

# **LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**

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

**(With Independent Auditor's Report Thereon)**

**LOTTE SHOPPING CO., LTD**

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## Independent Auditors' Report

Based on a report originally issued in Korean

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

### *Opinion*

We have audited the consolidated financial statements of Lotte Shopping Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying 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 ("K-IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' 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 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 as of and for the year ended December 31, 2019. 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 of cash generating units("CGUs")

As described in Note 13, 15, and 42 to the consolidated financial statements, the carrying amount of property, plant and equipment, right-of-use assets, goodwill and other intangible assets are amounted to ₩14,495,595 million, ₩6,126,877 million, ₩1,538,969 million, and ₩309,066 million, respectively, as of December 31, 2019 and in aggregate they are 66.1% of total assets. Also, the impairment loss of ₩1,185,085 million was recognized during 2019.

The Group reviews at the end of each reporting period on whether there are any indicators of impairment regarding the CGUs, and has performed impairment test on CGUs for which indicators of impairment were identified by comparing the recoverable amount and the carrying amount of the respective CGUs. When the recoverable amount is less than the carrying amount, the difference has been recognized as impairment loss. In estimating the recoverable amount, management's judgment is involved in determining the key assumptions such as sales growth rate, discount rate, and terminal growth rate that have a significant impact on the estimated recoverable amount. Considering significant degree of judgment in estimating recoverable amount, we identified assessment CGUs impairment as a key audit matter.



Our primary audit procedures to address this key audit matter included the followings.

- We assessed the basis of management's judgment to identify the indicators of impairment on each CGU and evaluated whether such basis is in compliance with the Group's accounting policy.
- We tested the mathematical accuracy of valuation model used by the Group.
- We assessed the competence, qualification and objectivity of external institution engaged by the Group to assess recoverable amount of CGUs.
- We engaged our valuation specialists to assist us in evaluating assumption and estimates including the future cash flows and discount rate used in the valuation of value-in-use.

## (2) K-IFRS 1116 'Lease'

As described in Note 42 to the consolidated financial statements, the Group initially adopted K-IFRS 1116 'Lease' for the preparation of the consolidated financial statements as of and for the year ended December 31, 2019. As of December 31, 2019 the carrying amount of right-of-use assets and lease liabilities are amounted to ₩6,126,877 million and ₩6,662,981 million, respectively, which are 18.03% of total assets and 30.19% of total liabilities, respectively.

Considering the fact that the balance of right-of-use assets and lease liabilities is significant in the consolidated financial statements of the Group, and significant degree of management's judgments in identifying a lease contract, and determination of lease term and incremental borrowing rate, we identified K-IFRS 1116 'Lease' as a key audit matter.

Our primary audit procedures to address this key audit matter included the followings.

- We tested the mathematical accuracy of calculation of right-of-use assets and lease liabilities by the Group.
- We assessed the basis of incremental borrowing rate used in calculation of lease liabilities and assessed whether such basis is in compliance with the accounting policy of the Group.
- For samples selected from the list of leases provided by the Group, we inspected contracts to compare the information such as lease term and payments with information in the contracts.

### *Other matter*

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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



## *Auditors' 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 auditors' 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 KSAs 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 KSAs, 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 in the preparation of the consolidated financial statements 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditors' report is Si Woo Kim.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 19, 2020

This report is effective as of March 19, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2019 and 2018**

(In Korean won)	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6,7,34,40	₩ 1,586,592,082,626	1,818,473,007,915
Trade and other receivables	5,7,39,40	889,584,567,689	1,119,397,467,063
Other financial assets	6,7,22,40	1,958,581,434,172	1,061,979,008,598
Inventories	8	1,459,488,128,039	1,267,488,684,051
Income tax refund receivables	33	3,300,271,581	6,508,527,017
Other non-financial assets	9	95,406,581,845	147,917,797,142
Assets held for sale	10	114,345,050,288	286,631,198,212
		<u>6,107,298,116,240</u>	<u>5,708,395,689,998</u>
<b>Non-current assets</b>			
Other receivables	5,7,39,40	183,411,210,535	40,192,200
Investments in associates and joint ventures	11,12	866,308,734,865	598,181,387,362
Other financial assets	6,7,22,40	1,648,867,639,929	1,670,806,823,065
Property, plant and equipment, net	13,39	14,495,595,094,916	14,404,970,701,402
Right-of-use assets	42	6,126,877,376,870	-
Investment property, net	14	2,493,734,153,122	1,023,932,723,284
Goodwill	15	1,538,969,077,502	1,601,819,192,996
Intangible assets, net	15	309,066,105,666	451,657,409,610
Defined benefit assets	21	39,167,568,443	-
Deferred tax assets	33	47,750,061,992	27,645,357,351
Other non-financial assets	9	115,570,611,596	771,859,380,938
		<u>27,865,317,635,436</u>	<u>20,550,913,168,208</u>
<b>Total assets</b>		<b>₩ <u>33,972,615,751,676</u></b>	<b><u>26,259,308,858,206</u></b>

*See accompanying notes to the consolidated financial statements.*

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Financial Position, Continued**  
**As of December 31, 2019 and 2018**

(In Korean won)	Notes	2019	2018
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings and debentures, net of issuance costs	7,17,37,39,40	₩ 2,840,441,420,764	1,980,154,167,081
Trade and other payables	7,16,39,40	2,643,861,898,203	2,910,394,337,674
Other financial liabilities	7,22,40	571,646,455,930	420,336,936,454
Lease liabilities	7,39,42	634,234,422,249	
Income tax payables	33	106,595,766,277	52,653,918,289
Unearned revenues	18	180,868,150,634	147,450,075,517
Provisions	19	49,003,274,585	113,688,719,092
Other non-financial liabilities	20	1,175,232,835,309	962,604,510,286
Liabilities held for sale	10	-	16,460,180,108
		<u>8,201,884,223,951</u>	<u>6,603,742,844,501</u>
<b>Non-current liabilities</b>			
Borrowings and debentures, net of issuance costs	7,17,37,39,40	6,710,078,874,829	5,814,744,850,720
Other financial liabilities	7,22,40	26,084,131,697	76,958,297,105
Lease liabilities	7,39,42	6,028,746,801,656	
Defined benefit liabilities and other long-term employee benefits	21	70,601,708,522	26,017,199,872
Deferred tax liabilities	33	859,491,275,149	1,173,077,398,673
Unearned revenues	18	46,001,748,365	32,960,664,424
Provisions	19	128,042,334,522	7,043,472,920
Other non-financial liabilities	20	-	97,391,264,588
		<u>13,869,046,874,740</u>	<u>7,228,193,148,302</u>
<b>Total liabilities</b>		<u>22,070,931,098,691</u>	<u>13,831,935,992,803</u>
<b>Equity</b>			
Share Capital	1,23	141,443,775,000	141,443,775,000
Capital Surplus	23	3,574,211,671,439	3,574,211,671,439
Capital adjustments	24	(2,966,897,977,647)	(2,909,828,356,943)
Retained earnings	25	9,896,764,345,163	10,991,567,194,372
Accumulated other comprehensive income	26	463,689,573	(91,980,176,302)
<b>Stockholders' equity attributable to owners of the Company</b>		10,645,985,503,528	11,705,414,107,566
<b>Non-controlling interest</b>		1,255,699,149,457	721,958,757,837
<b>Total equity</b>		<u>11,901,684,652,985</u>	<u>12,427,372,865,403</u>
<b>Total equity and liabilities</b>		<u>₩ 33,972,615,751,676</u>	<u>26,259,308,858,206</u>

*See accompanying notes to the consolidated financial statements.*

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Loss**  
**For the years ended December 31, 2019 and 2018**

(In Korean won, except for per share information)	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b>Continuing operations</b>			
Sales	28,36,39	₩ 17,622,000,488,403	17,820,781,434,515
Cost of sales	8,39	<u>(10,184,620,579,709)</u>	<u>(10,313,111,398,016)</u>
<b>Gross profit</b>		<b><u>7,437,379,908,694</u></b>	<b><u>7,507,670,036,499</u></b>
Selling, general and administrative expenses	29,39,42	(7,007,724,639,491)	(6,911,701,185,620)
Reversal of allowance for bad debts(expense)	29	<u>(1,744,395,592)</u>	<u>1,034,747,693</u>
<b>Operating profit</b>		<b><u>427,910,873,611</u></b>	<b><u>597,003,598,572</u></b>
Other income	30,39	88,863,626,239	60,480,214,456
Other expenses	30,39	(1,326,606,491,728)	(692,989,219,752)
Other bad debt expense	30,32,39	(6,963,776,667)	(14,235,233,558)
Finance income - Interest income calculated using the effective interest method	32	110,441,761,850	90,369,352,782
Finance income - Others	32	155,876,088,761	188,546,099,017
Finance costs	32,42	(693,284,586,934)	(411,619,928,356)
Equity method income on instruments in associates and joint ventures	11,12	<u>86,334,775,009</u>	<u>88,583,487,325</u>
<b>Loss before income tax</b>		<b><u>(1,157,427,729,859)</u></b>	<b><u>(93,861,629,514)</u></b>
Income tax expense	33	<u>250,131,380,140</u>	<u>(160,416,752,873)</u>
<b>Loss from continuing operations, net of tax</b>		<b><u>(907,296,349,719)</u></b>	<b><u>(254,278,382,387)</u></b>
<b>Profit (Loss) from discontinued operations, net of tax</b>	41	<b><u>67,203,003,872</u></b>	<b><u>(210,718,208,408)</u></b>
<b>Loss for the year</b>		<b><u>(840,093,345,847)</u></b>	<b><u>(464,996,590,795)</u></b>
<b>Other comprehensive income(loss)</b>			
Items that will never be reclassified to profit or loss			
Fair value gain (loss) through other comprehensive income on equity instruments		101,118,030,938	(5,220,494,135)
Remeasurements of net defined benefit liabilities	21	(57,813,398,995)	(40,146,695,128)
Net changes in equity of equity method investments		(329,709,201)	(587,463,005)
Income tax effect		<u>(15,013,915,044)</u>	<u>6,339,646,951</u>
Total items that will never be reclassified to profit or loss		<u>27,961,007,698</u>	<u>(39,615,005,317)</u>
Items that will be subsequently reclassified to profit or loss			
Gain on valuation of debt instrument at fair value through other comprehensive income		378,204,762	327,488,435
Exchange rate differences on translating foreign operations		15,387,546,851	(32,395,224,763)
Gains and losses arising on revaluations of derivatives	22	(5,819,584,896)	6,149,799,927
Net changes in equity of equity method investments		36,999,738,770	16,685,900,771
Income tax effect		<u>(5,965,357,411)</u>	<u>(2,996,212,436)</u>
Total items that will be subsequently reclassified to profit or loss		<u>40,980,548,076</u>	<u>(12,228,248,066)</u>
Other comprehensive income (loss) for the year, net of tax	26	<u>68,941,555,774</u>	<u>(51,843,253,383)</u>
Total comprehensive loss for the year		<u>(771,151,790,073)</u>	<u>(516,839,844,178)</u>

*See accompanying notes to the consolidated financial statements.*

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Loss, Continued**  
**For the years ended December 31, 2019 and 2018**

(In Korean won, except for per share information)	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Profit(loss) attributable to:			
Owners of the Company			
Loss from continuing operations		(976,764,607,481)	(334,156,072,066)
Profit (Loss) from discontinued operations		<u>67,203,003,872</u>	<u>(210,718,208,408)</u>
		<u>(909,561,603,609)</u>	<u>(544,874,280,474)</u>
Non-controlling interests			
Profit from continuing operations		<u>69,468,257,762</u>	<u>79,877,689,679</u>
<b>Total comprehensive income(loss) attributable to:</b>			
Owners of the Company		(866,298,349,680)	(589,275,241,389)
Non-controlling interests		<u>95,146,559,607</u>	<u>72,435,397,211</u>
		<u>(771,151,790,073)</u>	<u>(516,839,844,178)</u>
Loss per share	27		
Basic loss per share (in Korean won)			
From continuing operations		(34,550)	(12,307)
From discontinued operations		2,377	(7,479)
Diluted loss per share (in Korean won)			
From continuing operations		(34,882)	(12,584)
From discontinued operations	₩	2,377	(7,479)

*See accompanying notes to the consolidated financial statements.*

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2019 and 2018**

(In Korean won)	Share capital	Capital Surplus	Hybrid securities	Capital adjustment	Retained earnings	Accumulated other comprehensive income(loss)	Non-controlling interest	Total equity
<b>Balance at January 1, 2018</b>	₩ 140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,730,312,514,167	(82,728,299,496)	692,767,971,456	13,351,352,592,272
Adjustment on initial application of K-IFRS No.1109, net of tax	-	-	-	-	12,674,138,566	(12,674,138,566)	-	-
<b>Restated balance at January 1, 2018</b>	140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,742,986,652,733	(95,402,438,062)	692,767,971,456	13,351,352,592,272
<b>Comprehensive income (loss) for the period:</b>								
Profit(loss) for the year	-	-	-	-	(544,874,280,474)	-	79,877,689,679	(464,996,590,795)
<b>Other comprehensive income (loss):</b>								
Net changes in financial assets at fair value through other comprehensive income	-	-	-	-	(18,546,466,814)	13,563,803,457	(4,114,884,020)	(9,097,547,377)
Exchange rate differences on translating foreign operations	-	-	-	-	-	(27,606,477,887)	(2,327,360,240)	(29,933,838,127)
Gains and losses arising on revaluations of derivatives	-	-	-	-	-	4,908,598,143	1,236,255	4,909,834,398
Remeasurements of defined benefit liabilities	-	-	-	-	(28,711,692,436)	-	(1,001,284,463)	(29,712,976,899)
Net changes in equity of equity method investments	-	-	-	-	(565,063,425)	12,556,338,047	-	11,991,274,622
Subtotal	-	-	-	-	(47,823,222,675)	3,422,261,760	(7,442,292,468)	(51,843,253,383)
<b>Total comprehensive income(loss) for the period</b>	-	-	-	-	(592,697,503,149)	3,442,261,760	72,435,397,211	(516,830,844,178)
<b>Transactions with owners of the company recognized directly in equity:</b>								
Interests paid for hybrid securities	-	-	-	-	(12,581,295,612)	-	-	(12,581,295,612)
Dividends	-	-	-	-	(146,140,659,600)	-	(42,661,946,120)	(188,802,605,720)
Issuance of exchangeable bond	-	35,017,831,200	-	-	-	-	-	35,017,831,200
Changes due to mergers	833,540,000	33,508,308,000	-	-	-	-	-	34,341,848,000
Acquisition of treasury stock	-	-	-	(7,602,224)	-	-	-	(7,602,224)
Repayment of hybrid securities	-	-	(269,118,000,000)	(882,000,000)	-	-	-	(270,000,000,000)
Others	-	-	-	(4,525,393,625)	-	-	(582,664,710)	(5,108,058,335)
<b>Balance at December 31, 2018</b>	₩ 141,443,775,000	3,574,211,671,439	-	(2,909,828,356,943)	10,991,567,194,372	(91,980,176,302)	721,958,757,837	12,427,372,865,403

See accompanying notes to the consolidated financial statements.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity, Continued**  
**For the years ended December 31, 2019 and 2018**

(In Korean won)	Share capital	Capital Surplus	Hybrid securities	Capital adjustment	Retained earnings	Accumulated other comprehensive income(loss)	Non- controlling interest	Total equity
<b>Balance at January 1, 2019</b>	₩ 141,443,775,000	3,574,211,671,439	-	(2,909,828,356,943)	10,991,567,194,372	(91,980,176,302)	721,958,757,837	12,427,372,865,403
Adjustment on initial application of K-IFRS No.1116, net of tax	-	-	-	-	10,946,694,346	-	(14,726,887)	10,931,967,459
<b>Restated balance at January 1, 2019</b>	141,443,775,000	3,574,211,671,439	-	(2,909,828,356,943)	11,002,513,888,718	(91,980,176,302)	721,944,030,950	12,438,304,832,862
<b>Comprehensive income (loss) for the period:</b>								
Profit(loss) for the year	-	-	-	-	(909,561,603,609)	-	69,468,257,762	(840,093,345,847)
<b>Other comprehensive income (loss):</b>								
Net changes in financial assets at fair value through other comprehensive income	-	-	-	-	(11,859,931,619)	56,256,138,740	20,986,180,267	65,382,387,388
Exchange rate differences on translating foreign operations	-	-	-	-	-	7,062,830,527	4,598,342,587	11,661,173,114
Gains and losses arising on revaluations of derivatives	-	-	-	-	-	(4,179,773,392)	(80,138,371)	(4,259,911,763)
Remeasurements of defined benefit liabilities	-	-	-	-	(37,052,785,452)	-	173,917,362	(36,878,868,090)
Net changes in equity of equity method investments	-	-	-	-	(267,894,875)	33,304,670,000	-	33,036,775,125
Subtotal	-	-	-	-	(49,180,611,946)	92,443,865,875	25,678,301,845	68,941,555,774
<b>Total comprehensive income(loss) for the period</b>	-	-	-	-	(958,742,215,555)	92,443,865,875	95,146,559,607	(771,151,790,073)
<b>Transactions with owners of the company recognized directly in equity:</b>								
Interests paid for hybrid securities	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(147,007,328,000)	-	(36,401,816,840)	(183,409,144,840)
Change in ownership interest in subsidiaries	-	-	-	(57,064,082,747)	-	-	475,010,375,740	417,946,292,993
Others	-	-	-	(5,537,957)	-	-	-	(5,537,957)
<b>Balance at December 31, 2019</b>	₩ 141,443,775,000	3,574,211,671,439	-	(2,966,897,977,647)	9,896,764,345,163	463,689,573	1,255,699,149,457	11,901,684,652,985

See accompanying notes to the consolidated financial statements.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2019 and 2018**

(In Korean won)	Notes	2019	2018
<b>Cash flows from operating activities</b>			
Loss for the year	₩	(840,093,345,847)	(464,996,590,795)
Adjustments	34	2,875,375,860,450	1,695,466,351,700
Changes in operating assets and liabilities	34	(292,630,675,570)	(879,525,184,579)
Income taxes paid		(105,866,827,390)	(177,669,584,552)
<b>Net cash provided by operating activities</b>		<b><u>1,636,785,011,643</u></b>	<b><u>173,274,991,774</u></b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of financial assets		1,263,774,021,076	1,202,795,814,025
Decrease of short-term loans		18,280,110,982	22,691,596,746
Decrease of long-term loans		301,166,180	1,470,751,566
Decrease of long-term financial instruments		-	2,000,000
Proceeds from sale of debt instruments at fair value through other comprehensive income		-	177,010,000
Proceeds from sale of equity instruments at fair value through other comprehensive income		78,976,919,651	51,195,518,860
Proceeds from sale of debt instruments at fair value through profit or loss		3,462,226,675	2,833,477,598
Proceeds from sale of investments in associates and joint ventures		50,623,419,890	9,472,059,771
Proceeds from disposal of assets held for sale		182,329,026,693	24,340,759,589
Proceeds from disposal of property, plant and equipment		24,368,897,531	26,175,105,089
Proceeds from disposal of intangible assets		274,443,585	1,552,986,413
Disposal of investment in properties		230,323	-
Collection of lease payment receivable		27,958,123,158	-
Cash inflows from settlement of derivatives		9,515,854,112	6,981,786,735
Decrease in other assets		-	2,672,506,413
Cash inflows from disposal of subsidiaries		280,264,011,848	85,971,662,221
Increase of short-term financial instruments		(1,995,664,759,964)	(1,037,847,925,636)
Increase of long-term financial instruments		-	(4,004,000,000)
Increase in short-term loans		(1,399,330,430)	(15,370,052,900)
Increase in long-term loans		(1,704,000,000)	(2,998,309,965)
Purchase of debt instrument at fair value through profit or loss		(7,799,996,276)	(6,303,528,596)
Purchase of equity instruments at fair value through other comprehensive income		(18,535,923,899)	(20,709,697,595)
Purchase of debt instruments at fair value through other comprehensive income		(647,910,000)	(356,220,000)
Purchase of investments in associates and joint ventures		(363,370,458,759)	(102,744,284,667)
Acquisition of property, plant, and equipment		(550,561,167,154)	(597,125,018,348)
Acquisition of intangible assets		(83,895,997,601)	(64,360,040,159)
Acquisition of investment property		(100,177,744,447)	(29,289,401,700)
Cash outflows from settlement of derivatives		-	(1,981,999,845)
Interest received		94,925,274,457	87,631,712,048
Dividends received		47,648,587,843	70,515,837,103
<b>Net cash used in investing activities</b>	₩	<b><u>(1,041,054,974,526)</u></b>	<b><u>(286,609,895,234)</u></b>

*See accompanying notes to the consolidated financial statements.*

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows, Continued**  
**For the years ended December 31, 2019 and 2018**

(In Korean won)	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings	₩	820,505,139,127	496,093,726,991
Proceeds from long-term borrowings		561,573,442,000	830,849,658,000
Proceeds from issuance of debentures		1,077,437,637,806	1,738,090,679,237
Cash inflows from settlement of derivatives		-	1,242,799,890
Capital contribution from non-controlling interests		429,922,210,000	250,000,000
Cash inflows from other financing activities		29,659,185	-
Repayment of short-term borrowings		(905,100,229,964)	(761,938,479,300)
Repayment of long-term borrowings		(1,284,436,559,306)	(812,309,222,549)
Redemption of debentures		(130,000,000,000)	(1,450,067,642,984)
Acquisition of additional ownership in subsidiaries		(156,604,275,770)	-
Payment of hybrid securities interests		-	(12,581,295,612)
Decrease of finance lease liabilities		(505,086,084,108)	(9,485,514,727)
Repayment of hybrid securities		-	(270,000,000,000)
Acquisition of treasury shares		-	(7,602,224)
Cash outflows from other financing activities		(7,826,487,931)	-
Interest paid		(562,175,395,624)	(257,168,910,924)
Dividends paid		(183,888,981,821)	(185,603,815,700)
<b>Net cash used in financing activities</b>		<b><u>(845,649,926,406)</u></b>	<b><u>(692,635,619,902)</u></b>
Net decrease in cash and cash equivalents		(249,919,889,289)	(805,970,523,362)
Cash and cash equivalents at the beginning of the year		1,818,473,007,915	2,626,243,925,953
Reclassification of assets group held for sale		-	(4,854,991,816)
Effect of exchange rate fluctuation on cash and cash equivalents		18,038,964,000	3,054,597,140
<b>Cash and cash equivalents at the end of the year</b>	₩	<b><u><u>1,586,592,082,626</u></u></b>	<b><u><u>1,818,473,007,915</u></u></b>

*See accompanying notes to the consolidated financial statements.*

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity**

(a) Organization and description of the Company

Lotte Shopping Co., Ltd. (the “Company” or the “Parent Company”) was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores. The Company has been operating 28 department stores, 21 outlet stores, 122 discount stores, 386 supermarkets and 129 H&B stores as of December 31, 2019. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and joint ventures. The Company’s stock was listed on the Korea Exchange through an initial public offering on February 9, 2006.

The shareholders of the Parent Company as of December 31, 2019, are as follows:

<i>(in millions of Korean won, except number of shares)</i>	<u>Number of shares</u>		<u>Amount</u>	<u>Percentage of ownership (%)</u>
Lotte Corporation	11,315,503	₩	56,577	40.00
Shin, Dong Bin	2,783,700		13,919	9.84
Hotel Lotte Co., Ltd.	2,507,158		12,536	8.86
Shin, Kyuk Ho	262,438		1,312	0.93
Hotel Lotte Pusan Co., Ltd.	220,326		1,102	0.78
Shin, Young Ja	210,174		1,051	0.74
Shin, Dong Ju	133,953		670	0.47
Treasury share	18,115		91	0.06
Others	10,837,388		54,186	38.32
<b>Total</b>	<b>28,288,755</b>	₩	<b>141,444</b>	<b>100.00</b>

(b) Description of subsidiaries

(i) A summary of the subsidiaries of the Company as of December 31, 2019 is as follows:

<u>Subsidiaries</u>	<u>Location</u>	<u>Main business</u>	<u>Fiscal year end</u>	<u>December 31, 2019</u>			
				<u>Capital (in millions of Korean won)</u>	<u>Percentage of ownership (%)</u>		
					<u>Parent Company</u>	<u>Subsidiary</u>	<u>Total</u>
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home-shopping	Dec. 31	40,000	53.03	-	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home-shopping	Dec. 31	22,634	-	91.77	91.77
Lotte GFR Co., Ltd.	Korea	Apparel manufacturing and sales	Dec. 31	8,574	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	300	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	100,000	100.00	-	100.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	106,578	100.00	-	100.00
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	6,384	99.95	-	99.95
Lotte Himart Co., Ltd. (*1)	Korea	Consumer electronics	Dec. 31	118,039	65.25	-	65.25

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(b) Description of subsidiaries, continued

(i) A summary of the subsidiaries of the Company as of December 31, 2019 is as follows:, continued

<b>December 31, 2019</b>							
<b>Subsidiaries</b>	<b>Location</b>	<b>Main business</b>	<b>Fiscal year end</b>	<b>Capital (in millions of Korean won)</b>	<b>Percentage of ownership (%)</b>		
					<b>Parent Company</b>	<b>Sub-sidiary</b>	<b>Total</b>
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	25,200	96.83	-	96.83
Lotte Cultureworks Co., Ltd.	Korea	Cinema	Dec. 31	28,210	86.37	-	86.37
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	2,102	-	100.00	100.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	33,440	-	90.00	90.00
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	Dec. 31	4,354	-	100.00	100.00
Lotte corporate venture fund No. 1	Korea	Investment on new technology	Dec. 31	2,130	18.78	79.81	98.59
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	5,000	95.00	-	95.00
LOTTE REIT Co., Ltd. (*2)	Korea	Real estate business	Dec. 31	85,984	50.00	-	50.00
Lotte Incheon Development Co., Ltd	Korea	Retail, real estate business	Dec. 31	100,000	100.00	-	100.00
Lotte Incheon Town Co.,Ltd	Korea	Real estate business	Dec. 31	10,000	70.00	-	70.00
LOTTE Town Dongtan Co.,LTD	Korea	Real estate business	Dec. 31	70,000	100.00	-	100.00
Lotte (China) Management Co., Ltd.	China	Management company	Dec. 31	8,906	70.00	-	70.00
LOTTE SHOPPING RUS Ltd.	Russia	Distribution	Dec. 31	16,176	100.00	-	100.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	2,546,518	100.00	-	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	130,036	-	100.00	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	60,255	-	100.00	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	131,987	-	100.00	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	90,111	-	100.00	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	68,875	-	100.00	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	52,035	-	100.00	100.00

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

#### 1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(i) A summary of the subsidiaries of the Company as of December 31, 2019 is as follows:, continued

Subsidiaries	Location	Main business	Fiscal year end	December 31, 2019			
				Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	11	-	100.00	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	217,888	73.46	-	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	403,724	-	100.00	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	770,305	100.00	-	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	Vietnam	Distribution	Dec. 31	210,444	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	56,414	-	80.00	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	91,151	-	100.00	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	94,145	-	100.00	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	18	-	100.00	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	1,092	-	100.00	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	29,708	-	100.00	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	69,209	20.00	40.00	60.00
Lotte Holdings Hong Kong Ltd.	Hong Kong	Holding company	Dec. 31	36,107	-	100.00	100.00
HAI THAHN - LOTTE COMPANY LIMITED	Vietnam	Hotel Business	Dec. 31	51,581	-	70.00	70.00
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	29,807	-	100.00	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	159,458	80.00	-	80.00
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Distribution, real estate development	Dec. 31	160,401	-	100.00	100.00

(\*1) During 2018, the Company issued exchangeable bonds which are exchangeable to Lotte Himart Co., Ltd., common stocks (see in Note 17). The total number of shares to be exchanged is 3,536,812 shares, and if all exchangeable bonds were exchanged to the common shares of Lotte Himart Co., Ltd., the Company's ownership on Lotte Himart Co., Ltd., would have decreased from 65.25% to 50.27%, but there would be no influence on its controlling ability over Lotte Himart Co., Ltd. Also, the Company agreed to lend the common shares of Lotte Himart Co., Ltd. to the extent of 50% of the number of shares in subject of exchange, and the number of lent shares as of June 30, 2019 is 1,000,000 shares. The Company's right to vote and dispose the shares is restricted pursuant to the agreement, however there is no influence on its controlling ability over Lotte Himart Co., Ltd.

