

41. Consolidated statements of cash flows

Significant transactions not involving cash flows for the years ended December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Transfers from construction-in-progress to PP&E	₩ 113,669	₩ 383,775
Transfers from construction-in-progress to intangible assets	11,645	10,590
Transfers from PP&E to investment properties	-	26,549
Acquisitions of PP&E	16,220	22,957
Acquisitions of intangible assets	416	93
Disposals of PP&E	153	282
Less: Current portion of long-term borrowings	3,566	12,315
Less: Current portion of long-term debentures	99,991	149,962
Increase of lease liabilities	74,777	-

41. Consolidated statements of cash flows (cont'd)

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

	2019									
		Cash flows provided by (used in) financing activities		Non-cash changes						
	Jan. 1, 2019	Increase	Decrease	Dividends declared	Present value discounts	Current portions	Business combination	Changes in foreign exchange rates	Effect of adopting new accounting standards of lease(*1)	Dec. 31, 2019
Short-term borrowings	₩ 210,810	₩ 271,711	₩ (323,426)	₩ -	₩ -	₩ -	₩ 132,691	₩ (4,142)	-	₩ 287,644
Current portion of long-term borrowings	13,566	-	(13,566)	-	-	3,566	-	-	-	3,566
Long-term borrowings	7,132	-	-	-	-	(3,566)	-	-	-	3,566
Current portion of long-term debentures	149,962	-	(150,000)	-	38	99,991	-	-	-	99,991
long-term debentures	99,907	30,000	-	-	84	(99,991)	-	-	-	30,000
Lease liabilities	46	-	(80,342)	-	4,548	-	166,578	(4,384)	190,031	276,477
Dividends payable	117	-	(158,591)	158,378	-	-	-	224	-	128
	₩ 481,540	₩ 301,711	₩ (725,925)	₩ 158,378	₩ 4,670	₩ -	₩ 299,269	₩ (8,302)	₩ 190,031	₩ 701,372

(*1) The amount represents ₩117,624 million of effect of adopting new accounting standards of lease, ₩74,777 million of newly established lease liabilities, and (-)₩2,370 of writing off lease liabilities.

	2018									
		Cash flows provided by (used in) financing activities		Non-cash changes						
	Jan. 1, 2018	Increase	Decrease	Dividends declared	Present value discounts	Current portions	Business combination	Changes in foreign exchange rates	Others	Dec. 31, 2018
Short-term borrowings	₩ 71,041	₩ 323,463	₩ (237,236)	₩ -	₩ -	₩ -	₩ 48,048	₩ 5,494	-	₩ 210,810
Current portion of long-term borrowings	5,000	-	(7,121)	-	-	12,315	3,351	21	-	13,566
Long-term borrowings	18,342	2,356	(17,943)	-	-	(12,315)	17,342	(650)	-	7,132
Current portion of long-term debentures	259,985	-	(261,718)	-	15	149,962	1,718	-	-	149,962
long-term debentures	249,659	-	(720)	-	210	(149,962)	720	-	-	99,907
Convertible bonds	-	-	(5,378)	-	68	-	5,300	-	10	-
Current portion of finance lease liabilities	7	-	(126)	-	(7)	7	136	-	-	17
Lease liabilities	34	-	(13)	-	-	(7)	18	(3)	-	29
Dividends payable	20	-	(161,724)	161,734	-	-	126	-	(39)	117
	₩ 604,088	₩ 325,819	₩ (691,979)	₩ 161,734	₩ 286	₩ -	₩ 76,759	₩ 4,862	₩ (29)	₩ 481,540

42. Fair value of financial instruments

Book values and fair values of financial instruments as of December 31, 2019 and 2018 are as follows (Korean won in millions):

		2019		2018	
		Book value	Fair value	Book value	Fair value
Financial assets at fair value through profit or loss (*1)	Listed equity securities	₩ -	-	₩ 424	₩ 424
	Unlisted equity securities	92	92	92	92
	Debit securities	1,968	1,968	2,154	2,154
	Derivatives	1,992	1,992	910	910
	Hybrid contracts	-	-	203	203
		4,052	4,052	3,783	3,783
Financial assets at fair value through OCI (*1)(*3)	Listed equity securities	2,072	2,072	2,045	2,045
	Unlisted equity securities	1,538	1,538	4,246	4,246
		3,610	3,610	6,291	6,291
Cash and cash Equivalents (*2)	Cash and cash Equivalents	647,104	647,104	396,644	396,644
Debt instruments at amortized cost (*2)	Short-term financial instruments	72,263	72,263	16,900	16,900
	Trade receivables	611,045	611,045	556,088	556,088
	Other receivables	34,606	34,606	25,780	25,780
	Accrued income	690	690	24	24
	Long-term financial Instruments	24	24	24	24
	Other long-term receivables	80,180	80,180	78,325	78,325
	Financial lease receivables	2,157	2,157	-	-
	Other non-current financial assets	47	47	323	323
		801,012	801,012	677,464	677,464
		₩ 1,455,778	1,455,778	₩ 1,084,182	₩ 1,084,182
Financial liabilities at fair value through profit or loss (*1)	Derivatives	₩ 282	282	₩ 595	₩ 595
	Hybrid contracts	1,294	1,294	1,305	1,305
		1,576	1,576	1,900	1,900
Financial liabilities at amortized cost (*2)	Trade payables	290,674	290,674	215,581	215,581
	Other payables	361,297	361,297	258,640	258,640
	Accrued expenses	279,505	279,505	197,247	197,247
	Dividends payables	128	128	117	117
	Short-term borrowings	287,644	287,644	210,810	210,810
	Current portion of long-term borrowings	3,566	3,566	13,566	13,566
	Current portion of long-term debentures	99,991	99,991	149,962	149,962
	Current portion of finance lease liabilities	77,890	77,890	17	17
	Other current financial liabilities	833	833	2,318	2,318
	Long-term borrowings	3,566	3,566	7,132	7,132
	Long-term debentures	30,000	30,000	99,907	99,907
	Finance lease liabilities	198,587	198,587	29	29
	Deposit received	5,386	5,386	7,325	7,325
	Other non-current financial liabilities	20,269	20,269	22,008	22,008
		1,659,336	1,659,336	1,184,659	1,184,659
		₩ 1,660,912	1,660,912	₩ 1,186,559	₩ 1,186,559

42. Fair value of financial instruments (cont'd)

(*1) Fair values are measured using valuation methods. The assessment of fair value requires management to assume unobservable input variables used in the fair value appraisal. Management regularly evaluates reasonably possible alternatives for the significant, unobservable input variables and judges impacts on overall fair value. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value.

(*2) As the carrying amounts are considered to be a reasonable approximation of the fair values, the carrying amounts have been stated as the fair values.

(*3) The fair values of listed equity securities are derived from quoted market prices in active markets.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

42. Fair value of financial instruments (cont'd)

As of December 31, 2019, and 2018, details of the financial instruments, which are measured at fair value or of which the fair values are disclosed, are as follows (Korean won in millions):

	2019			
	Level 1	Level 2	Level 3	Total
Assets evaluated at fair value:				
Listed equity securities	₩ -	₩ 2,072	₩ -	₩ 2,072
Unlisted equity securities	-	-	1,630	1,630
Debit securities	-	-	1,968	1,968
Derivatives	-	-	1,992	1,992
	₩ -	₩ 2,072	₩ 5,590	₩ 7,662
Assets of which the fair values are disclosed:				
Cash & cash equivalents	₩ 434	₩ 646,670	₩ -	₩ 647,104
Short-term financial instruments	-	72,263	-	72,263
Trade receivables	-	-	611,045	611,045
Other receivables	-	-	34,606	34,606
Accrued income	-	690	-	690
Long-term financial instruments	-	24	-	24
Long-term other receivables	-	-	80,180	80,180
Financial lease receivables	-	-	2,157	2,157
Other non-current financial assets	-	-	47	47
Investment properties	-	-	44,717	44,717
	₩ 434	₩ 719,647	₩ 772,752	₩ 1,492,833
Liabilities evaluated at fair value:				
Derivatives	₩ -	₩ -	₩ 282	₩ 282
Hybrid contracts	-	-	1,294	1,294
	₩ -	₩ -	₩ 1,576	₩ 1,576
Liabilities of which the fair values are disclosed:				
Trade payables	₩ -	₩ -	₩ 290,674	₩ 290,674
Other payables	-	-	361,297	361,297
Accrued expenses	-	-	279,505	279,505
Dividends payables	-	-	128	128
Short-term borrowings	-	287,644	-	287,644
Current portion of long-term borrowings	-	3,566	-	3,566
Current portion of long-term debentures	-	99,991	-	99,991
Current portion of finance lease liabilities	-	-	77,890	77,890
Other current liabilities	-	-	833	833
Long-term borrowings	-	3,566	-	3,566
Long-term debentures	-	30,000	-	30,000
Finance lease liabilities	-	-	198,587	198,587
Deposit received	-	-	5,386	5,386
Other non-current financial liabilities	-	-	20,269	20,269
	₩ -	₩ 424,767	₩ 1,234,569	₩ 1,659,336