(\*2) The voting rights of the shares held by the Group do not exceed 50%, but have been classified as subsidiary considering their control in substance.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company as of December 31, 2018 is as follows:

<b>December 31, 2018</b>							
<b>Subsidiaries</b>	<b>Location</b>	<b>Main business</b>	<b>Fiscal year end</b>	<b>Capital (in millions of Korean won)</b>	<b>Percentage of ownership (%)</b>		
					<b>Parent Company</b>	<b>Subsidiary</b>	<b>Total</b>
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	40,000	53.03	-	53.03
Lotte DatViet Home shopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	22,634	-	91.77	91.77
LOTTE GFR CO., LTD. (Formerly NCF Co., Ltd.)	Korea	Apparel manufacturing and sales	Dec. 31	8,574	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	300	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	100,000	95.00	-	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	106,578	56.30	-	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	6,384	99.95	-	99.95
LOTTE Himart Co., Ltd. (*)	Korea	Consumer electronics	Dec. 31	118,039	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	25,200	94.84	-	94.84
Lotte Cultureworks CO., LTD.	Korea	Cinema	Dec. 31	24,366	100.00	-	100.00
Lotte corporate venture fund No. 1	Korea	Investment on new technology	Dec. 31	2,130	18.78	79.81	98.59
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	5,000	95.00	-	95.00
Lotte (China) Management Co., Ltd.	China	Management company	Dec. 31	8,906	70.00	-	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	2,511,376	100.00	-	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	130,036	-	100.00	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	60,255	-	100.00	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	45,452	-	100.00	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	102,456	-	100.00	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	90,111	-	100.00	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	36,438	-	100.00	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	63,264	-	100.00	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	52,035	-	100.00	100.00

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company as of December 31, 2018 is as follows:, continued

<b>December 31, 2018</b>							
<b>Subsidiaries</b>	<b>Location</b>	<b>Main business</b>	<b>Fiscal year end</b>	<b>Capital (in millions of Korean won)</b>	<b>Percentage of ownership (%)</b>		
					<b>Parent Company</b>	<b>Sub-sidiary</b>	<b>Total</b>
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	25,955	-	100.00	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	11	-	100.00	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	2,102	-	100.00	100.00
LHSC Limited	Cayman Islands	Holding company	Dec. 31	236,575	17.58	82.42	100.00
Lucky Pai Ltd. and two subsidiaries	China	TV Home Shopping	Dec. 31	107,918	-	100.00	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	217,888	73.46	-	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	403,724	-	100.00	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	663,562	100.00	-	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	134,464	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	56,414	-	80.00	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	91,151	-	100.00	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	71,704	-	100.00	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	18	-	100.00	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	1,092	-	100.00	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	29,708	-	100.00	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	69,209	20.00	40.00	60.00
Lotte Holdings Hong Kong Ltd. (Formerly Kotobuki Holding (HK) Ltd.)	Hong Kong	Holding company	Dec. 31	36,107	-	100.00	100.00
HAI THAHN - LOTTE COMPANY LIMITED (Formerly Hai Thanh - Kotobuki Joint Venture Company)	Vietnam	Hotel Business	Dec. 31	51,581	-	70.00	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	33,440	90.00	-	90.00

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company as of December 31, 2018 is as follows:, continued

December 31, 2018							
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	29,807	-	100.00	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	159,458	80.00	-	80.00
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Distribution, real estate development	Dec. 31	160,401	-	100.00	100.00
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	Dec. 31	4,354	99.98	0.02	100.00

(\*) During 2018, the Company issued exchangeable bonds which are exchangeable to Lotte Himart Co., Ltd., common stocks (see in Note 15). The total number of shares to be exchanged is 3,536,812 shares, and if all exchangeable bonds were exchanged to the common shares of Lotte Himart Co., Ltd., the Company's ownership on Lotte Himart Co., Ltd., would have decreased from 65.25% to 50.27%, but there would be no influence on its controlling ability over Lotte Himart Co., Ltd. Also, the Company agreed to lend the common shares of Lotte Himart Co., Ltd. to the extent of 50% of the number of shares in subject of exchange, and the number of lent shares as of December 31, 2018 is 1,000,000 shares. The Company's right to vote and dispose the shares is restricted pursuant to the agreement, however there is no influence on its controlling ability over Lotte Himart Co., Ltd.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

#### 1. General Information of Reporting Entity, continued

(c) Financial information of significant subsidiaries as of December 31, 2019 and December 31, 2018 are summarized as follows:

(i) December 31, 2019

December 31, 2019						
<i>(in millions of Korean won)</i>						
Subsidiaries (*1)	Assets	Liabilities	Equity	Sales	Profit (loss) for the period	Total comprehensive income (loss) (*2)
Woori Home Shopping & Television Co., Ltd.	₩ 1,139,849	364,876	774,973	986,903	114,197	159,325
Lotte Suwon Station Shopping Town Co., Ltd.	475,600	423,813	51,787	44,057	(9,251)	(9,252)
Lotte Songdo Shopping Town Co., Ltd.	245,503	120,288	125,215	85,695	2,642	2,642
CS Mart Co., Ltd.	160,497	56,338	104,159	351,785	(11,347)	(11,347)
Lotte Himart Co., Ltd.	3,107,566	1,185,666	1,921,900	4,026,464	(99,907)	(99,774)
Lotte Cultureworks Co., Ltd.	1,396,808	854,814	541,994	723,212	(101,579)	(102,783)
LOTTE REIT Co., Ltd. (*3)	1,584,059	721,571	862,488	24,524	12,106	12,106
Lotte Incheon Development Co., Ltd (*3)	1,034,198	1,014,562	19,636	100,603	(1,647)	(1,647)
Lotte Incheon Town Co., Ltd (*3)	214,575	205,130	9,445	-	(110)	(107)
LOTTE Town Dongtan Co., LTD (*3)	646,023	571,244	74,779	60,474	456	455
Lotte Shopping Holdings (Hong Kong) Co., Limited	167,021	349,191	(182,170)	-	(7,675)	(13,688)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	427,833	249,254	178,579	-	(8,548)	(2,076)
Lotte Properties (Chengdu) Limited	393,051	23,262	369,789	9,419	4,942	11,420
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	489,112	421,200	67,912	343,121	(13,544)	(6,074)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	484,250	27	484,223	-	(95,161)	(79,269)
PT. LOTTE SHOPPING INDONESIA	367,781	219,609	148,172	908,200	(2,705)	8,956
PT. LOTTE MART INDONESIA	130,398	227,617	(97,219)	211,304	(37,664)	(42,404)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	157,425	7	157,418	-	16	5,413
LOTTE PROPERTIES HANOI CO., LTD.	220,977	69,923	151,054	-	(1,245)	4,243
Lotte Shopping Business Management (Hong Kong) Limited	349,855	350,035	(180)	-	(56)	(60)
LOTTE CINEMA VIETNAM CO., LTD.	155,530	211,842	(56,312)	46,660	(52,700)	(53,251)
Lotte Department Store (Chengdu) Co., Ltd.	84,781	131,527	(46,746)	36,382	(4,698)	(2,500)
PT. LOTTE Shopping Avenue Indonesia	130,710	140,796	(10,086)	22,962	(20,846)	(17,655)

(\*1) The financial information for the subsidiaries is based on separate financial statements.

(\*2) Exchange rate differences on translating foreign operations are included.

(\*3) The financial information for the entities newly included in subsidiaries is based on the financial information after acquisition date.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(c) Financial information of significant subsidiaries as of December 31, 2019 and December 31, 2018 are summarized as follows:, continued

(ii) December 31, 2018

							<b>December 31, 2018</b>	
<i>(in millions of Korean won)</i>								
<b>Subsidiaries (*1)</b>		<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Sales</b>	<b>Profit (loss) for the period</b>	<b>Total comprehensive income (loss) (*2)</b>	
Woori Home Shopping & Television Co., Ltd.	₩	916,307	256,659	659,648	902,373	76,387	59,837	
Lotte Suwon Station Shopping Town Co., Ltd.		282,695	221,656	61,039	42,893	(7,038)	(7,035)	
Lotte Songdo Shopping Town Co., Ltd.		321,664	199,091	122,573	169,456	20,184	20,189	
CS Mart Co., Ltd.		160,132	44,643	115,489	374,618	841	827	
Lotte Himart Co., Ltd.		3,117,064	1,055,205	2,061,859	4,112,678	85,463	79,755	
Lotte Cultureworks Co., Ltd.		671,602	159,483	512,119	476,328	25,458	23,595	
Lotte Shopping Holdings (Hong Kong) Co., Limited		306,853	510,477	(203,624)	-	(447,704)	(449,235)	
LOTTE PROPERTIES (CHENGDU) HK LIMITED		421,343	240,688	180,655	-	(8,053)	(296)	
Lotte Properties (Chengdu) Limited		377,785	19,416	358,369	49,674	(40,253)	(41,548)	
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly LOTTE VIETNAM SHOPPING CO., LTD.)		411,051	413,045	(1,994)	283,151	(10,967)	(10,871)	
LOTTE SHOPPING HOLDINGS(SINGAPORE) PTE. LTD.		456,768	20	456,748	-	(41,878)	(22,857)	
PT. LOTTE SHOPPING INDONESIA		302,801	163,586	139,215	849,978	10,566	7,349	
PT. LOTTE MART INDONESIA		117,906	172,722	(54,816)	209,732	(23,883)	(22,413)	
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.		152,010	5	152,005	-	(12)	6,337	
LOTTE PROPERTIES HANOI CO., LTD.		153,336	6,524	146,812	-	465	3,505	
LOTTE CINEMA VIETNAM CO., LTD.		101,520	104,581	(3,061)	38,208	(12,770)	(12,673)	

(\*1) The financial information for the subsidiaries is based on separate financial statements.

(\*2) Exchange rate differences on translating foreign operations are included.

(d) Changes in the scope of consolidation

(i) Entities newly included in subsidiaries in 2019 are as follows:

<b>Subsidiaries</b>	<b>Description</b>
LOTTE REIT Co., Ltd.	New establishment
Lotte Incheon Development Co., Ltd	Acquisition
Lotte Incheon Town Co.,Ltd	Acquisition
LOTTE SHOPPING RUS Ltd.	Acquisition
LOTTE Town Dongtan Co.,LTD	Reclassified as a subsidiary from an associate due to acquisition of additional share

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**1. General Information of Reporting Entity, continued**

(d) Changes in the scope of consolidation, continued

(ii) Entities excluded from subsidiaries in 2019 are as follows:

Subsidiaries	Description
Shanghai Jijie Commercial Trading Co., Ltd. (*)	Liquidation
Lucky Pai (Shanghai) Trade Co., Ltd. (*)	Liquidation
Lotte International Department Store (Weihai) Co., Ltd.	Disposal
LHSC Limited	Liquidation
Lucky Pai Ltd. (*)	Liquidation
Lotte Mart (Chongqing) Commercial Co., Ltd.	Liquidation
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	Liquidation

(\*) This is an entity included in the “Lucky Pai Ltd. and 2 subsidiaries”, and the liquidation is completed during 2019.

(e) Non-controlling interests

Financial information relating to each of the Group’s subsidiaries that has material NCI as of December 31, 2019 and December 31, 2018 are summarized as follows:

(i) December 31, 2019

(In millions of Korean won)

Subsidiaries	LOTTE REIT Co., Ltd.	Woori Home Shopping & Television Co., Ltd. (*1,2)	LOTTE Himart Co.,Ltd (*2)	Lotte Cultureworks Co., Ltd. (*1)
NCI Percentage	50.00%	46.97%	34.75%	13.63%
Current assets	₩ 23,777	814,276	715,664	169,837
Non-current assets	1,560,282	387,108	1,083,773	1,382,315
Current liabilities	7,235	261,109	589,513	308,791
Non-current liabilities	714,336	104,186	627,095	716,491
Net assets	862,488	836,089	582,829	526,870
Carrying amount of NCI	434,003	392,941	213,863	72,322
Dividends paid to NCI	-	20,665	13,948	-
Revenue	24,524	986,903	4,026,464	771,071
Net profit (loss) for the period	18,196	113,022	70,825	(82,318)
Total comprehensive income	18,196	158,278	70,959	(83,550)
Net profit (loss) attributable to NCI	9,098	53,062	24,614	(15,768)
Total comprehensive income (loss) attributable to NCI	9,098	74,320	24,660	(15,857)
Cash flows from operating activities	89,746	126,101	130,356	222,835
Cash flows from investing activities	(1,138,366)	(27,032)	(105,554)	(181,609)
Cash flows from financing activities	1,065,421	(56,844)	(274,796)	(82,340)
Effect on foreign currency translation	-	82	-	318
Net increase (decrease) in cash and cash equivalents	₩ 16,801	42,307	(249,994)	(40,796)

(\*1) The financial information for the subsidiaries is based on consolidated financial statements.

(\*2) The information of subsidiaries above is adjusted to reflect goodwill and fair value adjustments from business combination, but not intercompany transactions.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(e) Non-controlling interests, continued

(ii) December 31, 2018

(In millions of Korean won)

<u>Subsidiaries</u>	<u>Woori Home Shopping &amp; Television Co., Ltd. (*1,2)</u>	<u>LOTTE Himart Co.,Ltd (*2)</u>
NCI Percentage	46.97%	34.75%
Current assets	₩ 660,912	915,423
Non-current assets	318,730	756,052
Current liabilities	249,637	538,119
Non-current liabilities	8,109	561,936
Net assets	721,896	571,420
Carrying amount of NCI	339,286	203,150
Dividends paid to NCI	22,919	15,178
Revenue	908,789	4,112,678
Net profit for the period	81,535	133,800
Total comprehensive income	64,986	141,221
Net profit attributable to NCI	38,121	46,500
Total comprehensive income attributable to NCI	30,350	49,079
Cash flows from operating activities	4,743	71,510
Cash flows from investing activities	(13,374)	(20,986)
Cash flows from financing activities	(48,800)	(80,163)
Effect from exchange rate change	(30)	-
Net decrease in cash and cash equivalents	₩ <u>(57,461)</u>	<u>(29,639)</u>

(\*1) The financial information for the subsidiaries is based on consolidated financial statements.

(\*2) The information of subsidiaries above is adjusted to reflect goodwill and fair value adjustments from business combination, but not intercompany transactions.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**As of December 31, 2019 and 2018**

**1. General Information of Reporting Entity, continued**

(f) Changes in the Company's ownership interest in subsidiaries that did not result in loss of control

The changes in the Company's ownership interest in subsidiaries for the current period due to acquisition of additional shares and paid in capital increases are summarized as follows.

(In millions of Korean won)

Subsidiaries	Type	Amount	The parent Company's percentage of ownership		The parent Company's portion in net assets	
			Before	After	Before	After
Lotte Business Management (Tianjin) Co., Ltd.	Capital increase	29,531	100.00%	100.00%	(75,562)	(46,030)
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	Capital increase	5,610	100.00%	100.00%	(34,913)	(29,303)
PT. Lotte Shopping Plaza Indonesia	Capital increase	22,441	100.00%	100.00%	(14,882)	7,559
Lotte International Department Store (Weihai) Co., Ltd.	Capital increase	839	100.00%	100.00%	3,815	4,654
Lotte Cultureworks Co., Ltd.	Capital increase	134,292	100.00%	86.37%	476,548	522,209
LOTTE Songdo Shopping Town CO., LTD	Additional acquisition	151,966	56.30%	100.00%	71,673	128,432
LOTTE Suwon Station Shopping Town CO.,LTD	Additional acquisition	3,755	95.00%	100.00%	53,861	56,798
LOTTE REIT Co., Ltd.	Capital increase	424,905	100.00%	100.00%	6,303	431,208
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	Capital increase	84,302	99.99%	99.99%	(4,496)	79,798
LOTTE Ulsan Development	Additional acquisition	883	94.84%	96.82%	3,873	4,247
LOTTE REIT Co., Ltd.	Capital increase	422,302	100.00%	50.00%	440,186	431,244

**2. Basis of the Accounting**

The following are significant accounting policies applied to the preparation of financial statements. These policies will continue to be applied in the period shown, unless otherwise mentioned.

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (hereinafter referred to as "K-IFRS" or "Korean IFRS"). The Korean International Financial Reporting Standards shall mean the contents being endorsed in Korea among the standard document and interpretation document announced by International accounting standard board ("IASB").

(a) Basis of measurement

The consolidated financial statements have been prepared based on historical cost except for the following.

- Specific financial assets and financial liabilities (including derivatives)
- Assets held for sale measured at fair value less costs to sell
- Defined benefit plans and plan assets measured at fair value

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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#### 2. Basis of Accounting, continued

##### (b) Functional and presentation currency

The financial statements of the Parent Company and each subsidiary are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean won, which is the Parent Company's functional currency.

K-IFRS permit the use of significant accounting estimates in preparing consolidated financial statements and require management to make judgements in applying accounting policies. Where more complex and higher levels of judgement are required, or where significant assumptions and estimates are required, details are described in Note 4.

#### 3. Significant Accounting Policies and Changes in Disclosure

The following are significant accounting policies applied to the preparation of financial statements. These policies will continue to be applied in the period shown, unless otherwise mentioned.

##### 3.1 Enacted, amended standards adopted by the Group

The Group has initially applied the following enacted/amended standards and interpretations from the year beginning January 1, 2019.

##### (a) Enactment of K-IFRS No.1116 'Lease'

Under K-IFRS No.1116 model, a right-of-use assets and corresponding liability except for short-term leases (less than 12 months) and leases of low-value assets should be recognized for all leases by lessees.

The Group changed its accounting policy as a result of the adoption of K-IFRS No.1116. In accordance with the provisions of K-IFRS No.1116, the Group applied modified retrospective approach as of January 1, 2019. Therefore, the cumulative effect of applying K-IFRS No.1116 is adjusted at the date of initial application, and the comparative financial statements have not been restated. The impact of lease standard and amended accounting policies are described in notes 42.

##### (b) Amendment of K-IFRS No.1109 'Financial Instruments' – prepayment features with negative compensation

A few prepayable financial assets accompanied with negative compensation are amended to be measured at amortized cost. In addition, if the condition of a financial liability measured at amortized cost is changed but not eliminated, the effect of the change should be recognized as profit or loss for current year. The adoption of this amendment has no material impact on the Company's consolidated financial statements

##### (c) Amendment of K-IFRS No.1019 'Employee Benefits' – revision, reduction or settlement the plan

If the plan is revised, reduced or settled due to the revision in the defined benefit plan, current service cost and net interest for the remaining accounting period after the revision should be computed using the assumptions used in the remeasurement of net defined benefit liabilities (assets). The adoption of this amendment has no material impact on the Company's consolidated financial statements.

##### (d) Amendment of K-IFRS No.1028 'Investment in Associates and Joint Ventures' – long-term interests in respect of associates and joint ventures

The amendment clarifies that other financial instruments (financial instruments that do not apply the equity method) is subject to K-IFRS No.1109. Also, the amendment has been revised to first apply K-IFRS No.1109 to the accounting for impairment of long-term interests, which is a part of net investment in an associate or joint venture. The adoption of this amendment has no material impact on the Company's consolidated financial statements.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.1 Enacted, amended standards adopted by the Group, continued

(e) Enactment of K-IFRS interpretation No.2123 'Uncertainty over Income Tax Treatments'

The enacted interpretation clarifies that when there is an uncertainty about whether the taxation authorities will approve the tax treatment applied by the entity, K-IFRS No.2123 should be applied to the recognition and measurement of current and deferred income tax. The interpretation also includes guidance on accounting units of uncertainty over income tax treatments and situations that require revaluation. The adoption of this enactment has no material impact on the Company's consolidated financial statements.

(f) Early introduction of amendment of K-IFRS No. 1039 'Financial Instruments: Recognition and Measurement'

Due to the scheduled interest rate index reform regarding inter-bank borrowing rate, the amendment of K-IFRS No.1039 was introduced early, and the definition in the amended paragraph 'Temporary Exception to the Application of Specific Hedge Accounting requirements' is satisfied. The adoption of this amendment has no material impact on the Company's consolidated financial statements.

(g) Annual Improvements 2015-2017

- Amendments of K-IFRS No.1103 'Business Combination'

The amendments to K-IFRS No.1103 clarify that when an entity obtains right of assets and obligation of liabilities of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill related to the joint operation. The adoption of this amendment has no material impact on the Company's consolidated financial statements.

- Amendments of K-IFRS No.1111 'Joint Arrangements'

The amendments to K-IFRS No.1111 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation. The adoption of these amendments has no material impact on Company's consolidated financial statements.

- Amendments of K-IFRS No.1012 'Income Taxes'

The provisions of paragraph 57A of K-IFRS No.1012 (recognition point of dividend tax effect and provisions regarding recognized items) clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. The adoption of these amendments has no material impact on Company's consolidated financial statements.

- K-IFRS No.1023 'Borrowing Cost'

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that the specific borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The adoption of these amendments has no material impact on company's consolidated financial statements.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.2 Amendments and Enactments of standards and interpretations not applied by the Group

For the amendments and interpretations that has been enacted or declared but the effective date has not come into effect for the fiscal year beginning on or after January 1, 2019, and therefore had not been applied yet, are as follows.

##### (a) Conceptual Framework for Financial Reporting

Including the guidelines for the concepts and elimination of measurement, presentation and disclosure, the amendments improve the definition of asset and liability and principles for recognition. Also, the amendments clarify the prudence, stewardship and measurement uncertainty. The Group expects that there will be no significant impact on the consolidated financial statements due to the amendments.

##### (b) Amendments of K-IFRS No.1001 'Presentation of Financial Statements' and No.1008 'Changes in Accounting Policies and Accounting Estimates and Errors' - Definition of Materiality

The amendments clarify the 'Definition of Materiality' and amend K-IFRS No.1001 and K-IFRS No.1008 according to the clarified definition. The amendments ensure that in judging materiality, not only omission or distortion of important information, but also the impact of non-critical information and the characteristics of information users when determining the information to be disclosed by the Group. The amendments shall apply for fiscal years beginning on or after January 1, 2020, and early introduction is possible. The Group expects that there will be no significant impact on the consolidated financial statements due to the amendments.

##### (c) Amendments of K-IFRS No.1103 'Business Combinations' - Definition of Business

The amendments ensure to include inputs and practical processes with the ability to significantly contribute for the creation of outputs to judge acquired activities and group of assets as business. The amendments exclude the economic benefits followed by cost reduction. In addition, if most of the fair value of the total assets acquired is concentrated in a single identifiable asset or a group of assets, an optional intensive test has been added that the acquired activity and the group of assets can be determined as the asset or group of assets, not as business. The amendments shall apply for fiscal years beginning on or after January 1, 2020, and early introduction is possible. The Group expects that there will be no significant impact on the consolidated financial statements due to the amendments.

#### 3.3 Basis of Consolidation

The Group has prepared the consolidated financial statements in accordance with K-IFRS No.1110 'Consolidated Financial Statements'

##### (a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group accounts for business combinations using the acquisition method. The consideration transferred is measured at fair value of acquisition date, and in case of identifiable assets / liabilities / contingent liability being acquired from business combination, it is initially measured at the fair value of acquisition date. The Group judges non-controlling interests, which provide a proportional share of net assets upon the liquidation, on each business combination, and measures with fair value or proportionate share among net assets of acquiree. If there is no requirement of other standard, other non-controlling interests are measured at fair value. Transform costs are expensed as incurred.

Goodwill is measured as the difference between the aggregate of the value of the consideration transferred, the amount of any non-controlling interest (NCI), the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree, and the net of the acquisition-date fair value of the identifiable assets acquired and liability assumed. When the consideration transferred and other components mentioned above is smaller than the fair value amount of acquired net assets of subsidiaries, such difference is recognized as profits and losses for the current period.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.3 Basis of Consolidation, continued

##### (a) Subsidiaries, continued

Any debts, balance of liabilities, profit and expense, and unrealized gain, etc. from transactions between intercompanies within the Group would be removed. Moreover, the accounting policy of subsidiaries would be modified for the consistent application of accounting policy being adopted by the Group, when there are any differences.