42. Fair value of financial instruments (cont'd)

	2018							
	Level 1		Level 2		Level 3		Total	
Assets evaluated at fair value:								
Listed equity securities	₩	424	₩	2,045	₩	-	₩	2,469
Unlisted equity securities		-		-		4,338		4,338
Debit securities		-		-		2,154		2,154
Derivatives		-		-		910		910
Hybrid contracts		-		-		203		203
	₩	424	₩	2,045	₩	7,605	₩	10,074
Assets of which the fair values are disclosed:								
Cash & cash equivalents	₩	1,789	₩	394,855	₩	-	₩	396,644
Short-term financial instruments		-		16,900		-		16,900
Trade receivables		-		-		556,088		556,088
Other receivables		-		-		25,780		25,780
Accrued income		-		24		-		24
Long-term financial instruments		-		24		-		24
Long-term other receivables		-		-		78,325		78,325
Other non-current financial assets		-		-		323		323
Investment properties		-		-		45,066		45,066
	₩	1,789	₩	411,803	₩	705,582	₩	1,119,174
Liabilities evaluated at fair value:								
Derivatives	₩	-	₩	-	₩	595	₩	595
Hybrid contracts		-		-		1,305		1,305
	₩	-	₩	-	₩	1,900	₩	1,900
Liabilities of which the fair values are disclosed:								
Trade payables	₩	-	₩	-	₩	215,581	₩	215,581
Other payables		-		-		258,640		258,640
Accrued expenses		-		-		197,247		197,247
Dividends payables		-		-		117		117
Short-term borrowings		-		210,810		-		210,810
Current portion of long-term borrowings		-		13,566		-		13,566
Current portion of long-term debentures		-		149,962		-		149,962
Current portion of finance lease liabilities		-		17		-		17
Other current liabilities		-		-		2,318		2,318
Long-term borrowings		-		7,132		-		7,132
Long-term debentures		-		99,907		-		99,907
Finance lease liabilities		-		29		-		29
Deposit received		-		-		7,325		7,325
Other non-current financial liabilities		-		-		22,088		22,088
	₩	-	₩	481,423	₩	703,236	₩	1,184,659

42. Fair value of financial instruments (cont'd)

As of December 31, 2019, the sensitivity analysis of significant unobservable input variables used in measuring the fair value of assets and liabilities classified as Level 3 of the fair value hierarchy is as follows (Korean won in millions):

	Fair value	Object	Valuation method	Significant unobservable input variables	Input variables as of December 31, 2019	Sensitivity: Changes in input variables	Sensitivity: Increase	Sensitivity: Decrease
Financial assets at fair value through profit or loss								
Tai Guk Pharm Co., Ltd	1,992	Underlying asset	Discounted cash flow	Discount rate for non-performance risk	1.00%	1.00%	438	(312)
				Weighted average cost of capital	11.30%	1.00%	(287)	614
		Option	Monte-Carlo Simulation	Variance	29.48%	5.00%	185	(68)
Financial assets at fair value through OCI								
LYA NATURE CO.,LTD.	1,194	Underlying asset	Price multiple model	Size premium	23.80%	1.00%	(8)	8
Financial liabilities at fair value through profit or loss								
Tai Guk Pharm Co., Ltd	282	Underlying asset	Discounted cash flow	Discount rate for non-performance risk	1.00%	1.00%	(21)	22
				Weighted average cost of capital	11.30%	1.00%	24	(19)
		Option	Monte-Carlo Simulation	Discount rate	29.48%	5.00%	27	(34)
Tai Guk Pharm Co., Ltd	1,294	Underlying asset	Discounted cash flow	Discount rate for non-performance risk	1.00%	1.00%	73	(60)
				Weighted average cost of capital	11.30%	1.00%	(60)	73
		Redeemable convertible preference shares	Binomial option pricing model	Variance	29.48%	5.00%	4	-

43. Financial instruments risk management and policy

The financial instruments of the Group are exposed to various financial risks such as market risk (foreign currency exchange rate risk and interest rate risk), credit risk and liquidity risk. The purpose of managing a risk is to identify the potential risk that may influence the Group's financial performance and to reduce the risk to an allowable level or to eliminate or avoid the risk.

The management of the Group continuously reviews whether a risk management process by risk type complies with the Group's risk management policy. Since December 31, 2018, there has been no material change in the risk management team and risk management policy.

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk, commodity price risk and other price risk, such as equity risk.

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The book values of the financial assets and liabilities denominated in foreign currencies other than its functional currencies as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 62,539	₩ 34,709	₩ 28,631	₩ 29,395
EUR	2,403	831	1,573	415
JPY	1,293	1,456	3,969	1,790
SGD	4,924	1,090	-	461
CNY	6,902	13,554	541	922
CAD	466	12,795	161	702
Others	98	62	-	124
	₩ 78,625	₩ 64,497	₩ 34,875	₩ 33,809

The following table demonstrates the sensitivity analysis of a reasonably possible change in the Group's functional currency against the foreign currency, with all other variables held constant, on the Group's profit before tax and equity as of December 31, 2019 and 2018 (Korean won in millions):

	2019		2018	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩ 2,783	₩ (2,783)	₩ (76)	₩ 76
EUR	157	(157)	116	(116)
JPY	(16)	16	218	(218)
SGD	383	(383)	(46)	46
CNY	(665)	665	(38)	38
CAD	(1,233)	1,233	(54)	54
Others	4	(4)	(13)	13
	₩ 1,413	₩ (1,413)	₩ 107	₩ (107)

The sensitivity analyses were conducted on monetary assets and liabilities which are presented in foreign currency other than the functional currency as of the reporting date.

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument is changed due to a change in a market interest. The Group has established a policy to control the interest rate risk by borrowing both loans with a fixed interest rate and loans with a floating interest rate.

43. Financial instruments risk management and policy (cont'd)

As of December 31, 2019, and 2018, the book values of the interest-bearing financial liabilities of the Group are as follows (Korean won in millions):

	2019	2018
Fixed rate instruments:		
Borrowings (including current portion)	₩ 37,132	₩ 74,174
Debentures (including current portion)	129,991	249,869
Finance leases liabilities	276,477	46
	₩ 443,600	₩ 324,089
Floating rate instruments:		
Short-term borrowings	₩ 257,644	₩ 157,335

If all other variables are assumed to be constant and an interest rate is changed by 100 basis points as of December 31, 2019, the interest expense of borrowings with floating rates is changed as follows (Korean won in millions):

	100bp increase	100bp decrease
Profit before tax in 2019	₩ (2,576)	₩ 2,576

The Group's listed or unlisted equity securities are exposed to a market price risk arising from the uncertainty of future value. As of December 31, 2019, the fair market value of listed equity securities exposed to the market price risk is ₩2,072 million. If all other variables are assumed to be constant and the prices of listed equity securities are changed by 10%, an impact on the financial statements is ₩207 million (without considering the effect of corporate income tax).

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk not only from trade receivables and loan notes, but also from cash and cash equivalents and deposits financial institutions. Because financial institutions transact with customers of high credit ratings, credit risks associated with financial institutions are restricted.

In the case of a general account, credit is assessed by considering the customer's financial position, past experiences, and other factors. Customer credit risk is managed by each business unit that must comply with the policies, procedures and controls related to the credit risk management of the Group. Credit limits are set for all customers, based on its internal credit ratings. Credit evaluation is based on the credit ratings that are calculated by considering many factors. Trade receivables are monitored regularly.

The provision matrix that is based on collective assessment for trade receivable as of December 31, 2019 is as follows (Korean won in millions):

	Occurrence date of trade receivables					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over than 12 months	Total
Expected credit loss rate	0.43%	14.71%	24.34%	64.51%	80.18%	
Estimated total gross carrying amount at default	₩ 491,587	₩ 9,795	₩ 3,907	₩ 1,000	₩ 4,949	₩ 511,238
Expected credit loss	2,103	1,441	951	645	3,968	9,108

The recognized allowance for doubtful accounts based on individual assessment for trade receivable is ₩1,523 million.

The Group assesses the concentration of risk associated with trade receivables as low, because customers are distributed across countries and industries and it operates in independent markets.