Transactions with non-controlling interests that do not result in a loss of control are directly recognized as equity attributable to the owner of Parent Company with the difference between the adjustment amount of noncontrolling interests and the fair value of consideration paid or received.

When the Group loses the control over subsidiaries, the remaining share of relevant company being possessed would be re-measured at fair value at the same time, and the related difference would be recognized as profits and losses for the current period.

##### (b) Investment in Associates

Associates are entities over which the Group has significant influence, and the investment associates is recognized at initial acquisition cost using equity method. Unrealized gain occurred from the inter-company transactions between the Group and its associates would be removed to the extent of proportionate share of the Group in associates. The equity method shall be discontinued if the group's interest for the loss of associates equals or exceeds the investment interest in the associates (including the long-term investment interest that forms part of the net investment). However, if the Group has a legal obligation to the associates for additional losses after the Group's interest is reduced to zero (0), or if the Group has to pay on behalf of the associates, only that amount shall be recognized as a loss and liability. Furthermore, if there is any objective indicators of impairment on the investment in associates, the difference between the recoverable amount of the investment and the carrying amount is recognized as impairment loss. When using the financial statements of the associate to apply the equity method, the Group reviews whether the same accounting policies applied by the Group are applied to the same transactions or events in similar circumstances and adjusts the financial statements of the associate if necessary.

##### (c) Joint Arrangements

A joint arrangement that more than two contract parties own the joint control, is categorized as joint operation or joint venture. Co-operators have rights and obligations regarding assets and liabilities of joint operation, and have recognized the own share among assets, liabilities, profits, and expenses of joint operation. Participants of joint venture have rights to the net assets and the equity method is applied.

#### 3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred stocks when it has a short maturity with a specified redemption date.

#### 3.5 Foreign currency translation

##### (a) Functional and presentation currency

The Group measures the items included in the financial statements of individual entities within the Group by applying the currency in the main economic environment in which each business activity is conducted ("functional currency"). The functional currency of the parent company is Korean won, and the consolidated financial statements are prepared in Korean won.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.5 Foreign currency translation

##### (b) Foreign currency transaction and translation at the end of the reporting period

Foreign currency transactions are recognized as functional currencies with the exchange rate of the transaction date or, in case of items that are remeasured, the exchange rate of the evaluation date. Transactions made in currencies other than the functional currency (foreign currency) are recorded using the exchange rate of the transaction date. Foreign exchange differences arising from settlement of foreign currency transactions or translation of monetary foreign currency assets and liabilities are recognized in profit or loss. However, the gain or loss on monetary items related to the effective portion of the cash flow hedge or net investment that meets the conditions or that are part of the reporting entity's net investment in the foreign operation shall be recognized in other comprehensive income.

Foreign exchange differences related to borrowings are shown in the income statement as financial expenses, and other foreign exchange differences are shown in other income or other expenses.

Foreign exchange differences arising from non-monetary financial assets and liabilities are regarded as part of gain or loss from fair value change. Foreign exchange differences arising from equity instruments measured at fair value through profit or loss are recognized in profit or loss, and foreign exchange differences arising from equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income.

#### 3.6 Financial assets

##### (a) Classification

The Group classifies the financial assets in the following categories.

- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Financial assets measured at amortized cost

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

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

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

##### (b) Measurement

At initial recognition, the Group measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Hybrid (combined) contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.6 Financial assets, continued

##### (b) Measurement, continued

##### (i) Debt instrument

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

##### - Financial assets measured at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method.

##### - Financial assets measured at fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

##### - Financial assets measured at fair value through profit or loss

Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Finance income or expenses' in the year in which it arises.

##### (ii) Equity instrument

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

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'Finance income or expenses' in the statement of profit or loss as applicable. The impairment loss (reversal) on equity instrument measured at fair value through other comprehensive income is not recognized separately.

##### (c) Impairment

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

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.6 Financial assets, continued

##### (d) Recognition and Derecognition

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

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

##### (e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### 3.7 Derivatives

Derivatives are initially recognized at fair value and remeasured at fair value subsequently. Changes in the fair value of derivatives that do not meet the application requirements for hedge accounting are recognized in the income statement as 'finance income or finance expenses' depending on the nature of the transaction.

##### (a) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items including the risk management objectives and strategy in undertaking the hedge transaction, together with methods that will be used to assess the effectiveness of the hedging relationship.

##### (i) Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profits and loss for the current period. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profits and losses for the current period from the date the hedge accounting is discontinued.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.7 Derivatives, continued

(a) Hedge accounting

(ii) Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivatives is recognized immediately in profits and losses for the current period. If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on hedging instrument that has been recognized in other comprehensive is reclassified to profit or loss in the period during which the forecasted transaction occurs. However, if the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or losses for the current period.

(b) Other derivatives

Changes in the fair value of other derivatives not designated as a hedging instrument are recognized immediately in profit or losses for the current period.

#### 3.8 Trade receivables

Trade receivables are initially recognized as an amount of unconditional consideration if it does not include a significant financial component when it is recognized at fair value. The trade receivables are subsequently measured by deducting the loss allowance at amortized cost using the effective interest method.

#### 3.9 Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the total-weighted average method, moving average method and retail method except for goods-in-transit of which cost is determined by the specific identification method.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is deducted from cost of sales for the period when such inventories are recognized as cost of sales.

#### 3.10 Non-current Assets held for sale

Non-current assets are classified as held for sale when the carrying amount is primarily recovered through the sale transaction and is highly probable to be sold, and such assets are measured at the lower of the carrying amount and fair value less costs to sell.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

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**3. Significant Accounting Policies and Changes in Disclosure, continued**

**3.11 Property, plant and equipment**

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment, except for land, are depreciated over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed on a straight-line basis.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	<u>Useful lives(years)</u>
Buildings	5 – 50
Structures	5 – 40
Machinery	3 – 30
Tools and equipment	1 – 5
Vehicles	5 – 12
Display fixtures	5 – 10
Furniture and fixtures	3 – 8
Other property, plant and equipment (“Other PP&E”)	4 – 25

Depreciation methods, useful lives and residual values of property, plant and equipment are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in other non-operating profit or loss.

**3.12 Borrowing costs**

The borrowing costs incurred to acquire or construct a qualifying asset are capitalized during the period in which the asset is prepared to be used for its intended use, and the return on investment from the temporary operation of a loan with particular purpose to acquire the qualifying asset is deducted from the borrowing costs that are capitalizable during the fiscal period. Other borrowing costs are recognized as expenses in the period in which they occur.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.13 Intangible assets

The goodwill is measured in the manner described in Note 3.3(1) and is presented at cost less accumulated impairment losses. Intangible assets other than goodwill are initially recognized at historical cost and are presented at cost less accumulated amortization and accumulated impairment losses.

Club membership is not amortized because there is no foreseeable limit to the available period. The following intangible assets with a limited useful life are amortized on a straight-line basis during the estimated useful life.

	<u>Useful lives(years)</u>
Industrial property rights	5
Rights to use facility	5 – 20
Other intangible assets(*)	5 – 10

(\*) Among other intangible assets, film copyrights are expensed as cost of sales during the period when the related sales are realized, and if the realization of related sales are uncertain, they are treated as intangible asset impairment losses.

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

#### 3.14 Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. However, if the property held by the Company does not meet the requirements of investment property in accordance with K-IFRS No.1040, the property is classified as property, plant and equipment. Whether investment property requirements are met is judged based on the degree of significant exposure to the risk of changes in cash flows arising from property use, and the degree of significant service provision to property users. Investment property is measured at cost at initial recognition, including transaction costs incurred at acquisition, and presented at initial cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 5 to 50 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.15 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets ("CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### 3.16 Trade payables and other payables

Trade payables and other payables are liabilities that the Group received goods or services before the end of the reporting period but were not paid. Trade payables and other payables presented as current liabilities unless the payment date is 12 months after the reporting period. The payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

#### 3.17 Financial liabilities

##### (a) Classification and measurement

The financial liabilities of the Group at fair value through profit or loss are financial instruments held for trading. Financial liabilities incurred principally for the purpose of repurchasing in the near term are classified as short term financial liabilities held for trading. In addition, an embedded derivative separated from a host, or a derivative that is not designated as effective hedging instrument is classified as a short-term financial liability held for trading.

The Group shall classify all non-derivative financial liabilities as accounts payable, debts, or other financial liabilities, etc. subsequently measured at amortized cost, except for financial liabilities that arise when financial liabilities at fair value through profit or loss, financial guarantee contracts, and a transfer of a financial asset do not qualify for derecognition.

The preferred stock whose redemption is mandatory at a specific future date is classified as a liability. Along with interest expenses resulting from other financial liabilities, the interest expense incurred from the redemption of the preferred stock using effective interest method is recognized as finance expense in the statement of comprehensive income.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.17 Financial liabilities, continued

##### (b) Derecognition

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

#### 3.18 Hybrid (combined) financial instruments

Hybrid (combined) financial instruments issued by the Company is an exchangeable bond that can be converted into an equity instrument at the option of the holder.

The liability component of the hybrid (combined) financial instrument is initially recognized at the fair value of the financial liability that has the same condition except the right to exchange, and subsequently at amortized cost until the date of conversion or maturity. The equity component is initially recognized as a difference between the fair value of the hybrid (combined) financial instrument as a whole and the fair value of the liability component, and is not subsequently remeasured. Transaction costs directly related to the issuance of hybrid (combined) financial instruments are allocated proportionately to the initial recognition amount of the liability and equity components.

#### 3.19 Provisions

When the Group has a present legal or constructive obligation 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 for the amount of the obligation, sales return provisions, recovery provisions and litigation provisions are recognized. Provisions are measured at the present value of the expected expenditure amount to fulfil the obligation, and the increase in the provision due to passage of time is recognized as interest expenses.

#### 3.20 Current and deferred income taxes

Income tax expense consists of current and deferred income taxes. Income tax shall be recognized in the relevant items in respect of the amounts directly recognized in other comprehensive income or in equity, and other items are recognized as profit or loss.

The current income tax expense is measured on the basis of tax laws enacted or substantially enacted as of the end of the reporting period. The management periodically assesses the tax policies applied by the group when reporting taxes in situations in which applicable tax code regulations may vary depending on the interpretation. The Group recognizes current tax expenses based on the amount expected to be paid to the tax authorities.

Deferred income tax is recognized as the expected corporate tax effect of recovering or settling the carrying amount of assets and liabilities for temporary differences between the carrying amount and the tax base. However, deferred tax assets and liabilities arising from the initial recognition of assets and liabilities in transactions other than business combinations are not recognized if the transaction does not affect accounting or taxable income.

Deferred tax assets are recognized when there is a high probability of future taxable income where deductible temporary differences may be used.

Deferred tax liabilities are recognized unless it is possible to control the timing of dissipation for the temporary differences to be added related to the investment interests for subsidiaries, associates and joint ventures and it is probable that temporary differences are unlikely to dissipate in the foreseeable future. Also, the deferred tax asset is recognized only when deductible temporary differences arising from such assets are probable to dissipate in the foreseeable future and taxable income is probable to arise where temporary differences can be used.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.20 Current and deferred income taxes, continued

Deferred tax assets and liabilities are offset when the Group is legally entitled to offset current tax asset and current tax liability, and when the deferred tax assets and liabilities are related to the income taxes levied by the same taxation authority. The current tax assets and liabilities shall be offset if the Group retains the legal rights to offset, intends to settle as net amount and intends to settle the liability at the same time as the asset is realized.

#### 3.21 Employee benefits

##### (a) Retirement benefits

Retirement benefit plan of the Group is divided into defined contribution plan and defined benefit plan.

Defined contribution plan is a retirement pension plan in which the group pays a fixed amount of contributions to a separate fund, which is recognized as an expense when the employees provide service.

Defined benefit plan is all retirement pension plans other than the defined contribution plan. Generally, defined benefit plans determine the amount of retirement pension benefits to be paid when employees retire due to factors such as age, service period or salary level. The liabilities accounted for in the statement of financial position in relation to the defined benefit plan are the current value of the defined benefit obligation as of the end of the reporting period minus the fair value of the plan assets. The defined benefit obligation is calculated according to the projected unit credit method by an independent actuary every year, and the present value of the defined benefit obligation is calculated by discounting the expected future cash outflow at the interest rate of the high quality corporate bonds with a similar maturity to the payment date. On the other hand, the rereasurement component related to the net defined benefit liability is recognized in other comprehensive income.

In the event of a plan amendment, curtailment or settlement, the gain or loss from past service cost or settlement shall be recognized in profit or loss.

##### (b) Short-term employee benefits

Short-term employee benefits are employee benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

##### (c) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are expected to be settled beyond 12 months after the end of the annual reporting period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

#### 3.22 Revenue recognition

##### (a) Sales of goods and rendering of services

The Group operates department stores, outlet stores, discount stores, consumer electronic retails, supermarkets, H&B stores and movie theaters. Sales of goods from contracts with customers are generally recognized when the goods are delivered to the customers. Under K-IFRS No.1115, revenue is recognized applying the following five-step process to contracts with customers:

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.22 Revenue recognition, continued

##### (a) Sales of goods and rendering of services

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

Under K-IFRS No.1115, in the case of certain specific sales where the Group acts as an agent, the Group recognizes net sales, after deducting the cost of specific sales, as revenue upon delivery to customers.

##### (b) Customer loyalty program

The Group operates customer loyalty programs. The customer can use the accumulated award credits (“points”) for discount for their future purchase of goods or services. The revenue from award credits is recognized when the points are redeemed or expired and the related contractual liability is recognized until the points are redeemed or expired. The points provide the customers with benefits that they would not have if there is no contract entered into. Accordingly, providing fulfilling obligations related to points redemptions a separate performance obligation. Transaction price per performance obligation is allocated based on stand-alone selling price of goods and points. The management estimates the stand-alone selling price of points based on discounts to be provided when the points are redeemed and the probability of redemption from past experience.

##### (c) Commissions

When the Group acts as an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission equal to the value generated by the Group.

##### (d) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease, and other rental income is recognized in profit or loss in certain proportion of transaction amount.

#### 3.23 Leases

As explained in Note 3.1(a), the Group has changed its accounting policy for leases. Information on the impact of the new accounting policy is provided in Note 42.

##### (a) Lessor

If the Group is a lessor, the lease income from the operating lease is recognized on a straight-line basis over the lease term. Initial direct costs incurred in the course of entering into the operation lease are added to the carrying amount of the underlying asset and recognized as expenses over the lease term on the same basis as the lease income. Each lease asset is presented based on its characteristics in the statement of financial position.

Also, when the Group sublease the underlying assets to a third party, the Group judges whether the lease is a finance lease or not based on the right-of-use assets of main lease.

The Group did not need to adjust the accounting treatments for assets held as lessor in accordance with the application of the new lease standards.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.23 Leases, continued

##### (b) Lessee

The Group leases various offices, warehouses, retail stores, equipment and cars. Lease contracts are generally concluded for a fixed period, but there may be extension options as described in (ii) below.

Lease terms are negotiated individually and include various terms and conditions. There are no other restrictions imposed under the lease agreement, but the leased asset cannot be provided as collateral for the loan.

Until fiscal year 2018, leases of property, plant and equipment were classified as finance or operating leases. The lease payments under the operating lease (net amount other than incentives received from the lessor) were recognized in profit or loss at a fixed amount over the lease term.

Beginning from January 1, 2019, the Group will recognize the rights-of-use asset and its corresponding liability at the commencement of the lease on which the leased asset is available.

Assets and liabilities arising from leases are initially measured at the present value. The lease liability includes the net present value of the following lease payments:

- Fixed lease payments (including in-substance fixed lease payment) less incentive to receive
- Variable lease payments that depend on the index or rate initially measured using the index or rate at the commencement date
- Amount expected to be paid by the Group (lessor) according to the guaranteed residual value
- The exercise price of the purchase option if it is reasonably certain that the Group (lessor) will exercise the purchase option
- If the lease period reflects the exercise of the option to terminate the lease by the Group (lessor), the amount to be paid to terminate the lease

Also, the measurement of lease liabilities includes lease payments to be made under the extension option that are reasonably certain.

If it is easy to calculate the implicit interest rate of a lease, the lease payment shall be discounted using the rate. If it is not easy to calculate implicit interest rate, the lessee uses the lessee's incremental borrowing rate, which is the rate to be paid if the lessee borrows the funds necessary to acquire an asset of similar value as a right-of-use asset with similar collateral over a similar economic period.

The Group calculates the incremental borrowing rate as follows:

- If possible, reflect changes in financial position after receiving third-party financing at the latest third-party financial interest rate received by individual lessee
- For leases held by subsidiaries that have not recently received third-party financing, an upward approach is used to adjust credit risk to risk-free interest rates
- Reflects interest rates based on market-observed credit ratings

The Group is exposed to a potential future increase in variable lease payments that are not included in the lease liability until the index or rate is valid for variable lease payments that depend on the index or rate. Lease liability is re-evaluated and right-of-use asset is adjusted when the adjustment amount of the lease payment, which depends on the index or rate, is valid.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.23 Leases, continued

##### (b) Lessee, continued

Each lease payment is allocated to the repayment of the lease liability and the finance expenses. Finance expenses shall be recognized in profit or loss over the lease term to the amount calculated to yield an interest for a fixed period on the lease liability balance for each period.

Right-of-use assets are measured at cost consisting of the following.

- Initial measurement amount of lease liabilities
- Lease payments less lease incentive received paid on or before lease commencement date
- Lessee's direct cost of opening a lease
- Estimated amount of costs of restoration

Right-of-use assets are depreciated over the period from the commencement of the lease to the end of the useful life of the right-of-use assets or the end of the lease term, whichever is earlier. If it is reasonably certain that the Group will exercise the purchase option, right-of-use assets are depreciated over the useful life of the underlying asset. The assets are reviewed for the indication of impairment at the end of each reporting period, and if the indication of impairment exists, the recoverable amount for those assets is estimated.

Recoverable amount is estimated by individual asset, or by cash generating unit to which the asset belongs if the recoverable amount of individual asset cannot be estimated. The recoverable amount is determined to be the higher of the value in use and fair value less cost of disposal. Value in use is estimated by discounting the future cash flows expected to be generated by the asset or cash-generating unit at an appropriate discount rate that reflects the time value of money and the current market assessment of the specific risks of an asset which are not adjusted when estimating future cash flow.

Short-term leases for equipment and vehicles and lease payments related to all low value leases are recognized in profit or loss on a straight-line basis. Short-term lease is a lease with a lease term of 12 months or less, and low value lease assets consist of IT devices and low value office furniture.

##### (i) Variable lease payments

Some property leases include variable lease payment terms that reflect changes in the index or rate, such as sales links generated by stores and the consumer price index. Individual stores may be subject to variable lease payment terms up to 100% of their lease payments. The terms and conditions of the variable lease payment are used for a variety of reasons, including minimizing the fixed cost of new stores. Variable lease payments linked to sales shall be recognized in profit or loss in the period in which the conditions for causing variable lease payment are occurred.

##### (ii) Extension option and termination option

There are a number of lease contracts, including property, throughout the Group which include extension options and termination options. These conditions are used to maximize operational flexibility in terms of contract management.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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### 3. Significant Accounting Policies and Changes in Disclosure, continued

#### 3.24 Finance income and finance costs

Finance income comprises interest income on funds invested (including financial instruments at fair value through profit or loss), dividend income, changes in the fair value of financial instruments at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

#### 3.25 Operating segments

The Group divides the segments based on internal reporting data periodically reviewed by the chief operating decision maker to make decisions on the resources to be allocated to the segments and to evaluate the performance of the segments. As explained in Note 36, the Group divides its operating segments into department stores, discount stores, consumer electronics retail, TV home shopping, supermarkets and others.

#### 3.26 Emission rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission.

##### (i) Greenhouse gases emission right

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation is classified as an intangible asset and is initially measured at cost and are carried at cost less accumulated impairment losses after initial recognition. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period. The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

##### (ii) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when outflow of resources in performing the obligation is probable and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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#### 3. Significant Accounting Policies and Changes in Disclosure, continued

##### 3.27 Authorization of financial statements

The consolidated financial statements were authorized by the Board of Directors meeting on March 12, 2020, and may be modified at the shareholder's meeting.

#### 4. Significant Accounting Estimates and Assumptions

The preparation of financial statements requires assumptions and estimates of the future, and management requires judgement to apply the accounting policies of the Group. Estimates and assumptions are continuously evaluated and are made in consideration of reasonably foreseeable future events in light of past experience and current circumstances. The results of an accounting estimate will rarely be the same as the actual results, posing a significant risk of causing significant adjustments.

Estimates and assumptions regarding management's judgement and significant risks that may affect the adjustment of the carrying amount of assets and liabilities in the following fiscal year are as follows. Additional information about significant judgement and estimation of some items is included in the individual notes.

##### (a) Impairment of non-financial asset

The recoverable amount of the cash generating unit to assess whether the assets held, such as right-of-use assets and goodwill, are impaired is determined based on the calculation of value in use (see Note 13).

##### (b) Income taxes

The income tax on taxable income of the Group is determined by applying tax laws and taxation authorities in various countries. Therefore, uncertainty exists in determining the final tax effect (see Note 33).

The Group shall pay additional income taxes calculated according to the method provided by the tax law when certain amount of taxable income is not used for investment, wage increase, etc. for a certain period. Therefore, corresponding tax effects should be reflected when measuring current and deferred taxes. As a result, uncertainty exists in determining the final tax effect because the income tax the Group will bear depends on the level of investment and wage increase in each year.

##### (c) Fair value of financial instruments

In principle, the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group makes judgement on the selection and assumptions of various valuation techniques based on important market conditions as of the end of the reporting period (see Note 7).

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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#### 4. Significant Accounting Estimates and Assumptions, continued

##### (d) Impairment of financial assets

The loss allowance for financial assets is measured based on assumptions about default risks and expected loss rates. The Company makes judgement for the setting of these assumptions and the selection of input variables used for impairment model by considering the Company's past experience, current market conditions and future forecast information as of financial reporting date (see Note 7).

##### (e) Net defined benefit liability

The present value of the net defined benefit liability is affected by various factors, especially changes in discount rates, which are determined by actuarial methods (see Note 21).

##### (f) Revenue recognition

The Group recognizes the refund liabilities and the right to the goods to be collected for the products expected to be returned by the customer after the sales to the customer. Based on experience accumulated at the portfolio level at the time of sale, the return rate is forecast by the expected value method, and the Group's revenue is affected by the estimated change in the expected return rate.

##### (g) Provision for restoration costs

The Group considers past restoration experiences and current market restoration costs for the timing and amount of outflow of resources which are a variable in the measurement of the provision for restoration costs.

##### (h) Leases

In determining the lease term, management considers all relevant facts and circumstances that create an economic incentive to exercise the extension option or not to exercise termination option. The duration of the extension option (or the duration of the termination option) is included in the lease term only if it is reasonably certain that the extension option will be exercised (or not).

Judgement factors related to the exercise of the extension option are as follows.

- If a payment of a significant penalty for terminating (not extending) is required, it is generally reasonably certain that the Group exercises the extension option (not exercising the termination option).
- If the lease improvement is expected to have significant residual value, it is generally reasonably certain that the Group exercises the extension option (not exercising the termination option).
- Other than the above, the Group considers other factors including the term and cost of the past lease and any business disruption required to replace the leased asset.

Lease term is re-evaluated if the option is actually exercised (not exercised) or if the Group bears no obligation to exercise (not exercise) the option. Only if significant events occur that are within the scope of the lessee's control and affect the determination of the lease term, or if there is a significant change in the situation, the Group changes its judgement whether the exercise of extension option (or not) is reasonably certain.

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**Notes to the Consolidated Financial Statements**  
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**5. Trade and Other Receivables**

(a) Trade and other receivables as of December 31, 2019 are as follows:

(in millions of Korean won)

		<b>Trade receivables</b>	<b>Other receivables</b>	<b>Lease payments receivables</b>	<b>Total</b>
Current:					
Total carrying amount	₩	634,599	320,013	26,323	980,935
Reduction: allowance for bad debt		(6,162)	(85,184)	(5)	(91,351)
Net carrying amount		<u>628,437</u>	<u>234,829</u>	<u>26,318</u>	<u>889,584</u>
Non-current:					
Total carrying amount		-	29,037	154,467	183,504
Net carrying amount	₩	-	(72)	(21)	(93)
Net carrying amount		<u>-</u>	<u>28,965</u>	<u>154,446</u>	<u>183,411</u>

(b) Trade and other receivables as of December 31, 2018 are as follows:

(in millions of Korean won)

		<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
Current:				
Total carrying amount	₩	666,677	593,225	1,259,902
Reduction: allowance for bad debt		(5,252)	(135,253)	(140,505)
Net carrying amount		<u>661,425</u>	<u>457,972</u>	<u>1,119,397</u>
Non-current:				
Total carrying amount		-	40	40
Net carrying amount	₩	-	40	40

**6. Restricted Deposits**

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

<b>Account</b>	<b>Description</b>	<b>Depository</b>	<b>2019</b>	<b>2018</b>	<b>Details</b>
Cash and cash equivalents	Cash and cash equivalents	Agricultural Bank of China			Frozen assets of Lotte Properties (Chengdu) Limited
		₩	66,130	64,941	
Other financial assets (current)	Short-term financial instruments	HSBC and others	8,181	12,043	Pledged assets, etc.
		Industrial Bank of Korea and others	242,129	231,000	Deposits for Mutually Beneficial Cooperation Fund, etc
Other financial assets (non-current)	Long-term financial instrument	Busan Bank and others	34	2,032	Busan Creative Economy and Innovation Financial Assistance, etc
	Other comprehensive income - Fair value	Busan city hall and others			Payment guarantee
			<u>12,973</u>	<u>13,869</u>	
		₩	<u>329,447</u>	<u>323,885</u>	

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**7. Fair Value of Financial Instruments**

(a) Carrying amount and fair value of financial assets as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
Financial assets measured at fair value (*1):			
Fair value through profit or loss	Current assets:		
	Short-term financial instruments	₩ 236,000	231,000
	Current debt instruments	2,960	-
	Current derivatives assets held for trading	17,702	6,457
	Non-current assets:		
	Non-current debt instruments	20,708	19,432
	Non-current derivatives assets held for trading	21,544	33,546
	Subtotal	<u>298,914</u>	<u>290,435</u>
Fair value through other comprehensive income	Current debt instruments	130	-
	Equity instruments (*2)	591,876	422,608
	Non-current debt instruments	12,302	11,210
	Subtotal	<u>604,308</u>	<u>433,818</u>
Derivatives assets	Current derivatives assets held for hedging	-	483
	Non-current derivatives assets held for hedging	21,899	7,537
	Subtotal	<u>21,899</u>	<u>8,020</u>
Total financial assets measured at fair value		<u>925,121</u>	<u>732,273</u>
Financial assets not being measured at fair value:			
Financial assets at amortized cost (*3)	Current :		
	Cash and cash equivalents	1,586,592	1,818,473
	Trade and other receivables	889,585	1,119,398
	Short-term financial instruments	1,393,185	656,531
	Short-term loans	3,416	1,497
	Accrued income	10,834	10,652
	Current portion of security deposits	294,355	155,359
	Non-current :		
	Long-term financial instruments	34	4,031
	Long-term loans	22,994	43,353
	Security deposit	1,039,189	1,179,425
	Long-term account receivables	183,411	40
	Subtotal	<u>5,423,595</u>	<u>4,988,759</u>
Total financial assets not being measured at fair value:		<u>5,423,595</u>	<u>4,988,759</u>
Total financial assets		<u>₩ 6,348,716</u>	<u>5,721,032</u>

(\*1) Marketable financial assets traded in the active market are measured at fair value based on the market prices. Non-marketable financial assets that do not have a quoted market price in an active market are measured at fair value based on valuation of external appraiser at the end of reporting period.