43. Financial instruments risk management and policy (cont'd)

The exposure to credit risk as of December 31, 2019 and 2018 is as follows (Korean won in millions):

	2019	2018
Cash and cash equivalents	₩ 646,670	₩ 394,855
Short-term financial deposits	72,263	16,900
Trade receivables before deducting allowance for doubtful accounts	621,676	566,838
Other receivables before deducting allowance for doubtful accounts	37,279	27,279
Accrued income	690	24
Finance lease receivables	2,157	-
Long-term financial deposits	24	24
Other long-term receivables before deducting present value discount account and allowance for doubtful account	85,794	83,496
Financial assets at fair value through profit or loss(convertible bonds)	-	203

Certification of Payment

The Group has provided a joint guarantee amounting to ₩244 million for Tai guk Greentech Co., Ltd contract fulfillment(defect) on construction work contract between Tai guk Greentech Co., and Korea Shipbuilding & Offshore Engineering Co., Ltd. as of December 31, 2019

Liquidity risk refers to the risk that the Group may default on the contractual obligations that become due. The Group manages its risk to a shortage of funds using a recurring liquidity planning tool. The Group's objective for managing its exposure to liquidity risk is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases and hire purchase contracts. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

43. Financial instruments risk management and policy (cont'd)

Maturities of financial liabilities based on undiscounted cash flows as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019				
	Book value	Within 1 year	1 ~ 5 years	After 5 years	Total
Trade payables	₩ 290,674	₩ 290,674	₩ -	₩ -	₩ 290,674
Other payables	361,297	352,651	8,646	-	361,297
Accrued expenses	279,506	272,802	6,704	-	279,506
Dividends payables	128	128	-	-	128
Borrowings	294,776	292,346	3,616	-	295,962
Debentures	129,991	101,394	30,977	-	132,371
Lease liabilities	276,477	86,668	132,020	89,796	308,484
Deposit received	5,386	-	5,386	-	5,386
Other financial liabilities	21,102	833	11,666	11,914	24,413
	₩ 1,659,337	₩ 1,397,496	₩ 199,015	₩ 101,710	₩ 1,698,221

	2018				
	Book value	Within 1 year	1 ~ 5 years	After 5 years	Total
Trade payables	₩ 215,581	₩ 215,581	₩ -	₩ -	₩ 215,581
Other payables	258,640	258,640	-	-	258,640
Accrued expenses	197,247	197,247	-	-	197,247
Dividends payables	117	117	-	-	117
Borrowings	231,508	225,635	7,288	-	232,923
Debentures	249,869	154,758	100,557	-	255,315
Finance lease liabilities	46	17	29	-	46
Deposit received	7,325	-	7,325	-	7,325
Other financial liabilities	24,326	2,332	14,113	11,806	28,251
	₩ 1,184,659	₩ 1,054,327	₩ 129,312	₩ 11,806	₩ 1,195,445

The main objective of the Group's capital management is to maintain a high credit rating and a well-balanced capital ratio in order to fund its operating activities and to maximize shareholder's value.

To maintain or adjust its capital structure, the Group adjusts the dividend payout or returns capital to shareholders. To reduce liabilities, it issues new stocks or sells assets. The capital structure of the Group is consisted of net liabilities that cash & cashable assets are subtracted from borrowings, and equity. The Group's general capital risk management policy is the same as in 2018.

The capital items that the Group managed as of December 31, 2019 and 2018 are as follows (Korean won in millions):

	2019	2018
Total borrowings and debentures	₩ 424,767	₩ 481,378
Deduction: Cash and cash equivalents	(647,104)	(396,644)
Net borrowings	(222,337)	84,734
Total stockholders' equity	₩ 4,237,088	₩ 3,594,020
Adjusted debt to equity ratio	-	2.36%

44. Subsequent Event

On February 4, 2020, the Group transferred 100% of equity interest of New Avon Company, a subsidiary company, to LG Household & Health Care America Inc., a subsidiary company.

On January 29, 2020, the Group resolved to merge Oriental Biomed lab. Ltd., a subsidiary company. The expected date of merger registration is April 23, 2020.

On January 20, 2020, the Group resolved to merge JS Pharmaceutical Co., Ltd., a subsidiary company. The date of merger registration is April 8, 2020.

On February 20, 2020, the Group resolved to acquire Asia and North America Business Rights of Physiogel Brand at GBP 125,000 thousand from Stiefel Consumer Healthcare (UK) Limited.