(\*2) Equity instruments include stock of momo.com Inc. of ₩81,679 million, which is classified as assets held for sale (2018: ₩50,336 million).

(\*3) Differences between fair value and carrying amount of financial assets at amortized cost are immaterial.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**7. Fair value of Financial Instruments, continued**

(b) Other financial assets as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
Current:			
Short-term financial instruments	₩	1,629,185	887,531
Short-term loans		3,416	1,497
Accrued income		10,834	10,652
Current portion of security deposits		294,354	155,359
Current debt instruments		3,090	-
Derivatives assets held for trading		17,702	6,457
Derivatives assets held for hedging		-	483
Total		<u>1,958,581</u>	<u>1,061,979</u>
Non-current:			
Long-term financial instruments		34	4,031
Long-term loans		22,994	43,354
Security deposits		1,039,189	1,179,425
Non-current debt instruments		33,010	30,641
Non-current equity instruments		510,197	372,273
Derivatives assets held for trading		21,545	33,546
Derivatives assets held for hedging		21,899	7,537
Total	₩	<u>1,648,868</u>	<u>1,670,807</u>

(c) Financial assets at fair value through other comprehensive income as of December 31, 2019 and 2018 are summarized as follows:

(i) Equity instruments

(in millions of Korean won,  
except number of shares)

			<u>2019</u>		<u>2018</u>	
	<u>Number of shares</u>	<u>Percentage of ownership</u>	<u>Acquisition cost</u>	<u>Carrying amount</u>	<u>Carrying amount</u>	
<b>Marketable equity instruments measured at fair value through other comprehensive income:</b>						
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	65,446	62,626	
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	13,487	12,320	
momo.com Inc.	21,333,420	15.23%	37,684	238,063	146,711	
INNOCEAN WORLDWIDE INC.	2,060,000	10.30%	147,862	146,054	-	
Others	-	-	8,843	5,837	7,389	
Subtotal			<u>252,815</u>	<u>468,887</u>	<u>229,046</u>	
<b>Non-marketable equity instruments measured at fair value through other comprehensive income:</b>						
LOTTE rental co., Ltd.	-	-	-	-	78,265	
Lotte Properties (Shenyang) Limited	47,858,756	17.93%	61,213	101,504	99,907	
LOTTE MART COMPANY LIMITED	-	5.00%	12,744	13,300	12,778	
Others	-	-	9,187	8,185	2,613	
Subtotal			<u>83,144</u>	<u>122,989</u>	<u>193,563</u>	
Total			₩ <u>335,959</u>	<u>591,876</u>	<u>422,609</u>	

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**7. Fair value of Financial Instruments, continued**

(c) Financial assets at fair value through other comprehensive income as of December 31, 2019 and 2018 are summarized as follows:, continued

(ii) Debt instruments

(in millions of Korean won)

		2019		2018
		Acquisition cost	Carrying amount	Carrying amount
National housing bond	₩	12,033	12,432	11,210
Urban railway bond		-	-	-
Total	₩	12,033	12,432	11,210

(d) Carrying amount and fair value of financial liabilities as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		2019	2018
Financial liabilities measured at fair value:			
Fair value through profit or loss			
	Non-current derivatives		
	liabilities held for trading	₩ -	1,692
	Subtotal	-	1,692
Derivatives liabilities	Current derivatives liabilities		
	held for hedging	780	22,315
	Non-current derivatives		
	liabilities held for hedging	8,663	10,810
	Subtotal	9,443	33,125
Total financial liabilities measured at fair value:		9,443	34,817
Financial liabilities not being measured at fair value:			
Financial liabilities at amortized cost (*)			
	Current :		
	Trade payables and other payables	2,643,862	2,910,395
	Short-term borrowings	916,101	690,008
	Current portion of long-term borrowings	727,998	324,824
	Current debentures	1,196,342	965,322
	Accrued expenses	263,459	200,390
	Current portion of security deposits	225,146	196,163
	Lease liabilities	634,234	699
	Others	82,261	770
	Non-current :		
	Long-term borrowings	2,514,548	1,546,700
	Long-term debentures	4,195,532	4,268,045
	Security deposits received	4,329	51,759
	Lease liabilities	6,028,748	-
	Others	13,091	12,697
	Subtotal	19,445,651	11,167,772
Total financial liabilities not being measured at fair value:		19,445,651	11,167,772
Total financial liabilities		₩ 19,455,094	11,202,589

(\*) Differences between fair value and carrying amount of financial liabilities at amortized cost are immaterial.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

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**7. Fair value of Financial Instruments, continued**

(e) Other financial liabilities as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Current:			
Accrued expenses	₩	263,459	200,390
Current portion of security deposits		225,146	196,163
Derivatives liabilities held for hedging		780	22,315
Others		82,261	1,469
Total	₩	<u>571,646</u>	<u>420,337</u>
Non-current:			
Security deposits	₩	4,329	51,759
Derivatives liabilities held for hedging		8,663	10,810
Derivatives liabilities held for trading		-	1,692
Others		13,092	12,697
Total	₩	<u>26,084</u>	<u>76,958</u>

(f) Fair value hierarchy

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

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**7. Fair value of Financial Instruments, continued**

(f) Fair value hierarchy, continued

The fair value measurements of financial instruments that are measured at fair value, classified by fair value hierarchy as of December 31, 2019 and 2018 are as follows:

(i) December 31, 2019

(in millions of Korean won)

		<b>2019</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss	₩	-	-	298,914	298,914
Financial assets at fair value through other comprehensive income		468,887	12,432	122,989	604,308
Derivatives assets held for hedging		-	21,899	-	21,899
Total		<u>468,887</u>	<u>34,331</u>	<u>421,903</u>	<u>925,121</u>
Derivatives liabilities held for hedging		-	9,443	-	9,443
Total	₩	<u>-</u>	<u>9,443</u>	<u>-</u>	<u>9,443</u>

(ii) December 31, 2018

(in millions of Korean won)

		<b>2018</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss	₩	-	-	290,434	290,434
Financial assets at fair value through other comprehensive income		229,046	11,210	193,563	433,819
Derivatives assets held for hedging		-	8,019	-	8,019
Total financial assets		<u>229,046</u>	<u>19,229</u>	<u>483,997</u>	<u>732,272</u>
Financial liabilities at fair value through profit or loss		-	-	1,692	1,692
Derivatives liabilities held for hedging		-	33,125	-	33,125
Total financial liabilities	₩	<u>-</u>	<u>33,125</u>	<u>1,692</u>	<u>34,817</u>

In measuring Level 2 fair values, the Group used price, index, etc. at the end of the reporting period.

In measuring Level 3 fair values, the Group used discounted cash flows model and net asset valuation model and the Group used the significant unobservable inputs such as forecasted annual revenue growth rate and risk-adjusted discount rate, capital cost, etc. to assess the fair value. Fair value of financial instruments at level 3 included financial instruments that has a carrying value with a reasonable approximation of fair value.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**7. Fair value of Financial Instruments, continued**

(g) Level 3 Fair values

Changes in Level 3 fair values as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Beginning balance	₩	482,306	174,770
Changes in accounting policy		-	295,181
Total income (loss) for the year		16,250	23,967
Gain (loss) included in profit and loss		12,813	(3,272)
Gain included in OCI		3,437	27,239
Purchases		19,861	35,481
Disposal		(97,591)	(59,838)
Reclassification		1,077	12,744
Ending balance	₩	<u>421,903</u>	<u>482,305</u>

(h) Sensitivity analysis

For the fair values of Level 3 financial instruments, reasonably possible changes as of December 31, 2019 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values:

(i) Settlement agreement

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Settlement agreement	₩	20	(20)

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**8. Inventories**

(a) Inventories as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		2019			2018		
		Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Merchandise(*1)	₩	1,245,057	(33,487)	1,211,570	1,203,550	(37,815)	1,165,735
Finished goods		24,017	(5,482)	18,535	25,570	(6,507)	19,063
Semi-finished goods		254	-	254	150	-	150
Work in process		713	-	713	933	-	933
Raw materials		8,478	(262)	8,216	6,022	(139)	5,883
Ingredients		882	-	882	551	-	551
Supplies		616	-	616	651	-	651
Materials-in-transit		10,644	-	10,644	9,121	-	9,121
Unsold building		78,092	(22,359)	55,733	79,413	(22,531)	56,882
Unfinished building		152,325	-	152,325	8,520	-	8,520
	₩	<u>1,521,078</u>	<u>(61,590)</u>	<u>1,459,488</u>	<u>1,334,481</u>	<u>(66,992)</u>	<u>1,267,489</u>

(\*1) As of December 31, 2019 inventories expected to be returned of ₩1,615 million are included (2018: ₩3,201 million).

(b) For the years ended December 31, 2019 and 2018, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are as follows:

(in millions of Korean won)

		2019	2018
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	9,692,049	9,819,986
- Increase in valuation allowance of inventories (decrease)		(5,402)	17,418

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**9. Other Non-financial Assets**

Other non-financial assets as of December 31, 2019 and 2018, are summarized as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Current:		
Advance payments	₩ 21,563	28,238
Prepaid expenses	50,224	108,585
Prepaid value added tax	23,595	11,000
Other assets	25	95
	<u>95,407</u>	<u>147,918</u>
Non-current:		
Long-term advance payments	81,190	65,819
Long-term prepaid expenses	34,381	706,040
	₩ <u>115,571</u>	<u>771,859</u>

**10. Assets and Liabilities Held for Sale**

Assets held for sale as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Equity instruments at fair value through other comprehensive income (*1)	₩ 81,679	50,336
Investments in associates and joint ventures	579	-
Land and others. (*2)	<u>32,087</u>	<u>227,073</u>
Total	₩ <u>114,345</u>	<u>277,409</u>

(\*1) Since the Group decided to sell a marketable equity instrument, momo.com Inc., the relevant asset is classified as non-current assets held for sale.

(\*2) The Group measures the assets held for sale at the lower of their carrying amount and fair value less cost to sell and impairment losses for the periods ended December 31, 2019 and 2018 are ₩ 30,504 million and ₩ 61,866 million, respectively. The Group recognized gain on disposal of ₩3,373 million by selling most of the assets held for sale such as Incheon branch of department stores during the year 2019.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**10. Assets and Liabilities Held for Sale, continued**

Details of other assets held for sale as of December 31, 2018 are as follows.

*(in millions of Korean won)*

		<u>2018</u>
Assets held for sale:		
Cash and cash equivalents	₩	4,855
Trade receivables and other receivables		1,397
Other financial assets		1,053
Inventories		160
Other non-financial assets		1,087
Tangible assets		192
Intangible assets		<u>478</u>
Total	₩	<u>9,222</u>
Liabilities held for sale:		
Trade payables and other payables	₩	2,705
Other financial liabilities		587
Provisions		5,406
Other non-financial liabilities		<u>7,762</u>
Total	₩	<u><u>16,460</u></u>

The Group sold a subsidiary of the Group, Lotte International Department Store (Weihai) Co.,Ltd during the year 2019 which was reclassified to assets held for sale in the year 2018. Thus, the Group recognized impairment loss of ₩4,784 million.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**11. Investments in associates**

(a) The details of associates as of December 31, 2019 and 2018, are summarized as follows:

(in millions of Korean won)

Company	2019			
	Location	Major operation	Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 281,282
Zara Retail Korea Co.,Ltd	Korea	Import and selling of clothing	20.00	32,650
LOTTE Town Dongtan Co.,LTD (*1)	Korea	Real estate development	-	-
LOTTE CARD Co.,Ltd. (*2)	Korea	Credit finance business	20.00	336,570
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00	87,045
LOTTE -KDB Open Innovation Fund	Korea	Investment on new technology	41.47	10,265
Others	-	-	-	46,963
Total				₩ 794,775

(in millions of Korean won)

Company	2018			
	Location	Major operation	Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 305,257
Zara Retail Korea Co.,Ltd	Korea	Import and selling of clothing	20.00	28,878
Lotte Town Dongtan Co.,LTD (*1)	Korea	Real estate development	50.00	37,279
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00	80,604
Others	-	-	-	60,284
Total				₩ 512,302

(\*1) It has been reclassified as investment in subsidiaries due to additional share acquisition during 2019.

(\*2) It has been reclassified as investment in associates due to share acquisition during 2019.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**11. Investments in Associates, continued**

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		2019								
		Beginning balance	Acquisition	Dividends	Profit (loss) accounted for by equity method	Changes in equity accounted for by equity method	Impairment	Disposal	Others (*1)	Ending balance
FRL Korea Co., Ltd.	₩	305,258	-	(29,400)	(2,114)	7,539	-	-	-	281,283
Zara Retail Korea Co.,Ltd		28,878	-	(2,000)	5,998	-	-	-	(227)	32,649
LOTTE Town Dongtan Co.,LTD		37,279	-	-	(117)	-	-	(37,162)	-	-
Lotte Card Co., Ltd.		-	325,239	-	116,084	456	(105,209)	-	-	336,570
LOTTE PROPERTIES HCMC COMPANY LIMITED		80,604	-	-	3,444	2,996	-	-	-	87,044
LOTTE -KDB Open Innovation Fund		-	10,400	-	(135)	-	-	-	-	10,265
Others		60,283	23,663	(686)	(26,630)	717	(3,356)	(7,902)	875	46,964
<b>Total</b>	<b>₩</b>	<b>512,302</b>	<b>359,302</b>	<b>(32,086)</b>	<b>96,530</b>	<b>11,708</b>	<b>(108,565)</b>	<b>(45,064)</b>	<b>648</b>	<b>794,775</b>

(\*1) Others include changes in foreign currency translation and others.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**11. Investments in Associates, continued**

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 are summarized as follows, continued

(in millions of Korean won)

		2018							
		Beginning balance	Acquisition	Dividends	Profit (loss) accounted for by equity method	Changes in equity accounted for by equity method	Disposal	Others (*1)	Ending balance
FRL Korea Co., Ltd.	₩	249,711	-	(54,390)	92,076	17,860	-	-	305,257
Lotte Europe Holdings									
B.V.		7,396	-	-	(6,589)	(807)	-	-	-
Zara Retail Korea Co.,Ltd		25,924	-	-	2,991	-	-	(37)	28,878
LOTTE Town Dongtan									
Co.,LTD		33,753	-	-	3,528	-	-	(1)	37,280
LOTTE PROPERTIES									
HCMC COMPANY									
LIMITED		-	79,488	-	1,758	(642)	-	-	80,604
Others		53,532	14,841	(2,615)	(332)	453	(5,599)	3	60,283
Total	₩	370,316	94,329	(57,005)	93,432	16,864	(5,599)	(35)	512,302

(\*1) Others include changes in foreign currency translation and others.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**11. Investments in Associates, continued**

(c) Financial information of significant associates as of and for the years ended December 31, 2019 and 2018, are summarized as follows:

(in millions of Korean won)

		2019				Sales	Operating income (loss)	Other comprehensive income(loss)	Total comprehensive income (loss)
		Current asset	Non-current asset	Current liabilities	Non-current liabilities				
FRL Korea Co., Ltd	₩	536,078	226,121	118,326	69,828	974,940	(1,868)	15,387	13,064
Zara Retail Korea Co.,Ltd		142,744	237,473	111,541	105,429	409,253	33,960	(1,133)	28,856
Lotte Card Co., Ltd. (*1)		13,653,067	-	11,240,583	-	391,823	26,264	2,409	30,788
LOTTE PROPERTIES HCMC COMPANY LIMITED		209,071	15,013	6,099	373	-	(1,951)	-	8,610
LOTTE -KDB Open Innovation Fund		19,843	4,912	-	-	-	(325)	-	(325)

(\*1) All financial information is presented as current asset and current liabilities since Lotte Card Co., Ltd. is a finance company that does not classify asset and liabilities as current/non-current.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**11. Investments in Associates, continued**

(c) Financial information of significant associates as of and for the years ended December 31, 2019 and 2018, are summarized as follows:, continued

(in millions of Korean won)

		2018							
		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income(loss)	Total comprehensive income (loss)(*1)
FRL Korea Co., Ltd	₩	707,920	141,034	225,328	652	1,418,832	238,344	36,449	224,359
Lotte Europe Holdings B.V.		56,065	357,454	235,047	204,819	99,181	19,811	(2,993)	(50,527)
Coralis S.A.		31,400	319,764	43,789	373,814	42,085	6,745	(2,991)	(25,307)
Zara Retail Korea Co.,Ltd		69,149	107,593	15,382	16,968	366,885	15,527	(185)	14,770
LOTTE Town Dongtan Co.,LTD		320,053	255,113	114,567	386,040	84,138	7,612	-	6,573
LOTTE PROPERTIES HCMC COMPANY LIMITED		203,826	8,820	11,136	-	-	(5,538)	(1,603)	2,791

(\*1) Total comprehensive income (loss) stated above excludes amount attributable to non-controlling shareholder.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**11. Investments in Associates, continued**

(d) The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as of December 31, 2019 and 2018 are as follows:

(in millions of Korean  
won)

		<b>2019</b>					
		<b>Net assets (a)(*1)</b>	<b>Ownership % (b)</b>	<b>Group's share of net asset (a*b)</b>	<b>Impairment</b>	<b>Others(*2)</b>	<b>Carrying amount</b>
FRL Korea Co., Ltd	₩	574,045	49.00	281,282	-	-	281,282
Zara Retail Korea Co.,Ltd		163,248	20.00	32,650	-	-	32,650
Lotte Card Co., Ltd.		2,384,179	20.00	476,836	(105,209)	(35,057)	336,570
<b>LOTTE PROPERTIES</b>							
<b>HCMC COMPANY</b>							
LIMITED		217,611	40.00	87,045	-	-	87,045
<b>LOTTE -KDB Open</b>							
Innovation Fund.		24,755	41.47	10,265	-	-	10,265

(\*1) Net assets exclude non-controlling interests.

(\*2) Others include unamortized amounts of difference of fair value and others.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**11. Investments in Associates, continued**

(d) The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as of December 31, 2019 and 2018 are as follows:, continued

(in millions of Korean won)

		<b>2018</b>					
		<b>Net assets (a)(*1)</b>	<b>Ownership % (b)</b>	<b>Group's share of net asset (a*b)</b>	<b>Goodwill</b>	<b>Others(*2)</b>	<b>Carrying amount</b>
FRL Korea Co., Ltd.	₩	622,974	49.00	305,257	-	-	305,257
Lotte Europe Holdings B.V.		(26,348)	26.98	(7,109)	9,676	(2,567)	-
Coralis S.A.		(66,439)	45.00	(29,897)	15,162	14,735	-
Zara Retail Korea Co.,Ltd		144,392	20.00	28,878	-	-	28,878
LOTTE Town Dongtan Co.,LTD		74,559	50.00	37,279	-	-	37,279
LOTTE PROPERTIES HCMC COMPANY LIMITED		201,510	40.00	80,604	-	-	80,604

(\*1) Net assets exclude non-controlling interests.

(\*2) Others include unamortized amounts of difference of fair value, unrecognized amounts of impairment and foreign currency differences arising from translation.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

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**11. Investments in Associates, continued**

(e) Current and accumulated unreflected changes in equity of associates unrecognized due to cessation of equity method as of December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		<b>2019</b>	
		<b>Unrecognized profits/ (losses) for the year</b>	<b>Unrecognized accumulated losses</b>
Coralis S.A.	₩	13,089	(1,319)
Prototype		(101)	(114)

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**12. Investments in joint venture**

(a) The details of joint ventures as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

Company	Location	Major operation	2019	
			Percentage of ownership (%)	Carrying amount
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,964
International Business Center Company Limited	Vietnam	Distribution	50.00	54,425
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	11,160
Others	-	-	-	3,984
Total				₩ 71,533

(in millions of Korean won)

Company	Location	Major operation	2018	
			Percentage of ownership (%)	Carrying amount
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,784
International Business Center Company Limited	Vietnam	Distribution	50.00	58,103
PT. INDO LOTTE MAKMUR(*)	Indonesia	Distribution	50.00	12,442
LOTTE JTB Co., Ltd.	Korea	Movie investment and Travel business	50.00	11,259
Others	-	-	-	2,291
Total				₩ 85,879

(\*) The investment was classified as assets held for sale during the year 2019.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**12. Investments in joint venture, continued**

(b) Changes in joint ventures for the years ended December 31, 2019 and 2018, are summarized as follows:

(in millions of Korean won)

		2019							
		Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of other comprehensive income(loss) of associate	Impairment	Others (*)	Ending balance
STL Co., Limited	₩	1,784	-	-	180	-	-	-	1,964
International Business Center Company Limited		58,102	-	(4,901)	4,566	616	(6,090)	2,133	54,426
PT. INDO LOTTE MAKMUR		12,442	4,063	-	(16,609)	801	(1,168)	471	-
LOTTE JTBC Co., Ltd.		11,259	-	-	4	-	-	(103)	11,160
Others		2,292	-	-	1,663	29	-	-	3,984
Total	₩	85,879	4,063	(4,901)	(10,196)	1,446	(7,258)	2,501	71,534

(\*) Others include Changes in foreign currency translation and others.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**12. Investments in joint venture, continued**

(b) Changes in joint ventures for the years ended December 31, 2019 and 2018, are summarized as follows;  
 continued

(in millions of Korean

won)

		2018									
		Beginning balance	Acquisition	Merger	Dividends	Share of profit (loss) of associates	Share of other comprehensive income(loss) of associate	Disposal	Impairment	Others	Ending balance
STL Co., Limited	₩	245	2,000	-	-	(93)	(11)	-	(357)	-	1,784
International Business Center Company Limited		55,240	-	-	(4,727)	4,675	406	-	-	2,509	58,103
PT. INDO LOTTE MAKMUR		14,705	6,415	-	-	(9,193)	(578)	-	-	1,093	12,442
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		1,228	-	-	-	(35)	1	(1,261)	-	67	-
LOTTE JTB Co., Ltd.		-	-	12,841	-	(1,034)	-	-	-	(549)	11,258
Others		1,456	-	-	-	832	4	-	-	-	2,292
<b>Total</b>	<b>₩</b>	<b>72,874</b>	<b>8,415</b>	<b>12,841</b>	<b>(4,727)</b>	<b>(4,848)</b>	<b>(178)</b>	<b>(1,261)</b>	<b>(357)</b>	<b>3,120</b>	<b>85,879</b>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**12. Investments in joint venture, continued**

(c) Financial information of significant joint ventures as at and for the years ended December 31, 2019 and 2018 are summarized as follows:

(in thousands of Korean won)

		2019							
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income(loss)	Total comprehensive income (loss)
STL Co., Limited	₩	5,733	451	1,341	201	17,677	370	-	360
International Business Center Company Limited		13,183	41,284	18,846	1,716	22,687	11,574	1,231	10,364
PT. INDO LOTTE MAKMUR		5,849	168	3,125	675	2,792	(25,034)	1,601	(31,616)
LOTTE JTB Co., Ltd.		121,244	6,153	101,470	5,980	33,893	(1,064)	(205)	(557)

(in thousands of Korean won)

		2018							
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income(loss)	Total comprehensive income (loss)
STL Co., Limited	₩	5,855	550	1,581	543	17,475	57	-	(187)
International Business Center Company Limited		13,331	42,516	4,254	18,250	22,270	12,132	811	10,161
PT. INDO LOTTE MAKMUR		14,671	12,912	1,672	204	481	(18,609)	(1,156)	(18,931)
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		2,696	-	-	-	19	(78)	2	(69)
LOTTE JTB Co., Ltd.		89,400	4,354	69,084	4,524	35,815	2,194	-	2,964

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**12. Investments in joint venture, continued**

(d) The reconciliation of the net assets of the joint ventures to the carrying amount of the equity interest in the investment in associates as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		<b>2019</b>					
		<b>Net assets</b>	<b>Ownership</b>	<b>Group's</b>	<b>Goodwill</b>	<b>Others(*1)</b>	<b>Carrying</b>
		<b>(a)</b>	<b>% (b)</b>	<b>share of net</b>			<b>amount</b>
				<b>asset (a*b)</b>			
STL Co., Limited	₩	4,642	50.00	2,321	-	(357)	1,964
International Business Center Company Limited		33,905	50.00	16,953	40,415	(2,943)	54,425
PT. INDO LOTTE MAKMUR		2,217	50.00	1,108	-	(1,108)	-
LOTTE JTBC Co., Ltd.		19,948	50.00	9,974	1,186	-	11,160

(\*1) Others include unamortized amounts of difference of fair value, accumulated impairment losses, unrecognized amounts of profit/loss and foreign currency differences arising from translation.

(in millions of Korean won)

		<b>2018</b>					
		<b>Net assets</b>	<b>Ownership</b>	<b>Group's</b>	<b>Goodwill</b>	<b>Others(*1)</b>	<b>Carrying</b>
		<b>(a)(*1)</b>	<b>% (b)</b>	<b>share of net</b>			<b>amount</b>
				<b>asset (a*b)</b>			
STL Co., Limited	₩	4,282	50.00	2,141	-	(357)	1,784
International Business Center Company Limited		33,344	50.00	16,672	40,416	1,015	58,103
PT. INDO LOTTE MAKMUR		25,706	50.00	12,853	-	(411)	12,442
LOTTE JTBC Co., Ltd.		20,146	50.00	10,073	1,186	-	11,259

(\*1) Others include unamortized amounts of difference of fair value, accumulated impairment losses, unrecognized amounts of profit/loss and foreign currency differences arising from translation.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**13. Property, Plant and Equipment**

(a) Details of property, plant and equipment as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

		2019				2018			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	7,976,868	-	(1,434)	7,975,434	7,578,828	-	-	7,578,828
Buildings		7,213,584	(2,475,091)	(14,622)	4,723,871	7,416,864	(2,566,160)	(4,041)	4,846,663
Structures		343,797	(139,587)	(10,117)	194,093	343,118	(132,763)	(4,771)	205,584
Machinery		230,830	(144,233)	(2,750)	83,847	231,335	(129,787)	(2,563)	98,985
Vehicles		8,097	(5,740)	(343)	2,014	7,739	(5,663)	(187)	1,889
Display fixtures		508,890	(409,941)	(11,531)	87,418	538,911	(407,388)	(8,623)	122,900
Furniture and fixtures		4,190,808	(3,286,952)	(188,123)	715,733	4,023,838	(3,105,217)	(141,065)	777,556
Tools and equipment		97,042	(72,422)	(3,796)	20,824	77,423	(44,848)	(1,344)	31,231
Other PP&E		64,595	(32,357)	(8,356)	23,882	68,207	(22,615)	(5,333)	40,259
Construction-in-progress		668,479	-	-	668,479	757,267	-	(56,191)	701,076
Total	₩	21,302,990	(6,566,323)	(241,072)	14,495,595	21,043,530	(6,414,441)	(224,118)	14,404,971

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

(in millions of Korean won)

		2019							Ending balance
		Beginning balance	Acquisitions	Changes due to business combination	Depreciation	Impairment	Disposals	Others(*1)	
Land	₩	7,578,828	16,285	550,823	-	(1,434)	(4,335)	(164,734)	7,975,433
Buildings		4,846,663	26,068	132,220	(187,874)	(11,968)	(525)	(80,713)	4,723,871
Structures		205,584	214	-	(13,783)	(6,301)	(2,791)	11,169	194,092
Machinery		98,985	12,813	27	(27,986)	(1,276)	(124)	1,408	83,847
Vehicles		1,889	883	49	(650)	(156)	(194)	193	2,014
Display fixtures		122,900	16,867	-	(60,705)	(3,468)	(2,056)	13,879	87,417
Furniture and fixtures		777,555	211,285	9,010	(314,091)	(56,246)	(4,655)	92,877	715,735
Tools and equipment		31,231	6,529	-	(19,649)	(2,161)	(49)	4,923	20,824
Other PP&E		40,259	361	5	(14,769)	(4,617)	(404)	3,047	23,882
Construction-in-progress		701,076	257,899	5,221	-	(34)	(2,120)	(293,562)	668,480
Total	₩	14,404,970	549,204	697,355	(639,507)	(87,661)	(17,253)	(411,513)	14,495,595

(\*1) Others include reclassification between accounts, changes in acquisition cost in 2018, the effects of changes in foreign exchange rates and etc.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**13. Property, Plant and Equipment, continued**

(c) Changes in property, plant and equipment for the year ended December 31, 2018 is as follows:

(in millions of Korean won)

		2018								
		Beginning balance	Acquisitions	Changes due to business combination	Depreciation	Impairment	Disposals	Others(*1)	Changes in subsidiaries	Ending balance
Land	₩	7,652,278	6,968	-	-	-	(1,355)	(79,063)	-	7,578,828
Buildings		5,024,510	37,943	-	(196,352)	(3,860)	(15,236)	139,814	(140,156)	4,846,663
Structures		222,362	-	-	(13,332)	(4,460)	(50)	3,582	(2,518)	205,584
Machinery		63,514	14,030	-	(15,752)	(355)	(25)	37,573	-	98,985
Vehicles		1,780	879	-	(734)	(8)	(43)	56	(41)	1,889
Display fixtures		155,997	27,778	6,104	(60,280)	(6,814)	(1,753)	115,450	(113,582)	122,900
Furniture and fixtures		802,379	205,128	33	(319,237)	(48,149)	(10,916)	144,639	3,679	777,556
Tools and equipment		48,801	4,556	-	(11,529)	(784)	(1,026)	2,193	(10,980)	31,231
Other PP&E		66,071	43	-	(5,485)	(4,237)	(4,647)	892	(12,378)	40,259
Construction in-progress		880,618	304,343	-	-	(59,690)	(1,722)	(424,352)	1,879	701,076
Total	₩	14,918,310	601,668	6,137	(622,701)	(128,357)	(36,773)	(59,216)	(274,097)	14,404,971

(\*1) Others include reclassification between accounts, changes in acquisition cost in 2018, the effects of changes in foreign exchange rates and etc.

(d) The Group performed impairment test for cash generating units of department stores, discount stores, consumer electronics retailers, and supermarkets, etc. that have indication of impairment, and the details of impairment losses for the year ended December 31, 2019 are summarized as follows:

(in millions of Korean won)

		2019					
		Department Store	Discount store	Consumer electronics retail	Supermarket	Others	Total
Impairment loss on property, plant and equipment	₩	4,649	36,544	1,688	23,260	21,521	87,662
Impairment loss on intangible assets (excluding goodwill)		380	570	9	17	4,041	5,017
Impairment loss on goodwill		-	2,293	99,731	40,625	2,243	144,892
Impairment loss on right-of-use asset		263,475	490,766	2,137	120,271	70,864	947,513
Impairment loss on other non-current assets		-	1,911	-	-	554	2,465
Total	₩	268,504	532,084	103,565	184,173	99,223	1,187,549

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**13. Property, Plant and Equipment, continued**

(d) The Group performed impairment test for cash generating units of department stores, discount stores, consumer electronics retailers, and supermarkets, etc. that have indication of impairment, and the details of impairment losses for the year ended December 31, 2018 are summarized as follows:, continued

<i>(in millions of Korean won)</i>	2018					
	Department Store	Discount store	Consumer electronics retail	Supermarket	Others	Total
Impairment loss on property, plant and equipment	₩ 67,379	17,309	234	25,505	17,929	128,356
Impairment loss on intangible assets (excluding goodwill)	31,880	13,209	56	316	1,432	46,893
Impairment loss on goodwill	-	-	271,175	69,790	7,734	348,699
Impairment loss on other non-current assets	-	19,347	-	-	867	20,214
Total	₩ 99,259	49,865	271,465	95,611	27,962	544,162

-The impairment losses of ₩277 million incurred for the years ended December 31, 2018 is presented in profit (loss) from discontinued operations.

-The valuation method and discount rate used to calculate the recoverable amount of CGUs indicating potential impairment are the same as those applied when calculating the recoverable amount of CGUs with goodwill.

(e) Pledged property, plant and equipment provided by the Group as of December 31, 2019, are as follows:

<i>(in millions of Korean won)</i>	2019					
	Offered assets(*)	Book amount	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings	₩	2,956,504	2,239,374	Secured Loan and others	1,739,560	Kookmin Bank and others

(\*) Provided as collateral for borrowings, security deposit for lease, and provisional attachment on interests.

(f) The capitalized borrowing costs and capitalization interest rates for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	2019	2018
Capitalized borrowing costs	₩ 10,475	12,361
Capitalization interest rates	1.99%~4.60%	2.49%~5.22%

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**14. Investment Property**

(a) Investment property as of December 31, 2019 and 2018 are summarized as follows:

		2019				2018			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	921,977	-	-	921,977	518,636	-	-	518,636
Buildings		786,302	(149,091)	(1)	637,210	615,644	(110,347)	(1)	505,296
Others(*)		964,231	(11,509)	(18,175)	934,547	-	-	-	-
Total	₩	2,672,510	(160,600)	(18,176)	2,493,734	1,134,280	(110,347)	(1)	1,023,932

(\*)Others include right-of-use assets reclassified into investment.

(b) Changes in investment property for the year ended December 31, 2019 are as follows:

		2019							
		Beginning balance	Changes in accounting policy	Acquisitions	Changes due to business combination	Depreciation	Disposal	Others(*2)	Ending balance
Land	₩	518,636	-	-	319,336	-	-	84,005	921,977
Buildings		505,297	-	50,319	7,533	(22,003)	-	96,064	637,210
Others(*1)		-	188,498	36,521	561,987	(11,506)	-	159,048	934,548
Total	₩	1,023,933	188,498	86,840	888,856	(33,509)	-	339,117	2,493,735

(\*1) Others include right-of-use assets reclassified into investment.

(\*2) Others include reclassification between accounts, changes in acquisition cost, the effects of changes in foreign exchange rates and others.

(c) Changes in investment property for the year ended December 31, 2018 are as follows:

		2018				
		Beginning balance	Acquisitions	Depreciation	Others(*)	Ending balance
Land	₩	574,579	-	-	(55,943)	518,636
Buildings		574,444	29,081	(22,688)	(75,540)	505,297
Total	₩	1,149,023	29,081	(22,688)	(131,483)	1,023,933

(\*) Others include reclassification between accounts, changes in acquisition cost, foreign exchange effects and others.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**14. Investment Property, continued**

(d) Income and expense from investment property

The details of income and expense from investment property for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Rental income	₩	180,849	122,450
Direct operating expense (including maintenance and repair expenses)		56,800	91,578

(e) Fair value of investment property as of December 31, 2019 is as follows:

<i>(in millions of Korean won)</i>		<u>Book value</u>	<u>Fair value</u>
Land and buildings	₩	2,493,734	3,527,663

**15. Goodwill and Intangible Assets**

(a) Intangible assets as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>				<u>2018</u>			
		<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>	<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>
Goodwill	₩	2,742,340	-	(1,203,371)	1,538,969	2,660,298	-	(1,058,479)	1,601,819
Industrial property rights		148,104	(10,769)	(226)	137,109	147,686	(8,657)	(211)	138,818
Rights to use facility		40,249	(37,775)	(578)	1,896	525,939	(212,482)	(152,682)	160,775
Membership		31,293	-	(3,647)	27,646	30,833	-	(3,259)	27,574
Other intangible assets		325,525	(180,592)	(2,518)	142,415	299,295	(170,638)	(4,166)	124,491
Total	₩	<u>3,287,511</u>	<u>(229,136)</u>	<u>(1,210,340)</u>	<u>1,848,035</u>	<u>3,664,051</u>	<u>(391,777)</u>	<u>(1,218,797)</u>	<u>2,053,477</u>

(b) Changes in intangible assets for the year ended December 31, 2019 is as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>								
		<u>Beginning balance</u>	<u>Changes in accounting policy</u>	<u>Acquisitions</u>	<u>Business combination</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Disposals</u>	<u>Others(*)</u>	<u>Ending balance</u>
Goodwill	₩	1,601,819	(545)	86	75,747	-	(144,892)	(42)	6,795	1,538,968
Industrial property rights		138,818	-	230	-	(1,218)	(874)	-	155	137,111
Rights to use facility		160,774	(157,287)	-	-	(1,089)	(570)	-	68	1,896
Membership		27,575	-	511	-	-	(389)	(22)	(30)	27,645
Other intangible assets		124,491	(1,451)	84,447	1	(99,419)	(3,184)	(1,454)	38,984	142,415
Total	₩	<u>2,053,477</u>	<u>(159,283)</u>	<u>85,274</u>	<u>75,748</u>	<u>(101,726)</u>	<u>(149,909)</u>	<u>(1,518)</u>	<u>45,972</u>	<u>1,848,035</u>

(\*)Others included reclassification between accounts and foreign exchange effects.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**15. Goodwill and Intangible Assets, continued**

(c) Changes in intangible assets for the year ended December 31, 2018 is as follows:

(in millions of Korean won)

		2018							
		Beginning balance	Acquisitions	Business combination	Amortization	Impairment	Disposals	Others(*)	Ending balance
Goodwill	₩	1,923,904	83	28,265	-	(348,699)	(101)	(1,633)	1,601,819
Industrial property rights		137,590	373	2,239	(1,347)	(133)	(1)	97	138,818
Rights to use facility		221,710	-	-	(18,475)	(42,488)	(165)	193	160,775
Membership		29,081	1,023	524	-	(2,064)	(871)	(119)	27,574
Other intangible assets		113,872	82,562	21,543	(94,397)	(2,208)	(75)	3,194	124,491
Total	₩	2,426,157	84,041	52,571	(114,219)	(395,592)	(1,213)	1,732	2,053,477

(\*) Others include reclassification between accounts and foreign exchange effects.

(d) Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to CGUs which are expected to create synergy within the Group.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019	2018
Department stores	₩	235,701	192,828
Discount stores		83,463	79,433
Consumer electronics retail		872,067	971,798
TV home shopping		273,296	273,296
Supermarket		3,567	44,780
Others		70,875	39,684
Total	₩	1,538,969	1,601,819

Recoverable amount for each of cash-generating unit for each operating segment above is measured at higher of value in use and net fair value. Net fair value is the amount obtainable from the estimated proceeds from the sales of the asset in an arm's length transaction between knowledgeable and willing parties, less estimated costs of disposal. The value in use of each cash-generating unit was determined by discounting its estimated future cash flows as relevant cash-generating units are continuously used. The approach used to determine value in use as of December 31, 2019 was consistent with those used in 2018. The calculation of value in use was based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.

- The annual revenue growth rate for the following five years was estimated based on an analysis of past revenue growth rates. The cash flow after the five-year period is estimated with growth rate at 0%~3.5% (2018: 0~2%).

- The Group's weighted average cost of capital was applied as the discount rate in determining recoverable amount of cash-generating units. The weighted average costs of capital for each cash-generating unit are as follows:

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**15. Goodwill and intangible assets, continued**

(d) Impairment testing for cash-generating units containing goodwill, continued

	<u>2019</u>	<u>2018</u>
Department stores	6.20% ~ 9.34%	6.59% ~ 7.82%
Discount stores	6.66% ~ 8.70%	7.82% ~ 9.70%
Consumer electronics retail	7.34%	8.50%
TV home shopping	6.67%	7.78%
Supermarket	6.66% ~ 7.40%	7.40% ~ 7.82%
Others	6.06% ~ 13.17%	8.30% ~ 12.28%

The relevant values through major assumption represent the management's estimation of future trends for distribution industry. And as a result of impairment testing on the basis of external and internal source (historical data) as of December 31, 2019, recoverable amounts of the cash-generating units in discount stores, supermarket and consumer electronic retail were less than its book value, including goodwill, therefore impairment losses were recognized. Other than parts of cash-generating units of discount stores, supermarkets and consumer electronic retail which recognized impairment losses, value in use exceeded the carrying amount.

The impairment losses and recoverable amounts of the cash generating units which recognized impairment in goodwill for the years ended December 31, 2019 and 2018 are as follows:

*(in millions of Korean won)*

		<u>2019</u>	
		<u>Impairment losses</u>	<u>Recoverable amounts</u>
Discount stores	₩	2,293	-
Supermarket		40,712	121,239
Consumer electronics retail		99,731	1,252,344
Others		2,156	153,760
Total	₩	<u>144,892</u>	<u>1,527,343</u>

*(in millions of Korean won)*

		<u>2018</u>	
		<u>Impairment losses</u>	<u>Recoverable amounts</u>
Supermarket	₩	69,747	164,643
Consumer electronics retail		271,176	1,339,504
Others		7,776	115,847
Total	₩	<u>348,699</u>	<u>1,619,994</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**15. Goodwill and intangible assets, continued**

(e) Impairment testing of other intangible assets with indefinite estimated useful lives

Details of intangible assets with indefinite estimated useful lives as of December 31, 2019 and 2018 are as follows:

<i>(in thousands of Korean won)</i>		<u>2019</u>	<u>2018</u>
Department stores	₩	10,890	11,300
Discount stores		1,555	1,556
Consumer electronics retail		139,469	138,978
TV home shopping		8,775	8,775
Supermarket		1,744	1,765
Others		1,297	1,297
Total	₩	<u>163,730</u>	<u>163,671</u>

₩389 million is recognized as impairment loss during the current period, and as a result of the Group's impairment test on indefinite intangible assets for the year 2018, ₩2,064 million was recognized as impairment loss.

**16. Trade and Other Payables**

Details of trade and other payables as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018(*)</u>
Trade payables	₩	753,030	757,982
Other payables		1,890,832	2,152,412
Total	₩	<u>2,643,862</u>	<u>2,910,394</u>

(\*) The Group has reclassified certain amounts of trade payables at the end of the prior year presented above to other payables in order to facilitate comparison with the financial statements for the current period. These reclassification has no impact on the net income and net assets of the financial statements reported in previous year.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**17. Borrowings and Debentures**

(a) Borrowings and debentures as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
Current:			
Short-term borrowings	₩	916,101	690,008
Current portion of long-term borrowings		729,021	324,954
Current portion of discount on long-term borrowings		(1,023)	(130)
Current portion of long-term debentures		1,197,340	965,430
Current portion of discount on long-term borrowings		(998)	(108)
Subtotal		<u>2,840,441</u>	<u>1,980,154</u>
Non-current:			
Long-term borrowings		2,520,830	1,549,093
Discount on long-term borrowings		(6,283)	(2,393)
Long-term debentures		4,224,584	4,307,214
Discount on debentures		(8,234)	(8,118)
Debentures redemption premium		7,681	7,681
Exchange rights adjustment		(28,499)	(38,732)
Subtotal		<u>6,710,079</u>	<u>5,814,745</u>
Total	₩	<u>9,550,520</u>	<u>7,794,899</u>

(b) Short-term borrowings as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

<u>Lender</u>	<u>Details</u>	<u>Annual interest rate</u>		<u>2019</u>	<u>2018</u>
Korea Development Bank and others	General note	1.95% ~ JIBOR (1M+1.50%)	₩	816,101	436,008
Shinhan Bank	Financial note	CD(91)+0.30%		<u>100,000</u>	<u>254,000</u>
		Total	₩	<u>916,101</u>	<u>690,008</u>

As of the end of the reporting period, JIBOR 1M: 5.45%, CD(91): 1.53%

(c) Long-term borrowings as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

<u>Lender</u>	<u>Details</u>	<u>Annual interest rate</u>		<u>2019</u>	<u>2018</u>
Mizuho Corporate Bank, Ltd. and others	Local currency	2.27% ~ 4.27%	₩	2,569,512	999,000
Lotte Co., Ltd. (Japan) and others(*)	Foreign currency	3M Tibor+1.23% ~ COF 1M+0.1%		680,339	875,047
	Subtotal			<u>3,249,851</u>	<u>1,874,047</u>
Less: Discount on borrowings				(7,305)	(2,522)
	Subtotal			<u>3,242,546</u>	<u>1,871,525</u>
Less: Current portion of long-term borrowings, net of discount				(727,998)	(324,825)
	Total		₩	<u>2,514,548</u>	<u>1,546,700</u>

(\*) 3M Tibor as of the end of reporting period: 0.069%, COF 1M= 7.71%

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**As of December 31, 2019 and 2018**

**17. Borrowings and Debentures, continued**

(d) Debentures as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

Description	Maturity	Annual interest rate	2019	2018
59-3rd placed	-	-	-	200,000
63-2nd placed	-	-	-	200,000
65-1st placed	2020-03-03	2.26%	160,000	160,000
65-2nd placed	2022-03-03	2.45%	240,000	240,000
66-1st placed	2020-06-23	2.40%	130,000	130,000
66-2nd placed	2022-06-23	2.64%	50,000	50,000
66-3rd placed	2025-06-23	2.98%	140,000	140,000
68th placed	2020-07-31	2.40%	110,000	110,000
69-1st placed (foreign currency)	-	-	-	111,810
69-2nd placed (foreign currency)	-	-	-	111,810
70-1st placed	-	-	-	100,000
70-2nd placed	2021-04-04	2.02%	170,000	170,000
70-3rd placed	2026-04-04	2.48%	70,000	70,000
71th placed (foreign currency)	-	-	-	111,810
72-1st placed	2020-01-23	1.94%	240,000	240,000
72-2nd placed	2022-01-23	2.36%	160,000	160,000
73-1st placed	2020-06-15	2.11%	110,000	110,000
73-2nd placed	2022-06-15	2.50%	150,000	150,000
73-3rd placed	2024-06-15	2.69%	100,000	100,000
74th placed	2022-06-29	2.48%	50,000	50,000
75th placed	2024-08-07	2.74%	150,000	150,000
76-1st placed (foreign currency)	2021-05-21	3M USD Libor	115,780	111,810
76-2nd placed (foreign currency)	2021-05-21	3M USD Libor+0.95%	202,615	195,668
77-1st placed	2021-05-28	2.64%	160,000	160,000
77-2nd placed	2023-05-30	2.96%	310,000	310,000
77-3rd placed	2028-05-30	3.47%	100,000	100,000
78-1st placed (foreign currency)	2021-08-17	3M USD Libor	185,248	178,896
78-2nd placed (foreign currency)	2021-08-28	3M USD Libor + 0.95%	115,780	111,810

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**17. Borrowings and Debentures, continued**

(d) Debentures as of December 31, 2019 and 2018 are as follows:, continued

Description	Maturity	Annual interest rate		2019	2018
79th placed	2033-08-07	3.55%	₩	70,000	70,000
80th placed	2038-08-29	3.40%		30,000	30,000
81th placed (foreign currency)	2022-01-28	3M USD Libor		115,780	-
82-1st placed	2022-01-28	2.09%		110,000	-
82-2nd placed	2024-01-30	2.29%		150,000	-
82-3rd placed	2029-01-30	2.73%		140,000	-
83-1st placed	2024-08-29	1.64%		100,000	-
83-2nd placed	2026-08-28	1.71%		70,000	-
83-3rd placed	2029-08-29	1.82%		110,000	-
84th placed (foreign currency)	2022-11-29	3M USD Libor		115,780	-
Exchangeable bonds (*1)	2023-04-04	-		303,600	303,600
1st collateralized public bond (LOTTE REIT Co., Ltd.)	2022-07-30	1.55%		170,000	-
4-2nd corporate bond (Lotte Himart Co., Ltd.)	2020-10-28	2.37%		100,000	100,000
4-3rd corporate bond (Lotte Himart Co., Ltd.)	2022-10-28	2.70%		40,000	40,000
5-1st corporate bond (Lotte Himart Co., Ltd.)	-	-		-	130,000
5-2nd corporate bond (Lotte Himart Co., Ltd.)	2021-01-28	2.44%		50,000	50,000
6th corporate bond (Lotte Himart Co., Ltd.)	2021-07-05	2.52%		180,000	180,000
LSBM (foreign currency)	2020-09-05	2.38%		347,340	335,430
Subtotal				5,421,923	5,272,644
Less: Discount on debentures				(9,232)	(8,226)
Debentures redemption premium				7,681	7,681
Less: Exchange rights adjustment				(28,499)	(38,732)
Total book value				5,391,873	5,233,367
Less: Current portion of debentures				(1,196,342)	(965,322)
Total			₩	4,195,531	4,268,045

(\*1) The Company issued exchangeable bonds which are exchangeable for shares of LOTTE Himart Co., Ltd. and the terms and conditions are as follows:

- |  |   |
|--|---|
| (1) Type of bonds:   | Registered unguaranteed unsecured overseas exchangeable bonds |
| (2) Total face value of bonds(In Korean won):  | ₩ 303,600,000,000   |
| (3) Bond interest rate   |   |
| Coupon rate (%):   | -   |
| Yield to maturity (%):   | 0.50  |
| (4) Date of bond maturity:   | April 04, 2023  |
| (5) Principal redemption method:   |   |
| i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. |   |
| ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option.   |   |
| (6) Put option by bondholders:   |   |

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**17. Borrowings and Debentures, continued**

(d) Debentures as of December 31, 2019 and 2018 are as follows:, continued

The put option can be exercised if any of the following conditions occurs:

- i. After the third anniversary of the date of payment (April 04, 2021);
- ii. If any change of control occurs in the LOTTE Himart; or
- iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.

(7) Call option by the Company:

The call option can be exercised if any of the following conditions occurs:

- i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (April 04, 2021) and 30 business days to the maturity date;
- ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or
- iii. Any additional tax burden arises due to the amendments of the related laws and regulations.

(8) Matters relating to exchange:

- i. Exchange ratio (%): 100
- ii. Exchange price (won per share): 85,840
- iii. Type of shares to be issued following exchange: common shares of LOTTE Himart Co., Ltd.
- iv. Period to apply for exchange:
  - Start date: May 14, 2018
  - End date: March 24, 2023

v. Matters for the adjustment of exchange price:

In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement.

(e) Annual repayment schedule of long-term borrowings and debentures as of December 31, 2019 are as follows:

(in millions of Korean won)

		2019		
		Borrowings	Debentures	Total
2020.01.01 ~ 2020.12.31	₩	729,021	1,197,340	1,926,361
2021.01.01 ~ 2021.12.31		1,224,962	1,179,423	2,404,385
2022.01.01 ~ 2022.12.31		495,868	1,201,560	1,697,428
2023.01.01 ~ 2023.12.31		800,000	613,600	1,413,600
After 2024.01.01		-	1,230,000	1,230,000
Total	₩	3,249,851	5,421,923	8,671,774

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**As of December 31, 2019 and 2018**

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**18. Unearned Revenues**

The details of unearned revenues as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Current:			
Membership points	₩	1,450	1,556
Other points		47,362	52,785
Unearned rental income		10,528	8,889
Others(*)		121,528	84,220
Subtotal		<u>180,868</u>	<u>147,450</u>
Non-current:			
Unearned rental income		46,002	32,961
Subtotal		<u>46,002</u>	<u>32,961</u>
Total	₩	<u>226,870</u>	<u>180,411</u>

(\*) Others include contract liabilities described in Note 28.

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**19. Provisions**

(a) Changes in provisions for the year ended December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>	<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Changes in subsidiaries</b>	<b>Ending balance</b>
Current:					
Provision for bonus payable ₩	5,975	47,430	(52,785)	-	620
Provision for sales return	10,443	4,380	(6,105)	20	8,738
Provision for restoration	94	2,959	(752)	-	2,301
Provision for litigation	3,101	1,164	(951)	-	3,314
Provision for restructuring	79,653	-	(57,466)	-	22,187
Other provisions (*1)	14,423	36,649	(39,227)	-	11,845
Total	<u>113,689</u>	<u>92,582</u>	<u>(157,286)</u>	<u>20</u>	<u>49,005</u>
Non-current:					
Provision for restoration	7,043	156,600	(35,602)	-	128,041
Total ₩	<u>7,043</u>	<u>156,600</u>	<u>(35,602)</u>	<u>-</u>	<u>128,041</u>

(\*1) Other provisions include provision for bonus points reward program and others.

(b) Changes in provisions for the year ended December 31, 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Ending balance</b>
Current:				
Provision for bonus payable ₩	7,620	68,478	(70,123)	5,975
Provision for sales return(*1)	10,091	10,469	(10,116)	10,444
Provisions for litigation	22,870	42,198	(61,968)	3,100
Provisions for restructuring	-	286,851	(207,198)	79,653
Other provisions(*2,3)	14,541	52,282	(52,306)	14,517
Total	<u>55,122</u>	<u>460,278</u>	<u>(401,711)</u>	<u>113,689</u>
Non-current:				
Other provisions	3,303	4,020	(279)	7,044
Total ₩	<u>3,303</u>	<u>4,020</u>	<u>(279)</u>	<u>7,044</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**19. Provisions, continued**

(b) Changes in provisions for the year ended December 31, 2018 are as follows:, continued

(\*1) ₩175 million of succeeded provision to the Company as a result of the merger of LOTTE.COM INC. is included in the ending balance.

(\*2) ₩55 million of succeeded provision for bonus points reward program to the Company as a result of the merger of LOTTE.COM INC. is included in the ending balance.

(\*3) Other provisions include provision for bonus points reward program and others.

**20. Other Non-financial Liabilities**

Other non-financial liabilities as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Current:			
Withholdings	₩	82,584	51,061
Withholdings of value added tax		122,367	67,844
Advances received		968,323	841,425
Other liabilities		1,959	2,275
Total		<u>1,175,233</u>	<u>962,605</u>
Non-Current:			
Other liabilities		-	97,391
Total	₩	<u>-</u>	<u>97,391</u>

**21. Employee Benefits**

(a) Details of defined benefit liabilities as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Present value of defined benefit obligations	₩	882,045	762,292
Fair value of plan assets		(921,213)	(794,790)
Defined benefit liabilities (assets)	₩	<u>(39,168)</u>	<u>(32,498)</u>

(b) Details of present value of other long-term employee benefits as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Present value of other long-term employee benefits	₩	70,602	58,516

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**21. Employee Benefits, continued**

(c) Changes in the defined benefit obligations for the years ended December 31, 2019 and 2018 are as follows:

*(in millions of Korean won)*

	<u>2019</u>	<u>2018</u>
Beginning balance	₩ 762,292	640,841
Current service costs	110,144	99,303
Past service costs	1,267	(58)
Interest costs	21,005	19,632
Remeasurements:		
Actuarial loss from change in demographic assumptions	(1,112)	2,523
Actuarial gain from change in financial assumptions	21,228	23,981
Actuarial gain from experience adjustments	29,104	3,007
Subtotal	<u>49,220</u>	<u>29,511</u>
Benefit payments	(52,406)	(51,380)
Others	(9,550)	9,456
Changes due to merger	73	14,987
Ending balance	₩ <u>882,045</u>	<u>762,292</u>

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**21. Employee Benefits, continued**

(d) Changes in the plan assets for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Beginning balance	₩	794,791	659,358
Return on plan assets		23,231	22,092
Remeasurements		(8,593)	(10,635)
Employer contribution		151,022	146,051
Benefit payments		(42,147)	(38,355)
Others		2,908	1,719
Changes due to merger		-	14,561
Ending balance	₩	<u>921,212</u>	<u>794,791</u>

The estimated contributions to the plan for the next annual reporting period are ₩118,714 million.

(e) The components of plan assets as of December 31, 2019 and 2018 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Principal guaranteed insurance policies	₩	921,067	794,644
Contributions to the National Pension Fund		145	147
Total	₩	<u>921,212</u>	<u>794,791</u>

(f) Expenses recognized for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Current service costs	₩	110,144	99,303
Past service costs		1,267	(58)
Interest costs		21,005	19,632
Return on plan assets		(23,231)	(22,092)
Contributions to defined contribution plans		4,616	2,170
Long-term employee benefits		17,216	9,045
Total	₩	<u>131,017</u>	<u>108,000</u>

(g) The principal actuarial assumptions used as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	1.48~7.98%	2.25~8.25%
Expected rate of promotion	0.95~4.41%	1.43~4.41%
Expected rate of increase in salaries	0.67~11.43%	1.00~10.86%



**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**22. Derivatives, continued**

(a) Details of derivatives outstanding as of December 31, 2019 are as follows; continued

(\*1) Total return swaps of the Group as of December 31, 2019 are as follows.

(in millions of Korean won)

Name	Guaranteed Buyer	Guaranteed Seller	Conclusion date of agreement	Maturity date	Agreement Amount	Underlying assets	Purpose of agreement	Description of agreement and settlement method	Special relationship with contract party or issuance company of underlying assets	Collateral	Brokerage financial company	Special agreement	
TRS	Lotte Shopping Co., Ltd	Silver Investment No. 1 Co., Ltd.	2016-04-27	2021-04-29	₩ 120,000								
		Silver Investment No. 2 Co., Ltd.			50,000						KB Securities		
		J's C No. 1 Co., Ltd.			50,000								
		LOG No. 1 Co., Ltd.	2017-02-17	2022-02-17	40,000			1. Settlement of differences between the selling price of underlying assets and the principal of investment				KB Securities	
		LOG No. 3 Co., Ltd.			24,300								
		Portobello No. 1 Co., Ltd.	2017-03-24	2022-03-24	4,700							Daiwa Securities	
		Portobello No. 2 Co., Ltd.			40,000	Real estate investment trust related beneficiary certificates	Settlement of disposal of underlying assets	2. Settlement of differences between the actual dividends and standard dividends on each dividend payment date (every 3 months)	None	None			-
		LMC No. 1 Co., Ltd.	2017-06-14	2022-06-16	12,800							KB Securities	
		LMC No. 3 Co., Ltd.			20,000								
		LOY No. 1 Co., Ltd.	2017-07-19	2022-07-20	57,000								
		LOY No. 2 Co., Ltd.			65,000							KB Securities and others	
		LOY No. 3 Co., Ltd.			41,000								
		Kimpo Hangang Park No. 1 Co., Ltd.	2017-09-08	2022-09-16	29,800							Mirae Asset Daewoo	
		Kimpo Hangang Park No. 2 Co., Ltd.			120								

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**22. Derivatives, continued**

(b) Fair value of derivatives outstanding as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

Description	Type	2019		2018	
		Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swaps	₩ 21,899	9,156	7,342	33,122
	Interest swaps	-	287	677	3
Trade	Total return swap	21,545	-	30,896	-
	Currency swaps	17,702	-	9,107	1,660
	Stock options	-	-	-	32
Total		₩ 61,146	9,443	48,022	34,817

(c) Fair value gain (loss) of derivatives for the year ended December 31, 2019 are as follows:

(in millions of Korean won)

Purpose	Type	Amount	Note
Cash flow hedge	Currency swaps	₩ 22,000	Profit or loss(*1)
		(4,960)	Other comprehensive income
Trade	Interest swaps	(859)	Other comprehensive income
	Total return swap	840	Profit or loss
	Currency swaps	9,440	Profit or loss
	Stock options	32	Profit or loss

(\*1) Fair value hedging is applied to currency rate swap portion of currency swaps.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**23. Capital Stock and Capital Surplus**

(a) The capital stock of the Company as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won, except for number of shares)</i>		<u>2019</u>	<u>2018</u>
Authorized shares(shares)		60,000,000	60,000,000
Par value per share(in thousands of Korean won)	₩	5	5
Number of shares issued(shares)		<u>28,288,755</u>	<u>28,288,755</u>
Share capital	₩	<u>141,444</u>	<u>141,444</u>

(b) Capital surplus as of December 31, 2019 and 2018 consists of the following:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Additional paid-in capital	₩	3,414,873	3,414,873
Others		<u>159,339</u>	<u>159,339</u>
Total	₩	<u>3,574,212</u>	<u>3,574,212</u>

**24. Capital Adjustments**

Capital adjustments as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Treasury stocks	₩	3,803	3,803
Other capital adjustments		<u>2,963,095</u>	<u>2,906,025</u>
Total	₩	<u>2,966,898</u>	<u>2,909,828</u>

**25. Retained Earnings**

Details of retained earnings as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Legal reserves	₩	231,142	216,441
Voluntary reserves		10,220,052	10,920,052
Unappropriated deficit		<u>(554,430)</u>	<u>(144,926)</u>
Total	₩	<u>9,896,764</u>	<u>10,991,567</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**26. Accumulated Other Comprehensive Income (loss)**

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

(in millions of Korean won)

	<b>2019</b>			
	<b>Beginning balance</b>	<b>Changes for the year</b>	<b>Tax effects for the year</b>	<b>Ending balance</b>
Fair value gain (loss) through other comprehensive income	₩ 53,570	82,316	(26,060)	109,826
Exchange rate differences on translating foreign operations	(67,878)	9,321	(2,256)	(60,813)
Cash flow hedge	(8,148)	(5,713)	1,531	(12,330)
Interests in the other comprehensive income in investment in associates	(69,524)	37,000	(3,695)	(36,219)
	₩ <u>(91,980)</u>	<u>122,924</u>	<u>(30,480)</u>	<u>464</u>

(in millions of Korean won)

	<b>2018</b>				
	<b>Beginning balance</b>	<b>Changes for the year</b>	<b>Tax effects for the year</b>	<b>Changes due to spin-off</b>	<b>Ending balance</b>
Fair value gain (loss) through other comprehensive income (*)	₩ 52,680	(12,674)	20,085	(6,521)	53,570
Exchange rate differences on translating foreign operations	(40,271)	-	(29,325)	1,718	(67,878)
Cash flow hedge	(13,057)	-	6,148	(1,239)	(8,148)
Interests in the other comprehensive income in investment in associates	(82,080)	-	16,686	(4,130)	(69,524)
	₩ <u>(82,728)</u>	<u>(12,674)</u>	<u>13,594</u>	<u>(10,172)</u>	<u>(91,980)</u>

(\*) Fair value gain (loss) through other comprehensive income was classified as gains (losses) on valuation of available-for-sale financial assets in previous year. The effects of changes in accounting policies by the adoption of K-IFRS No. 1109 "Financial Instrument" was not applied to the beginning balance.

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**27. Earnings (losses) per Share**

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

(i) December 31, 2019

*(in Korean won, except for number of shares)*

		<b>2019</b>	
		<b>Continuing operations</b>	<b>Discontinued operations</b>
Profit(Loss) for the year attributable to the owners of the Company	₩	(976,764,607,481)	67,203,003,872
Weighted average number of common shares outstanding		28,270,640	28,270,640
Basic earning(loss) per share	₩	(34,550)	2,377

(ii) December 31, 2018

*(in Korean won, except for number of shares)*

		<b>2018</b>	
		<b>Continuing operations</b>	<b>Discontinued operations</b>
Loss for the year attributable to the owners of the Company	₩	(334,156,072,066)	(210,718,208,408)
Interests of hybrid securities, net of tax		(12,581,295,612)	-
Weighted average number of common shares outstanding		28,173,381	28,173,381
Basic loss per share	₩	(12,307)	(7,479)

(iii) Weighted average number of common shares outstanding

*(in number of shares)*

	<b>2019</b>	<b>2018</b>
Initial number of common shares outstanding	28,288,755	28,122,047
Treasury share	(18,115)	(18,115)
Weighted average number of common shares outstanding	28,270,640	28,173,381

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**27. Earnings (losses) per Share, continued**

(b) Diluted earnings (losses) per share

Diluted earnings (losses) per share for the years ended December 31, 2019 and 2018 are as follows:

(i) December 31, 2019

*(in Korean won, except for number of shares)*

		<b>2019</b>	
		<b>Continuing operations</b>	<b>Discontinued operations</b>
Profit(Loss) for the year attributable to the owners of the Company	₩	(976,764,607,481)	67,203,003,872
Effect of exchange of exchangeable bond, net of tax(*1)		(9,363,465,684)	-
Diluted profit(loss) attributable to common shareholders		(986,128,073,165)	67,203,003,872
Weighted average number of common shares for diluted earnings per share		28,270,640	28,270,640
Diluted earning(loss) per share	₩	(34,882)	2,377

(\*1) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd for the year ended December 31, 2019.

(ii) December 31, 2018

*(in Korean won, except for number of shares)*

		<b>2018</b>	
		<b>Continuing operations</b>	<b>Discontinued operations</b>
Loss for the year attributable to the owners of the Company	₩	(334,156,072,066)	(210,718,208,408)
Interests of hybrid securities, net of tax		(12,581,295,612)	-
Effect of exchange of exchangeable bond, net of tax(*1)		(7,784,854,419)	-
Diluted loss attributable to common shareholders		(354,522,222,097)	(210,718,208,408)
Weighted average number of common shares for diluted earnings per share		28,173,381	28,173,381
Diluted loss per share	₩	(12,584)	(7,479)

(\*1) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd. for the year ended December 31, 2018.

(iii) Diluted weighted average number of common shares

Weighted average number of common shares and weighted average number of common shares for diluted earnings per share for the current and previous year are the same.

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**28. Sales**

(a) Details of sales for the years ended December 31, 2019 and 2018 are as follows:

		<u>2019</u>	<u>2018</u>
<i>(in millions of Korean won)</i>			
	Sales of merchandise	₩ 21,428,199	21,844,319
	Sales of products	529,361	351,542
	Other sales	1,862,178	1,777,304
	Total sales	<u>23,819,738</u>	<u>23,973,165</u>
Revenue from contracts with customers	Sales discounts and sales returns	(1,207,320)	(951,872)
	Provision for sales return and deferred sales	(283,469)	(233,209)
	Cost of specific sales	(6,050,934)	(6,260,952)
	Total sales deduction	<u>(7,541,723)</u>	<u>(7,446,033)</u>
Revenue from other sources: rental revenue		1,343,985	1,293,649
Total		<u>₩ 17,622,000</u>	<u>17,820,781</u>

(b) The contract assets and liabilities of the Group recognized related to the revenue from contracts with customers as of December 31, 2019 and 2018 are as follows:

		<u>2019</u>	<u>2018</u>
<i>(in millions of Korean won)</i>			
Contract assets			
	Inventory expected for return	₩ 1,602	3,201
	Total	<u>1,602</u>	<u>3,201</u>
Contract liabilities			
	Customer loyalty program	102,956	74,410
	Gift vouchers	780,208	732,825
	Others	133,137	136,971
Total		<u>₩ 1,016,301</u>	<u>944,206</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**28. Sales, continued**

(c) The amounts recognized as revenue and redemption of gift vouchers for the year ended December 31, 2019, in relation to contract liabilities carried forward from the year ended December 31, 2018 are as follows:

*(in millions of Korean won)*

		<u>2019</u>	<u>2018</u>
Revenue			
Customer loyalty programs		69,579	63,117
Others	₩	120,922	148,899
Total		<u>190,501</u>	<u>212,016</u>
Collected			
Gift vouchers		477,207	385,535
Total	₩	<u>477,207</u>	<u>385,535</u>

(d) In relation to gift vouchers, expected satisfaction of performance obligation by period are as follows:

*(in millions of Korean won)*

	<u>Book amount</u>	<u>1 year</u>	<u>Between 1-5 years</u>	<u>Over 5 years</u>
₩	780,208	507,762	269,487	2,959

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**29. Selling, General and Administrative Expenses and Bad Debt Expenses**

Details of selling, general and administrative expenses and bad debt expenses for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<b>2019</b>	<b>2018</b>
Salaries and bonuses	₩ 1,372,955	1,343,544
Retirement benefits	112,718	98,228
Long-term employee benefits	17,025	8,984
Employee benefits	269,163	255,429
Training expenses	17,250	17,126
Travel expenses	24,863	25,680
Vehicles maintenance expenses	2,978	2,986
Insurance premiums	16,945	16,870
Taxes and dues	300,812	189,693
Entertainment expenses	4,979	4,207
Supplies expenses	64,107	66,688
Publication expenses	1,668	1,733
Communication expenses	24,190	24,416
Utility expenses	291,434	314,652
Repairs and maintenance	40,944	35,178
Rental expenses	154,592	971,953
Depreciation	1,400,751	621,552
Amortization	33,273	44,563
Commission expenses	1,150,973	1,114,568
Service commission expenses	1,005,704	960,524
Advertising expenses	233,328	231,818
Samples expenses	210	265
Sales commissions	141,287	168,987
Sales promotion expenses	139,472	128,001
Decoration expenses	8,571	14,888
Bad debt expenses	1,744	(1,035)
Transportation expenses	182,339	184,246
Research and development expenses	343	300
Provisions (reversal)	(20,629)	25,786
Compensation expenses	11,916	35,852
Others	3,564	2,984
Total	₩ <u>7,009,469</u>	<u>6,910,666</u>

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**30. Other Income and Expenses**

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

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
<b>Other income:</b>			
Gain on foreign currency transactions	₩	2,312	1,490
Gain on foreign currency translation		424	578
Gain on disposal of property, plant and equipment		5,377	2,830
Gain on disposal of intangible assets		3	819
Gain on disposal of right-of-use assets		7,377	-
Gain on bargain purchase		706	-
Gain on disposal of assets and liabilities held for sale		3,373	11,422
Gain on disposal of other non-current assets		3,038	1,842
Reversal of impairment losses on other non-current assets		-	52
Miscellaneous gains		66,254	41,447
Total	₩	<u>88,864</u>	<u>60,480</u>
<b>Other expenses:</b>			
Loss on foreign currency transactions	₩	1,415	1,639
Loss on foreign currency translation		680	560
Loss on disposal of property, plant and equipment		7,841	8,599
Impairment loss on right-of-use assets		947,514	-
Impairment loss on property, plant and equipment		87,662	128,184
Loss on disposal of intangible assets		342	287
Impairment loss on intangible assets		149,909	395,487
Loss on disposal of right-of-use assets		3,822	-
Impairment loss on assets held for sale		35,288	61,866
Impairment loss on other non-current assets		2,465	20,214
Donations		23,316	22,444
Other bad debt expenses		6,964	9,127
Miscellaneous losses		66,258	52,905
Others		94	805
Total	₩	<u>1,333,570</u>	<u>702,117</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**31. Nature of expenses**

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

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Purchase of inventories	₩	9,890,083	9,873,806
Changes in inventories		3,623	35,244
Employee benefits		1,792,521	1,725,129
Rental expenses		157,727	983,389
Depreciation and amortization		1,519,024	749,031
Sales commissions		141,287	168,988
Sales promotion expenses		164,391	164,456
Commission expenses		1,165,165	1,127,684
Service expenses		1,080,191	1,091,797
Advertising expenses		262,176	250,578
Utility expenses		297,677	319,838
Taxes and dues		303,212	190,021
Others		417,012	543,817
Total of costs of goods sold and selling, general and administration expenses	₩	<u>17,194,089</u>	<u>17,223,778</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**32. Finance Income and Finance Costs**

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

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
<b>Finance income:</b>			
Interest income according to the effective interest rate method	₩	110,441	90,369
Dividend income		11,043	8,685
Gain on foreign currency transactions		17,798	7,470
Gain on foreign currency translation		8,689	92,971
Gain on valuation of debt instrument measured at fair value through profit or loss		2,076	259
Gain on disposal of debt instrument measured at fair value through profit or loss		77	81
Gain on valuation of derivatives held for hedging		24,463	50,226
Gain on valuation of derivatives held for trading		24,691	3,287
Gain on transaction of derivatives held for hedging		7,110	24,224
Gain on transaction of derivatives held for trading		4,051	494
Gain on disposal of investments in subsidiaries, associates and joint ventures		55,879	849
Total	₩	<u>266,318</u>	<u>278,915</u>
<b>Finance costs:</b>			
Interest expense according to the effective interest rate method	₩	491,246	233,927
Loss on foreign currency transactions		18,457	36,689
Loss on foreign currency translation		37,988	117,170
Loss on valuation of debt instrument measured at fair value through profit or loss		2,275	6,636
Loss on disposal of debt instrument measured at fair value through profit or loss		2	18
Loss on valuation of derivatives held for hedging		2,462	14,383
Loss on valuation of derivatives held for trading		14,379	567
Loss on transaction of derivatives held for hedging		120	-
Loss on transaction of derivatives held for trading		468	1,873
Other bad debt expenses (finance)		-	5,108
Loss on disposal of investments in subsidiaries, associates and joint ventures		10,064	-
Impairment loss on investments in associates joint ventures		115,824	357
Total	₩	<u>693,285</u>	<u>416,728</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**32. Finance Income and Finance Costs, continued**

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019						
	Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Total
Recognized in profit or loss :								
Interest income	₩ 48,407	62,009	-	26	-	-	-	110,442
Interest expense	(3,775)	(9,533)	-	-	-	-	(477,938)	(491,246)
Dividend income	-	-	2,518	8,525	-	-	-	11,043
Valuation / Disposal	-	(162)	37	-	10,312	22,000	-	32,187
Impairment	-	(8,690)	-	-	-	-	(18)	(8,708)
Exchange differences	(1,734)	4,988	(5)	-	-	-	(32,566)	(29,317)
Others	-	-	-	-	3,582	6,990	-	10,572
Subtotal	42,898	48,612	2,550	8,551	13,894	28,990	(510,522)	(365,027)
Recognized in other comprehensive income (loss)(*1)								
Fair value gain through other comprehensive income	-	-	-	101,496	-	-	-	101,496
Gain on valuation of derivatives	-	-	-	-	-	(5,820)	-	(5,820)
Subtotal	-	-	-	101,496	-	(5,820)	-	95,676
Total	₩ 42,898	48,612	2,550	110,047	13,894	23,170	(510,522)	(269,351)

(\*1) The gain/loss on valuation are amounts before offsetting effect of income taxes.

(in millions of Korean won)

		2018						
	Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Total
Recognized in profit or loss :								
Interest income	₩ 53,025	37,171	173	-	-	-	-	90,369
Interest expense	(5,716)	(17)	-	-	-	(491)	(227,703)	(233,927)
Dividend income	-	-	4,552	4,133	-	-	-	8,685
Valuation / Disposal	-	-	(6,315)	-	2,720	35,844	-	32,249
Impairment	-	(13,200)	-	-	-	-	-	(13,200)
Exchange differences	1,777	(4,741)	(611)	(18)	-	-	(49,955)	(53,548)
Others	-	-	-	-	(1,379)	24,224	-	22,845
Subtotal	49,086	19,213	(2,201)	4,115	1,341	59,577	(277,658)	(146,527)
Recognized in other comprehensive income (loss)(*1)								
Fair value gain through other comprehensive income	-	-	-	(9,411)	-	-	-	(9,411)
Gain on valuation of derivatives	-	-	-	-	-	6,150	-	6,150
Subtotal	-	-	-	(9,411)	-	6,150	-	(3,261)
Total	₩ 49,086	19,213	(2,201)	(5,296)	1,341	65,727	(277,658)	(149,788)

(\*1) The gain/loss on valuation are amounts before offsetting effect of income taxes.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**33. Income Taxes**

(a) Income tax expense for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Current income taxes	₩ 104,539	114,090
Deferred tax due to temporary differences	<u>(333,691)</u>	<u>43,111</u>
Total income tax effect	(229,152)	157,201
Income tax charged directly to equity	<u>(20,979)</u>	<u>3,343</u>
Income tax expense (*1)	<u>₩ (250,131)</u>	<u>160,544</u>

(\*1) Income tax expenses classified as discontinued operation are included.

(b) Details of income tax expense recognized directly to equity for the years ended December 31, 2019 and 2018, are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Fair value gain (loss) through other comprehensive income	₩ (36,114)	(4,841)
Exchange differences on translating foreign operations	(3,724)	2,461
Gain (loss) on valuation of derivatives	1,557	(1,241)
Remeasurements of defined benefit liabilities	20,935	11,071
Changes in equity of equity method investments	<u>(3,633)</u>	<u>(4,107)</u>
Income tax charged directly to equity	<u>₩ (20,979)</u>	<u>3,343</u>

Income tax related to fair value loss through other comprehensive income, exchange differences on translating foreign operations, gain (loss) on valuation of derivatives, remeasurements of defined benefit liabilities and changes in equity of equity method investments are recognized in other comprehensive income.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**33. Income Taxes, continued**

(c) During 2019 and 2018, statutory to actual effective tax rates are reconciled as follows:

*(in millions of Korean won)*

		<u>2019</u>	<u>2018</u>
Net gain or loss before income tax expense	₩	(1,090,225)	(304,707)
Income tax using statutory tax rate		(263,372)	(73,277)
Adjustment:			
Tax effects on non-taxable income		(100,668)	(68,029)
Tax effects on non-deductible expense		107,644	109,151
Tax credit		(1,941)	(1,543)
Adjustment for prior periods		(14,013)	(3,947)
Tax effects on share of profit of subsidiaries and associates		(30,074)	29,058
Changes in unused tax losses that are not recognized as deferred tax assets		48,182	172,530
Others		4,111	(3,399)
Income tax expense(earnings)	₩	<u>(250,131)</u>	<u>160,544</u>
Effective tax rate (*1)		-	-

(\*1) The Group has not present effective tax rate due to loss incurred in 2019 and 2018.

(d) Deferred tax assets and liabilities are measured using the expected future tax rate to be applied for the year in which temporary differences are expected to be reversed.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**33. Income Taxes, continued**

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

(in millions of Korean won)

		<b>2019</b>			
		<b>Beginning balance</b>	<b>Profit or loss</b>	<b>Equity</b>	<b>Ending balance</b>
Buildings	₩	(2,881)	(7,516)	-	(10,397)
Depreciation		78,744	5,994	-	84,738
Allowance for bad debt expense		1,390	55	-	1,445
Accrued income		(1,601)	(637)	-	(2,238)
Unearned revenues		2,945	1,174	-	4,119
Long-term prepaid expenses		(34,688)	(1,294)	-	(35,982)
Losses on valuation of inventories		9,500	(1,512)	-	7,988
Provision for sales return		1,794	(387)	-	1,407
Property, plant and equipment (capitalization of borrowing costs)		(12,486)	1,767	-	(10,719)
Land		31,967	316	-	32,283
Land (asset revaluation)		(1,150,085)	78,098	-	(1,071,987)
Provision for mileage program		286	(104)	-	182
Accrued expense		37,689	(24,518)	-	13,171
Gain (loss) on foreign currency translation		1,681	82	-	1,763
Construction-in-progress		1,695	(76)	-	1,619
Other intangible assets		(7,761)	(39,249)	-	(47,010)
Security deposits for leases		29,368	(2,080)	-	27,288
Goodwill		(33,999)	(13,555)	-	(47,554)
Exchangeable bonds		(10,094)	2,257	-	(7,837)
Investments in subsidiaries and associates		(136,657)	26,790	(3,633)	(113,500)
Fair value gain (loss) through other comprehensive income		(56,915)	-	(36,114)	(93,029)
Loss (gain) on valuation of derivatives		(1,323)	5,104	1,557	5,338
Salaries and retirement benefits		13,135	(11,048)	20,935	23,022
Translation difference of foreign subsidiaries		6,271	-	(3,724)	2,547
Right-of-use assets and lease liabilities		-	318,164	-	318,164
Others		86,591	16,846	-	103,437
Total	₩	(1,145,434)	354,671	(20,979)	(811,742)

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**33. Income Taxes, continued**

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

(in millions of Korean won)

	<b>2018</b>				
	<b>Beginning balance</b>	<b>Profit or loss</b>	<b>Equity</b>	<b>Merger and others</b>	<b>Ending balance</b>
Impairment loss on available-for-sale financial assets ₩	8,076	(3,452)	-	(4,624)	-
Buildings	(11,604)	172	-	8,551	(2,881)
Depreciation	75,054	3,686	-	4	78,744
Allowance for bad debt	1,035	334	-	21	1,390
Accrued income	(1,390)	(188)	-	(23)	(1,601)
Unearned revenues	585	2,360	-	-	2,945
Long-term prepaid expenses	(32,635)	(10,470)	-	8,417	(34,688)
Losses on valuation of inventories	7,721	1,780	-	-	9,501
Provision for sales return	2,017	(266)	-	43	1,794
Property, plant and equipment (capitalization of borrowing costs)	(11,333)	(1,153)	-	-	(12,486)
Land	36,987	(5,020)	-	-	31,967
Land (asset revaluation)	(1,155,196)	5,111	-	-	(1,150,085)
Provision for mileage program	352	(65)	-	-	287
Accrued expense	31,972	5,717	-	-	37,689
Gain (loss) on foreign currency translation	1,639	42	-	-	1,681
Construction-in-progress	1,772	(77)	-	-	1,695
Other intangible assets	(47,779)	40,018	-	-	(7,761)
Security deposits for leases	19,582	9,786	-	-	29,368
Goodwill	(14,864)	(19,135)	-	-	(33,999)
Exchangeable bonds	(7)	(10,087)	-	-	(10,094)
Investments in subsidiaries and associates	(97,622)	(37,105)	(1,930)	-	(136,657)
Fair value gain (loss) through other comprehensive income	(56,718)	-	(4,841)	4,644	(56,915)
Loss (gain) on valuation of derivatives	(8,482)	8,400	(1,240)	-	(1,322)
Salaries and retirement benefits	15,812	(14,632)	11,071	884	13,135
Translation difference of foreign subsidiaries	3,809	-	2,461	-	6,270
Others	113,973	(22,210)	(2,177)	(2,994)	86,592
Total	₩ (1,117,244)	(46,454)	3,344	14,923	(1,145,431)

(f) As of December 31, 2019 and 2018, the amounts of temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

(in millions of Korean won)

	<b>2019</b>	<b>2018</b>
Investments in associates ₩	281,325	266,325
Investments in subsidiaries	2,361,895	2,346,199
Total ₩	2,643,220	2,612,524

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2019 and 2018**

**34. Consolidated Statements of Cash Flows**

(a) As of December 31, 2019 and 2018, the details of cash and cash equivalents are as follows:

(in millions of Korean won)

		2019	2018
Cash	₩	16,948	26,661
Deposits		483,574	416,388
Other cash equivalents		1,086,070	1,375,424
Total	₩	1,586,592	1,818,473

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

(i) Adjustments

(in millions of Korean won)

		2019	2018
Income tax expense	₩	(250,131)	160,544
Retirement benefits		109,184	96,784
Long-term employee benefits		17,216	9,046
Depreciation		1,417,298	645,390
Amortization		101,726	114,219
Impairment loss on intangible assets		149,909	395,592
Loss on disposal of intangible assets		523	287
Loss on foreign currency translation		38,667	118,363
Loss on foreign currency transactions		16,764	35,754
Loss on disposal of property, plant and equipment		7,951	15,170
Loss on disposal of right-of-use assets		3,822	-
Impairment loss on property, plant and equipment		87,662	128,356
Impairment loss on right-of-use assets		947,513	-
Bad debt expense (reversal)		(74,613)	17,479
Contribution (reversal) to other provisions liabilities		(23,763)	42,144
Impairment loss on other non-current assets		2,465	20,214
Loss on valuation of debt instrument at fair value through profit or loss		2,275	6,636
Loss on disposal of debt instrument at fair value through profit or loss		2	18
Loss on transactions of derivatives		588	1,873
Loss on valuation of derivatives		16,841	14,950
Share of loss of associates and joint ventures		46,818	19,137
Loss on disposal of investments in associates and joint ventures		10,670	-
Impairment loss on investments in associates and joint ventures		115,824	357
Rental expenses		1,860	90,456
Miscellaneous losses		13,211	1,311

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**34. Consolidated Statements of Cash Flows, continued**

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

(i) Adjustments, continued

(in millions of Korean won)

	<u>2019</u>	<u>2018</u>
Impairment loss on assets held for sale	₩ 35,288	61,865
Other expenses without cash outflows	8,774	43,649
Interest expense	507,894	240,872
Gain on foreign currency translation	(9,113)	(97,716)
Gain on foreign currency transactions	(17,048)	(7,170)
Gain on disposal of property, plant and equipment	(5,377)	(2,861)
Gain on disposal of right-of-use assets	(7,377)	-
Gain on disposal of intangible assets	(3)	(819)
Gains on the disposal of assets held for sale	(3,373)	(11,422)
Gain on valuation of financial liabilities at fair value through profit or loss	(2,076)	(259)
Gain on disposal of financial liabilities at fair value through profit or loss	(77)	(81)
Gain on transactions of derivatives	(11,160)	(24,718)
Gain on valuation of derivatives	(49,153)	(53,514)
Share of profit of associates and joint ventures	(133,153)	(107,720)
Gain on disposal of investments in associates and joint ventures	(56,740)	(172,601)
Other income without cash inflows	(20,614)	(6,372)
Miscellaneous gains	-	(18)
Interest income	(110,555)	(91,044)
Dividend income	(11,043)	(8,685)
Total	₩ <u>2,875,376</u>	<u>1,695,466</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**34. Consolidated Statements of Cash Flows, continued**

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

(ii) Changes in operating assets and liabilities

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Decrease(increase) in trade receivables	₩	38,423	(3,544)
Decrease(increase) in other receivables		65,936	(57,986)
Decrease(increase) in other financial assets		49,207	(140,532)
Decrease(increase) in inventories		(5,112)	89,172
Decrease(increase) in other non-financial assets		48,577	(45,214)
Increase (decrease) in trade payables		(12,756)	(615,656)
Increase (decrease) in other payables		(310,650)	50,268
Increase (decrease) in other financial liabilities		(65,397)	59,296
Increase in unearned revenues		32,946	11,087
Decrease in provisions		(17,307)	(12,050)
Increase (decrease) in other non-financial liabilities		52,100	(51,695)
Payment of defined benefit liabilities		(52,954)	(46,479)
Payment of other long-term employee benefits		(5,889)	(4,297)
Increase in plan assets		<u>(109,755)</u>	<u>(111,895)</u>
Total	₩	<u><u>(292,631)</u></u>	<u><u>(879,525)</u></u>

(c) Non-cash transactions for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Payables for acquisition of property, plant and equipment	₩	(1,357)	(4,544)
Payables for acquisition of intangible assets		1,378	19,681
Acquisition of right-of-use assets		453,497	-
Reclassification of borrowings and debentures to current portion		1,924,340	1,290,146
Acquisition of stock by contribution in kind		134,292	-

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**34. Consolidated Statements of Cash Flows, continued**

(d) Adjustment in liabilities arising from financial activities for the year ended December 31, 2019 are as follows:

(in millions of Korean won)

		2019				Total
		Other assets	Liabilities from financing activities			
		Current derivatives liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	Lease liabilities	
Beginning balance	₩	25,589	1,980,154	5,814,745	6,849,845	14,670,333
Net cash flow from financing activities		-	(1,499,032)	1,639,011	(505,086)	(365,107)
Business combination		-	280,000	1,211,639	135	1,491,774
Non-cash flows(*)		(38,045)	2,079,319	(1,955,316)	318,087	404,045
Ending balance	₩	(12,456)	2,840,441	6,710,079	6,662,981	16,201,045

(\*) Gain (loss) on valuation and transaction of derivatives assets, interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification from non-current portion into current portion and others are included.

(e) Adjustment in liabilities arising from financial activities for the year ended December 31, 2018 are as follows:

(in millions of Korean won)

		2018			Total
		Other assets	Liabilities from financing activities		
		Current derivatives liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	
Beginning balance	₩	93,279	3,078,792	4,588,892	7,760,963
Net cash flow from financing activities		1,243	(265,845)	306,563	41,961
Non-cash flows(*)		(68,933)	(832,793)	919,290	17,564
Ending balance	₩	25,589	1,980,154	5,814,745	7,820,488

(\*) Gain (loss) on valuation and transaction of derivatives assets, interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification from non-current into current portion and others are included.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**35. Greenhouse Gases Emission Rights**

(a) Emission Right

The Group participates in the allocation and trading system of emissions from 2015. The second planned commitment period is from 2018 to 2020. The emissions were allocated to each compliance year as follows:

<u>Year</u>	<u>Emission (tCO<sub>2</sub>-eq)</u>
2018	810,303
2019	707,966
2020	707,965

The Group has carried forward emission right of 112,674 tCO<sub>2</sub>-eq from the previous compliance period. There are no pledged emission rights as of the end of 2018, and the submitted emission rights to the government in 2018 is 801,339CO<sub>2</sub>-eq. The Group has 1,507,106 tCO<sub>2</sub>-eq as of December 31, 2019.

(b) Emission liabilities

The Group disposed of 30,462 tCO<sub>2</sub>-eq and 22,640 tCO<sub>2</sub>-eq of emission in 2019 and 2018 respectively, and estimated to emit 717,057tCO<sub>2</sub>-eq of CO<sub>2</sub> in 2019.

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**36. Operating Segment**

(a) The Group reports the business segments based on the nature of goods and services to aid the decision making of top management as follows:

<b>Classification</b>	<b>Department store</b>	<b>Discount store</b>	<b>Consumer electronics retail</b>	<b>Supermarket</b>	<b>TV home shopping</b>	<b>Others</b>
Main business	Retail stores for middle and high-end merchandise	Retail and whole-sale stores for middle and low price merchandise	Consumer electronics	Retail and whole-sale stores for middle and low price merchandise	Business using broadcast channel	Others
Major products or services	Sales of merchandise and leasing		Sales of home appliance	Sales of merchandise and leasing	Sales of merchandise	Sales of merchandise and leasing
Major customers	General consumer					

The Group changed the operating segment as above and the segment information of previous year was restated in accordance with the changed reportable segment.

(b) Information about reportable segments as of and for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		<b>2019</b>						<b>Total</b>
		<b>Department store</b>	<b>Discount store</b>	<b>Consumer electronics retail</b>	<b>Supermarket</b>	<b>TV home shopping</b>	<b>Others</b>	
Revenue from customers	₩	3,020,718	6,258,005	4,036,290	1,850,300	984,845	1,471,843	17,622,001
Inter-segment sales		109,697	72,663	(9,826)	10,863	2,058	83,066	268,521
Total segment sales	₩	3,130,415	6,330,668	4,026,464	1,861,163	986,903	1,554,909	17,890,522

(in millions of Korean won)

		<b>2018</b>						<b>Reclassification of profit(loss) from discontinued operations</b>	<b>Total</b>
		<b>Department store</b>	<b>Discount store</b>	<b>Consumer electronics retail</b>	<b>Supermarket</b>	<b>TV home shopping</b>	<b>Others</b>		
Revenue from customers	₩	3,188,654	6,273,697	4,112,495	1,971,785	887,187	1,411,656	(24,692)	17,820,782
Inter-segment sales		43,161	68,590	183	3,662	21,602	64,460	(644)	201,014
Total segment sales	₩	3,231,815	6,342,287	4,112,678	1,975,447	908,789	1,476,116	(25,336)	18,021,796

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**36. Operating Segment, continued**

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		Sales		Operating profit	
		2019	2018	2019	2018
Department store	₩	3,130,414	3,231,815	519,368	424,806
Discount store		6,330,668	6,342,287	(26,160)	(287,402)
Consumer electronics retail		4,026,464	4,112,678	109,857	186,481
Supermarket		1,861,163	1,975,447	(103,845)	(62,137)
TV home shopping		986,903	908,789	120,046	98,920
Others		1,554,909	1,476,115	(61,394)	(52,509)
Segment total		17,890,521	18,047,131	557,872	308,159
Elimination of inter-segment amounts		(268,521)	(201,658)	(131,027)	(12,533)
Reclassification of income from discontinued operations		-	(24,692)	1,066	301,378
After consolidated adjustments	₩	17,622,000	17,820,781	427,911	597,004

(in millions of Korean won)

		Depreciation and amortization		Profit (loss) for the year	
		2019	2018	2019	2018
Department store	₩	634,619	294,927	244,762	310,055
Discount store		401,495	208,049	(626,470)	(522,592)
Consumer electronics retail		135,559	47,829	(99,862)	85,488
Supermarket		93,617	25,967	(198,976)	(102,528)
TV home shopping		24,843	11,785	112,951	81,560
Others		313,386	159,407	(214,218)	39,181
Segment total		1,603,519	747,964	(781,813)	(108,836)
Elimination of inter-segment amounts		(84,495)	11,644	(58,280)	(356,160)
Reclassification of income from discontinued operations		(12)	(10,577)	(67,203)	210,718
After consolidated adjustments	₩	1,519,012	749,031	(907,296)	(254,278)

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**36. Operating Segment, continued**

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		Assets		Liabilities	
		2019	2018	2019	2018
Department store	₩	18,350,588	13,760,907	13,833,628	9,560,571
Discount store		9,524,551	8,438,740	4,036,288	2,023,413
Consumer electronics retail		3,095,023	3,117,088	1,173,059	1,055,205
Supermarket		1,091,996	1,078,705	404,805	266,590
TV home shopping		1,201,685	979,968	365,296	257,746
Others		7,646,021	4,260,140	4,539,406	2,040,623
Segment total		40,909,864	31,635,548	24,352,482	15,204,148
Elimination of inter-segment amounts		(6,937,248)	(5,376,238)	(2,281,551)	(1,372,212)
After consolidated adjustments	₩	33,972,616	26,259,310	22,070,931	13,831,936

(e) Sales, before consolidated adjustments, by geographical areas for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

Region		2019	2018
Domestic	₩	16,254,734	16,452,084
China		59,016	151,543
Vietnam		433,595	360,895
Indonesia		1,143,023	1,082,610
Russia		153	-
Subtotal		17,890,521	18,047,132
Discontinued operations		-	(25,336)
Total	₩	17,890,521	18,021,796

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**37. Contingencies and Commitments**

(a) As of December 31, 2019, the Group has the following credit facility commitments with financial institutions:

<i>(in millions of Korean won, full foreign currency)</i>	<u>Currency</u>	<u>Credit line</u>	<u>Amount used under credit facility</u>
General loan	KRW	532,500	469,000
	CNY	120,000,000	65,782,048
	VND	1,375,000,000,000	1,242,000,000,000
	USD	527,000,000	526,260,000
	IDR	2,637,030,000,000	2,360,000,000,000
Discount of bill	KRW	261,000	251,000
Buyer's credit	KRW	305,000	9,347
Bank overdraft	KRW	75,000	-
	IDR	278,020,000,000	272,000,000,000
Letter of credit and others	USD	32,000,000	12,480,776

(b) Material contracts of the Group are as follows:

1) LOTTE SHOPPING CO.,LTD.

In accordance with the management contracts with Lotte Incheon Development Co., Ltd., LOTTE STATION B/D.CO., and CS MART CO.,LTD., the Company is responsible for the operation of department stores and supermarket. In return, the Company receives 10% of management fees of operating profits (before depreciation expenses) and this is recorded as other sales.

2) Woori Home Shopping & Television Co.Ltd.

Woori Home Shopping, a subsidiary of Group is in operating lease agreement with Lotte Rental Co., Ltd., and has signed a partnership card issuance agreement with Shinhan Card Co, Lotte Card Co., Ltd. and BC Card Co., Ltd. This agreement will be renewed annually. In addition, Woori Home Shopping & Television Co.Ltd. is in contract with Lotte Global Logistics Co., Ltd., CJ Logistics Corporation and HANJIN CO.,LTD for logistics services. In addition, it has a supply contract to broadcast programs with a number of cable TV broadcasters.

3) Lotte GFR CO., LTD.

Lotte GFR, a subsidiary of Group, has a royalty agreement with NICE CLAUP CO., LTD. for the use of NICE CLAUP trademark from April 1, 2016 to March 31, 2021. According to this agreement, 2.2% of related net sales are paid as royalties.

(c) As of December 31, 2019 the Group is involved in 44 lawsuits as a plaintiff totaling ₩68,365 million and the Group is involved in 46 lawsuits as a defendant totaling ₩67,483 million. Regarding 9 lawsuits as a defendant, the Group recorded ₩3,313 million as provisions.

Also, the Group is involved in 7 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling ₩23,387 million and the Group recognized other liabilities of ₩2,336 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2019.

The management believes that the ultimate resolutions of other legal actions, except lawsuits above, will not have a material impact on the financial position or results of operations of the Group.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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#### 37. Contingencies and Commitments, continued

In addition, the Group was fined ₩41,200 million by the Fair Trade Commission in connection with the promotion cost of the discount store business unit and set it as other financial liabilities. In this regard, the Group will proceed with administrative litigation against the Fair Trade Commission, and at this time the Group cannot reliably estimate the impacts from the result of the litigation.

For the current period, Woori Home Shopping & Television Co., Ltd., a subsidiary of the Group, was subject to administrative disposition of 6 months suspension from the Ministry of science and ICT for 6hours (2AM~8AM) in accordance with article 18 clause 1 of the Broadcast Act. Woori Home Shopping & Television Co., Ltd. is going to file an administrative lawsuit against cancellation of business suspension.

(d) As of December 31, 2019, the Group has entered into loan agreements securing trade receivables with Hana Bank and others amounting to ₩1,116,000 million.

(e) Performance guarantees and others.

i) Lotte Shopping Co., Ltd.

As of December 31, 2019, the Company is provided performance guarantees totaling ₩60,901 million (153 cases) from Seoul Guarantee Insurance Company and others for its business.

ii) Woori Home Shopping Co., Ltd.

As of December 31, 2019, Woori Home Shopping Co., Ltd., a subsidiary of Group, is provided the payment guarantee for product sales from the INDUSTRIAL BANK OF KOREA (₩5,400 million) and agreement performance guarantee form Seoul Guarantee Insurance Company (₩1,179 million).

iii) Lotte Himart Co., Ltd.

As of December 31, 2019, Lotte Himart Co., Ltd., a subsidiary of Group, is provided the guarantees in relation with supply agreement with some suppliers, who require the guarantee, totaling ₩2,374 million from Seoul Guarantee Insurance Company.

iv) LOTTE Town Dongtan Co.,LTD

As of December 31, 2019, LOTTE Town Dongtan Co.,LTD is provided the guarantees in relation with the implementation of agreement on Korea Land and Housing Corporation, totaling of ₩35,575 million from Seoul Guarantee Insurance Company.

(f) Brand usage contract, etc.

The Group has entered into contracts with Lotte Corporation for the use of brand, management consulting, and management support service as of December 31, 2019. The cost of use of brand is 0.15% of sales less advertising expenses. The Group pays for management consulting and management support service the amount allocated by Lotte Corporation, based on objective and reasonable allocation criteria, from the costs that have incurred in the course of performing such relevant business plus 5% of such allocated amount.

(g) As of December 31, 2019, the Group has designated the Company or a third party that requires the purchase of the entire credit loan receivable with respect to Lotte Capital Co., LTD. and KEB Hana bank in connection with the new collateral plan (₩50.8 billion, maturing on March 25<sup>th</sup>, 2022) of KORAMCO Specialty Investment Private Property Investment Trust No. 57.

(h) The Company has entered into an option contract with 550,000 preferred shares (issued value: ₩55,000 million) of Lotte Incheon Town Co.,Ltd owned by SAPAS, which consists of put and call options for the preferred shares. The Company recognizes the present value of the repayable amount as other financial liabilities.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

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#### 37. Contingencies and Commitments, continued

##### (i) Others

The Group disposed of land and buildings to structured entities and the Group has been leasing back the assets and the details are as follows:

- 1) The Group disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust No.29 for ₩220 billion in 2008 and the Company has been leasing back the assets. The Group has the preemptive options to purchase the land and the building at a fair value at the end of the lease.
- 2) The Group disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust No.1~4 for ₩594.9 billion in 2010 and 2011, and the Company has been leasing back the assets. The Group has the preemptive options to purchase the land and the building at a fair value at the end of the lease.
- 3) The Group has been leasing the building of Lotte outlet asiapolis store from KB Star Retail Private Real Estate Investment Trust No.1 since 2013 and the Group has the preferential right of negotiation to purchase the building.
- 4) In 2014, the Group disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust No.1 for ₩601.7 billion and the Group has been leasing back the assets. The Group disposed land and buildings of 2 Lotte department stores including Dongrae store and 3 Lotte mart stores including Sung Jung store to Capstone Private Real Estate Investment Trust No.11 for ₩500.1 billion and the Group has been leasing back the assets. The Group has the preferential right of negotiation to purchase the land and the building at the end of the lease.
- 5) In 2015, the Group disposed land and buildings of Lotte outlets store Gwang Myeong to KTB Confidence Private Real Estate Investment Trust No.55 for ₩146.9 billion and the Group has been leasing the assets. And the Group disposed of land and buildings of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust No.81 for ₩55.1 billion and the Group has been leasing back the assets. The Group has the preferential right of negotiation to purchase the land and the building at the end of the lease.
- 6) During 2018, the land and buildings of Lotte Mart's Geumcheon branch are sold for ₩64.2 billion to the KORAMCO Specialty Investment Private Property Investment Trust No.82 and the Group has been leasing back from KORAMCO respectively. The Group has the preferential right of negotiation to purchase the land and the building at the end of the lease.

The Group does not consolidate these structured entities.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**38. Inter Company Transactions and Balances with Consolidated Companies**

(a) The Group has provided payment guarantees and collaterals for consolidated companies as of December 31, 2019 as follows:

(Foreign Currency)

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Remarks
<b>Subsidiaries</b>				
PT. Lotte Mart Indonesia	BNP Paribas	IDR 400,000,000,000	April 14, 2019 ~ April 14, 2020	Payment guarantee
	SC Bank	IDR 300,000,000,000	April 13, 2019 ~ April 13, 2020	
	HSBC	IDR 250,000,000,000	April 14, 2019 ~ April 14, 2020	
	JP Morgan	USD 30,000,000	May 23, 2019 ~ May 23, 2020	
Lotte Cinema Vietnam Co., Ltd.	SC Bank	USD 10,000,000	April 13, 2018 ~ April 13, 2021	
Lotte Shopping Business Management (Hong Kong) Limited	The Export-Import Bank of Korea	USD 300,000,000	September 5, 2017 ~ September 5, 2020	
LOTTE PROPERTIES (CHENGDU) HK LIMITED	The Export-Import Bank of Korea	USD 190,000,000	March 15, 2017 ~ March 16, 2020	
	KEB	USD 25,000,000	March 15, 2017~ March 15, 2020	
	Hana Bank			
Lotte Department Store (Chengdu) Co., Ltd.	KEB	CNY 20,000,000	May 31, 2019 ~ May 30, 2020	
	Hana Bank			

(b) As of December 31, 2019, the Group has secured asset-backed commercial paper (“ABCP”) of Lotte Suwon Station Shopping Town Co., Ltd. (₩220,000 million of par value maturing on May 28, 2021), Lotte Incheon Town Co.,Ltd (₩150,000 million of par value maturing on February 28, 2020), LOTTE Ulsan Development (₩60,000 million of par value maturing on April 23, 2020), LOTTE Town Dongtan Co.,LTD (₩620,000 million of par value maturing on October 28, 2021), Lotte Incheon Development Co., Ltd (₩130,000 million of par value June 26, 2020), LOTTE Songdo Shopping Town CO., LTD (₩200,000 million of par value June 1, 2020) in default of Suwon Landmark the Third Co., Ltd., LIT the first Co., Ltd., KS the first Co., Ltd., Marsld the first, Lincheon the third, Lst the first. If the Company fails to meet the Group’s credit rating provisions in accordance with the Funding Agreement of LOTTE Town Dongtan Co.,LTD, the Company may forfeit the benefit of time clause.

(c) The Group has provided rent payment guarantees for Lotte Suwon Station Shopping Town Co., Ltd. during the term of the lease (20 years) from the beginning of the lease contract in 2014.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**39. Related Party Transactions**

(a) Details of the Group's major shareholders as of December 31, 2019 are as follows:

Related company	Percentage of ownership (%)
Lotte Corporation (*)	40.00
Hotel Lotte Co., Ltd.	8.86
Hotel Lotte Pusan Co., Ltd.	0.78

(\*) It has a significant influence over the Group.

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

Name of related parties	2019				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*3,4)	Other expenses (*4)
<b>Shareholders:</b>					
Lotte Corporation	₩ 4,523	-	-	225	43,948
Hotel Lotte Co., Ltd.	71,859	-	30	38	43,177
Hotel Lotte Pusan Co., Ltd.	7,106	-	441	546	11,598
Subtotal	83,488	-	471	809	98,723
<b>Associates:</b>					
FRL Korea Co., Ltd.	41,463	-	-	-	22
Zara Retail Korea	13,418	-	-	-	-
LOTTE CARD Co, Ltd (*5)	4,766	-	-	528	189,814
Others	132	-	-	-	799
Subtotal	59,779	-	-	528	190,635
<b>Others (*1):</b>					
Lotte Engineering & Construction Co., Ltd.	1,724	-	243,686	-	320
Lotte Confectionery Co., Ltd.	7,947	74,862	24	1	10,297
Lotte Chilsung Beverage Co., Ltd.	9,673	70,923	-	73	422
Lotte Data Communication Company	992	1,639	68,137	-	157,528
Daehong Communications Co., Ltd.	1,043	-	2,148	-	43,035
Lotte Station Building Co., Ltd.	10,151	-	-	308	1,276
Lotte GRS Co., Ltd.	15,118	2,333	-	20	2,803
Lotte Trading Co., Ltd.	1,066	145,162	-	186	19
LOTTE FOOD CO., LTD.	5,386	120,772	-	3	10,211
LOTTE ALUMINIUM CO., LTD.	39	6,710	5,118	18	14,251
Lotte Logistics Co., Ltd.	3,706	23,178	-	-	258,112
Korea Fuji Film Co., Ltd.	3,095	370	6	18	2
LOTTE Property&Development	22,321	-	-	56	37,095
LOTTE ASSET DEVELOPMENT CO.,LTD	36,601	-	3,507	4,003	23,473
LOTTE CARD Co.,ltd.	3,684	-	-	7	129
Others	58,120	9,804	11,616	755	117,152
Subtotal	180,666	455,753	334,242	5,448	676,125
Total (*2)	₩ 323,933	455,753	334,713	6,785	965,483

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(\*2) The amount reclassified as profit (loss) from discontinued operation is included.

(\*3) Other income includes disposals of property, plant and equipment.

(\*4) The Group has entered into lease agreements with related parties. As a result, interest income received in accordance with amortization of lease receivables and interest expense paid in accordance with amortization of lease liabilities for the year ended December 31, 2019 are included in other income and expenses.

(\*5) The amount before transfer to associates is included.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**39. Related Party Transactions, continued**

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2019 and 2018 are as follows:, continued

(in millions of Korean won)

Name of related parties	2018				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income(*4)	Other expenses
<b>Shareholders:</b>					
Lotte Corporation	₩ 4,108	908	-	806	44,208
Hotel Lotte Co., Ltd.	63,587	1,464	-	118	115,274
Hotel Lotte Pusan Co., Ltd.	6,444	182	573	13,351	28,120
Subtotal	74,139	2,554	573	14,275	187,602
<b>Associates:</b>					
FRL Korea Co., Ltd.	54,026	-	-	-	4
Zara Retail Korea	12,476	-	-	-	-
Others	160	186	-	15	3,137
Subtotal	66,662	186	-	15	3,141
<b>Others(*1):</b>					
Lotte Engineering & Construction Co., Ltd.	4,117	69	143,736	10	2,517
Lotte Confectionery Co., Ltd. (divided newly established)	14,557	78,545	6,715	-	9,523
Lotte Chilsung Beverage Co., Ltd.	7,467	75,438	3,256	125	1,157
Lotte Data Communication Company	2,377	7,556	75,504	154	146,196
Daehong Communications Co., Ltd. (divided newly established)(*2)	1,589	5,012	468	16	38,439
Daehong Communications Co., Ltd. (before division)(*2)	304	-	386	-	14,836
Lotte Station Building Co., Ltd.	7,551	9	-	1,242	2,868
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	14,624	3,387	4,274	1	428
Lotte Trading Co., Ltd.	948	138,666	758	106	17
LOTTE FOOD CO., LTD.	5,285	128,243	3,867	-	9,041
LOTTE ALUMINIUM CO., LTD.	624	7,534	15,654	44	16,409
Lotte Logistics Co., Ltd. (divided newly established)(*2)	2,107	5,327	-	32	147,828
Lotte Logistics Co., Ltd. (before division)(*2)	800	1,381	-	-	47,856
Korea Fuji Film Co., Ltd. (divided newly established)(*2)	968	316	-	-	3
Korea Fuji Film Co., Ltd. (before division)(*2)	379	184	-	-	-
Others	142,349	56,674	15,943	3,585	448,063
Subtotal	206,046	508,341	270,561	5,315	885,181
<b>Total(*3)</b>	₩ 346,847	511,081	271,134	19,605	1,075,924

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(\*2) The companies are newly established during 2019. Former companies which existed with each company name are merged with Lotte Corporation.

(\*3) The amount reclassified as profit from discontinued operation is included.

(\*4) Other income includes disposals of property, plant and equipment.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**39. Related Party Transactions, continued**

(c) Fund transactions with related parties for the year ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

Name of related parties	2019					
	Borrowing	Repayment	Stock purchase	Stock disposal	Cash contribution	
<b>Shareholders:</b>						
Lotte Corporation (*2)	₩	-	-	255,507	-	-
Hotel Lotte Co., Ltd. (*3)		-	-	26,067	42,808	-
Hotel Lotte Pusan Co., LTD (*4)		-	-	16,593	78,977	-
Subtotal		-	-	298,167	121,785	-
<b>Associates:</b>						
Lotte start-up fund No. 1		-	-	-	-	1,800
KDB open innovation fund		-	-	-	-	10,400
Coralis S.A.		-	-	-	-	19,141
Hemisphere Film Investors III LLC		-	-	-	-	22
Pusan Lotte Creative Movie Fund		-	-	-	-	2,000
IBK-ISU		-	-	-	-	700
Subtotal		-	-	-	-	34,063
<b>Joint ventures:</b>						
PT. INDO LOTTE MAKMUR		-	-	-	-	4,063
Subtotal		-	-	-	-	4,063
<b>Others (*1):</b>						
LOTTE CAPITAL Co., Ltd. (*5)		-	35,101	74,658	-	-
LOTTE Property & Development (*6)		58,050	-	107,326	-	-
LOTTE STATION B/D. CO. (*7)		-	-	104,403	-	-
LOTTE Engineering & Construction Co.,Ltd (*8)		-	-	66,254	-	-
LOTTE ASSET DEVELOPMENT CO.,LTD (*9)		-	-	49,603	3,802	-
Lotte Europe Holdings B.V. (*10)		-	-	80	-	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others		-	2,059	-	-	-
Subtotal		58,050	37,160	402,324	3,802	-
Total	₩	58,050	37,160	700,491	125,587	38,126

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(\*2) The Group purchased ₩23,850 million of Lotte Incheon Development Co., Ltd common stock, ₩4,850 million of Lotte Incheon Town Co.,Ltd common stock and ₩226,806 million of LOTTE CARD Co.,ltd. from Lotte Corporation during 2019.

(\*3) The Group purchased ₩23,850 million of Lotte Incheon Development Co., Ltd common stock and ₩2,217 million of Lotte Incheon Town Co.,Ltd common stock from Hotel Lotte Co. Ltd, and sold ₩42,808 million of Lotte Europe Holdings B.V. common stock during 2019.

(\*4) The Group purchased ₩16,593 million of LOTTE CARD Co.,ltd. common stock and sold ₩78,977 million common stock of LOTTE rental co.,ltd. to Hotel Lotte Pusan Co., LTD during 2019.

(\*5) The Group purchased ₩74,658 million of LOTTE CARD Co.,ltd. common stock from LOTTE CAPITAL CO., LTD. during 2019.

(\*6) The Group purchased ₩107,325 million of LOTTE Incheon Development Co., Ltd. common stock from LOTTE Property & Development during 2019.

(\*7) The Group purchased ₩104,403 million of LOTTE Songdo Shopping Town CO., LTD common stock from LOTTE STATION B/D. CO during 2019.

(\*8) The Group purchased ₩3,975 million of Lotte Incheon Development Co., Ltd, common stock, ₩2,633 million Lotte Incheon Town Co.,Ltd common stock and ₩883 million of LOTTE Ulsan Development common stock and ₩58,764 million of LOTTE Town Dongtan Co.,LTD common stock from LOTTE Engineering & Construction Co.,Ltd. during 2019.

(\*9) The Group purchased ₩32,626 million of LOTTE Songdo Shopping Town CO., LTD common stock, ₩3,755 million of LOTTE Suwon Station Shopping Town CO.,LTD common stock, and ₩13,222 million of LOTTE Town Dongtan Co.,LTD common stock and sold ₩3,802 million of Eunpyeong PFV corporation common stock to LOTTE ASSET DEVELOPMENT CO.,LTD.

(\*10) The Group purchased ₩80 million of LOTTE SHOPPING RUS.Ltd common stock from Lotte Europe Holdings B.V.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**39. Related Party Transactions, continued**

(c) Fund transactions with related parties for the year ended December 31, 2019 and 2018 are as follows:, continued

(in millions of Korean won)

Name of related parties	2018					
	Loans	Collection	Borrowings	Repayment	Cash contribution	Capital reduction with consideration
<b>Associates:</b>						
Stonebridge Innovation Quarter Fund	₩	-	-	-	2,000	800
LOTTE PROPERTIES HCMC CO.,LTD.		-	-	-	79,488	-
Hemisphere Film Investors II LLC		-	-	-	8,441	1,256
Union Investment Partners		-	-	-	-	2,348
Lotte start-up fund No. 1		-	-	-	2,400	-
Pusan Lotte Creative Movie Fund		-	-	-	2,000	-
Capital one mid-to-low budget		-	-	-	-	226
Subtotal		-	-	-	94,329	4,630
<b>Joint ventures:</b>						
PT. INDO LOTTE MAKMUR		-	-	-	6,415	-
Korea STL		-	-	-	2,000	-
Subtotal		-	-	-	8,415	-
<b>Others(*1):</b>						
Lotte Capital Co., Ltd.		-	10,104	3	-	-
Lotte Shopping Rus Ltd.		8,258	62	-	-	-
Lotte Properties (Shenyang) Limited		-	-	-	19,295	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others		-	-	8,673	-	-
Subtotal		8,258	62	10,104	8,676	19,295
Total	₩	8,258	62	10,104	8,676	122,039

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**39. Related Party Transactions, continued**

(d) Account balances with related companies as of December 31, 2019 and 2018 are summarized as follows:

(in millions of Korean won)

Name of related parties	2019						
	Receivables			Payables			
	Trade receivables	Financial lease receivables	Other receivables	Trade payables	Borrowings	Lease liabilities	Other payables
<b>Shareholders:</b>							
Lotte Corporation	₩ 41	-	12,547	-	-	99,528	1,336
Hotel Lotte Co., Ltd.	1,025	-	51,985	-	-	289,472	35,508
Hotel Lotte Pusan Co., Ltd.	-	-	20,090	-	-	28,427	4,634
Subtotal	1,066	-	84,622	-	-	417,427	41,478
<b>Associates:</b>							
FRL Korea Co., Ltd.	648	-	1,345	-	-	-	15,473
Zara Retail Korea Co.,Ltd	-	-	-	-	-	-	6,657
LOTTE CARD Co.,Ltd(*2)	182,563	-	443	-	-	-	17,415
Others	5	-	6	-	-	6,537	321
Subtotal	183,216	-	1,794	-	-	6,537	39,866
<b>Others (*1):</b>							
Lotte Engineering & Construction Co., Ltd.	251	-	4,028	-	-	1,193	48,020
Lotte Confectionery Co., Ltd. (divided newly established)	43	-	781	6,185	-	136	2,236
Lotte Chilsung Beverage Co., Ltd.	1,000	-	3,818	5,645	-	738	8,709
Lotte Data Communication Company	67	-	88,990	80	-	10,962	41,947
Daehong Communications Co., Ltd. (divided newly established)	3,789	-	146	-	-	-	20,975
Lotte Station Building Co., Ltd.	4,054	-	8,936	-	-	10,038	7,911
Lotte GRS Co., Ltd. formerly, Lotteria Co., Ltd.)	393	1,074	749	198	-	-	8,368
Lotte Trading Co., Ltd.	-	-	528	5,192	-	-	59
LOTTE FOOD CO., LTD.	21	206	1,416	8,351	-	1,042	11,745
LOTTE ALUMINIUM CO., LTD.	106	-	15	804	-	-	2,196
Lotte Logistics Co., Ltd. (divided newly established)	10	-	978	41	-	3,959	25,818
Korea Fuji Film Co., Ltd. (divided newly established)	9	386	-	37	-	-	1,072
LOTTE Property&Development	2	-	5,083	-	-	534,549	5,701
Lotte Asset Development Co., Ltd	455	142,583	7,878	11,490	-	13,080	16,688
Others(*3)	6,539	6,312	12,831	1,435	118,928	34,287	23,697
Subtotal	16,739	150,561	136,177	39,458	118,928	609,984	225,142
Total	₩ 201,021	150,561	222,593	39,458	118,928	1,033,948	306,486

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(\*2) The receivable amount from consumer sales in trade receivables is included.

(\*3) Borrowings from LOTTE Holdings in the amount of ₩106,347 million is included.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**39. Related Party Transactions, continued**

(d) Account balances with related companies as of December 31, 2019 and 2018 are summarized as follows;  
continued

(in millions of Korean won)

Name of related parties	2018						
	Receivables			Payables			
	Trade receivables	Loans	Other receivables	Trade payables	Borrowings	Other payables	
<b>Shareholders:</b>							
Lotte Corporation	₩	68	-	12,503	-	-	7,105
Hotel Lotte Co., Ltd.		1,168	-	51,783	-	-	37,725
Hotel Lotte Pusan Co., Ltd.		-	-	20,049	-	-	1,967
Subtotal		1,236	-	84,335	-	-	46,797
<b>Associates:</b>							
FRL Korea Co., Ltd.		1,526	-	159	-	-	36,688
Zara Retail Korea Co.,Ltd		-	-	-	-	-	5,787
Others		7	-	26	-	-	311
Subtotal		1,533	-	185	-	-	42,786
<b>Others (*1):</b>							
Lotte Engineering & Construction Co., Ltd.		175	-	4,070	158	-	69,080
Lotte Confectionery Co., Ltd. (divided newly established)		8	-	1,148	7,203	-	3,550
Lotte Chilsung Beverage Co., Ltd.		737	-	4,194	6,855	-	6,273
Lotte Data Communication Company Daehong Communications Co., Ltd. (divided newly established) (*2)		6,356	-	4	3,472	-	16,458
Lotte Station Building Co., Ltd.		4,121	-	8,837	-	-	6,487
Lotte GRS Co., Ltd. formerly, Lotteria Co., Ltd.)		31	-	322	422	-	8,980
Lotte Trading Co., Ltd.		144	-	518	6,193	-	98
LOTTE FOOD CO., LTD.		453	-	765	9,706	-	11,523
LOTTE ALUMINIUM CO., LTD.		7	-	90	1,102	-	4,293
Lotte Logistics Co., Ltd. (divided newly established) (*2)		7	-	371	94	-	18,618
Korea Fuji Film Co., Ltd. (divided newly established) (*2)		3	-	-	37	-	1,440
Others		127,198	12,990	26,553	2,785	145,830	97,996
Subtotal		139,240	12,990	105,831	38,135	145,830	275,963
Total	₩	142,009	12,990	190,351	38,135	145,830	365,546

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(\*2) These corporations were newly incorporated in the prior period. The former corporation, which had previously existed as the company name, was divided and merged into Lotte Corporation.

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**39. Related Party Transactions, continued**

(e) The amount of lease payments receivable collection and lease liability payment as of December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		<b>2019</b>	
<b>Name of related parties</b>		<b>Collection of lease payments receivable (*2)</b>	<b>Payment of lease liabilities(*3)</b>
<b>Shareholders:</b>			
Lotte Corporation	₩	-	9,813
Hotel Lotte Co., Ltd.		-	78,980
Hotel Lotte Pusan Co., Ltd.		-	14,133
Subtotal		-	102,926
<b>Associates:</b>			
Lotte Card Co, Ltd.		580	-
Lotte Ps Net		-	2,868
Subtotal		580	2,868
<b>Others (*1):</b>			
LOTTE Property & Development		-	40,307
Lotte Station Building Co., Ltd.		-	1,571
Korea Seven Co.,Ltd.		66	-
Korea Fuji Film Co., Ltd.		111	-
Lotte Engineering & Construction Co., Ltd.		-	104
Lotte Data Communication Company		-	4,286
Lotte Asset Development Co., Ltd		14,157	967
Others		172	2,184
Subtotal		14,506	49,419
Total	₩	15,086	155,213

(\*1) Although the entities are not related parties under K-IFRS No.1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

(\*2) Interest income received for lease payments receivable is included.

(\*3) Interest expense paid for lease liabilities is included.

(f) Details of payment guarantees and collateral provided by the Group for the financial supports to the related parties as of December 31, 2019 are as follows, and no collateral and payment guarantees are provided by the related parties:

<i>(in CNY, USD)</i>				
<b>Name of company</b>	<b>Guaranteed by</b>	<b>Guaranteed amount</b>	<b>Guarantee period</b>	<b>Remarks</b>
<b>Associates</b>				
Shandong Longzhile Cinema Co., Ltd.	IBK bank	CNY 13,000,000	January 11, 2017 ~ January 11, 2020	Working capital
<b>Joint ventures</b>				
International Business Center Company Limited	The Export-Import Bank of Korea	USD 12,000,000	April 5, 2019 ~ April 3, 2020	Working capital

(g) The Group guarantees fulfillment of the royalty contract (0.6% of net sales) among Korea Seven Co., Ltd., Buy the Way Inc., and 7-Eleven, Inc. (USA). on behalf of Korea Seven Co., Ltd. and Buy the Way Inc.

# LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### As of December 31, 2019 and 2018

#### 39. Related Party Transactions, continued

(h) The Group entered into and maintain an agreement to receive fund supplements from Lotte Engineering & Construction Co., Ltd. and LOTTE Property & Development if Mars L D 2nd, LLC., Lincheon the first Co., Ltd. and Lincheon the second Co., Ltd., the issuers, are in default of the principal and interest on the asset backed loan (₩800,000 million of par value maturing on February 23, 2023) of Lotte Incheon Development Co., Ltd. and the asset backed loan (₩280,000 million of par value maturing on October 28, 2021).

(i) Details of purchased card transactions with Lotte Card Co., Ltd. as of December 31, 2019 are as follows:

(in millions of Korean won)

Classification	Name of corporation		Contractual amount	Used amount	Repayment	Unsettled amount
In the perspective of user	Lotte Shopping	₩	240,000	2,762,821	2,770,188	-
	Lotte Himart Co., Ltd.		150,000	1,975,976	1,975,976	-
	Lotte Incheon Development Co., Ltd		30,000	55,760	55,857	-
	Lotte Cultureworks Co., Ltd.	₩	20,000	24,270	23,766	2,402

#### 40. Risk Management

(a) Management of financial risks

(i) Objectives and policies of the Group

Risk management activities of the Group identify credit risk, liquidity risk, market risk and any other potential risk that may affect financial performance and by eliminating, avoiding and abating the possible risk level to an acceptable range and to support to a stable and consistent business performance with the intention to contribute to strengthening the Group's competitiveness by reducing costs of finance through improving the financial structure and enhancing the efficiency of its capital operations.

In order to establish and implement the financial risk management system, the Group has established risk management policies in an integrated perspective, and is complying with the risk management policies and procedures by strictly performing controls and reviews by management.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations in an ordinary transaction or investment activity.

Most of the Group's profit is generated from individual clients and carries low credit risk. Also, the Group deposits its cash and cash equivalents and short-term financial instruments with financial institutions. Credit risks from these financial institutions are very limited due to their high solvency.

① Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2019 and 2018 are as follows:

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(ii) Credit risk, continued

① Exposure to credit risk, continued

(in millions of Korean won)

		2019	2018
Cash equivalent (*1)	₩	1,569,644	1,791,812
Trade and other receivables		1,072,996	1,119,438
Other financial assets (current)		1,958,581	1,061,979
Other financial assets (non-current) (*2)		1,138,671	1,298,574
Total	₩	<u>5,739,892</u>	<u>5,271,803</u>

(\*1) Cash held by the Group are excluded as there is no exposure to credit risk.

(\*2) Equity instruments at fair value through other comprehensive income are excluded as there is no exposure to credit risk.

② Credit risk exposure for past due and impairment loss of financial assets

Trade and other receivables before deducting the allowance for doubtful accounts as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019			2018		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,096,892	6.62%	72,601	1,220,808	10.04%	122,619
0 ~ 3 months past due		12,057	3.41%	411	11,247	1.28%	144
3 ~ 6 months past due		32,557	2.15%	699	5,127	4.13%	212
6 ~ 9 months past due		2,990	8.67%	259	2,465	6.29%	155
9 ~ 12 months past due		606	22.64%	137	817	59.88%	489
12 ~ 15 months past due		2,423	21.95%	532	1,567	34.57%	542
15 months past due		16,915	99.35%	16,805	17,871	91.46%	16,344
Total	₩	<u>1,164,440</u>	-	<u>91,444</u>	<u>1,259,902</u>	-	<u>140,505</u>

Other financial assets (current) before deducting the allowance for doubtful accounts as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019			2018		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,958,581	-	-	1,067,087	0.48%	5,108
15 months past due		34	100%	34	34	100.00%	34
Total	₩	<u>1,958,615</u>	-	<u>34</u>	<u>1,067,121</u>	-	<u>5,142</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(ii) Credit risk, continued

② Credit risk exposure for past due and impairment loss of financial assets, continued

Other financial assets (non- current) before deducting the allowance for doubtful accounts as of December 31, 2019 and 2018 are as follows.

(in millions of Korean won)

	2019			2018		
	Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩ 1,139,670	0.09%	1,000	1,299,599	0.08%	1,025
15 months past due	5,504	100.00%	5,504	2,567	100.00%	2,567
Total	₩ 1,145,174		6,504	1,302,166		3,592

Movements in the allowance for doubtful trade and other receivables for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019	2018
Beginning Balance	₩ 140,505	17,058
Provision	8,187	17,662
Reversal of impairment loss	(56,874)	(5,291)
Write-offs	(5,544)	(10,473)
Others	5,170	121,549
Ending balance	₩ 91,444	140,505

Movements in the allowance for doubtful other financial assets (current) for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

	2019	2018
Beginning Balance	₩ 5,142	34
Provision	-	5,108
Write-offs	(5,108)	-
Ending balance	₩ 34	5,142

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**40. Risk Management, continued**

(a) Management of financial risks, continued

(ii) Credit risk, continued

② Credit risk exposure for past due and impairment loss of financial assets, continued

Movements in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Beginning Balance	₩	3,592	3,592
Provision		2,936	-
Others		(24)	-
Ending balance	₩	<u>6,504</u>	<u>3,592</u>

③ Payment guarantees

As of December 31, 2019, the Group has provided financial guarantees to associates and joint ventures. Should the Group be liable for payment upon defaults of the associates and joint ventures, the expected amounts which the Group is liable to pay within 1 year are ₩16,048 million.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset due to an adverse managerial or external environment.

In order to systematically manage liquidity risk, the Group predicts and corresponds to potential risks through consistently analyzing the schedule of cash flow and establishing short-term and long-term capital management plans.

Also, the Group currently deposits a considerable amount with financial institutions with superior credit ratings to make proper provisions for potential liquidity risks. The Group maintains a credit line for overdraft and general loans with various financial institutions, and can raise funds through the domestic and foreign financial markets based on high credit ratings. The management of the Group believes that it is possible to redeem liabilities using cash flows from operating activities and cash in-flow from financial assets.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(iii) Liquidity risk, continued

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2019 are as follows:

(in millions of Korean won)

		<b>2019</b>			
		<b>3 months or less</b>	<b>3 ~ 6 months</b>	<b>6 months ~ 1 year</b>	<b>More than 1 year</b>
Borrowings and debentures (current) (*1)(*2)	₩	1,186,908	716,621	961,298	-
Trade payables and other payables		2,545,899	7,846	90,119	-
Other financial liabilities (current)(*3)		716,853	203,409	461,048	-
Borrowings and debentures (non-current) (*1)(*2)		38,072	46,351	88,775	7,949,379
Other financial liabilities(non-current)(*3)		11	35	46	6,575,557
Acceptances and guarantees		16,048	-	-	-
Total	₩	<u>4,503,791</u>	<u>974,262</u>	<u>1,601,286</u>	<u>14,524,936</u>

(\*1) Interest expenses are included.

(\*2) It is possible to be forfeited the benefit of time when the Group fails to meet the clause in agreement regarding borrowings and debentures (maintenance of financial ratio and credit rating, etc.)

(\*3) Lease liabilities are included.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Group's return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out under strict supervision of the internal risk management, and generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

① Currency risk

The Group is exposed to currency risk on assets and liabilities that are denominated in currencies other than Korean won, the respective functional currency of the Group. Currencies that generate exchange positions include USD, JPY and others. The objective of exchange risk management is to continue stable financial activities by minimizing uncertainty and profit and loss fluctuations. Foreign currency trade for speculation is strictly prohibited.

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**Notes to the Consolidated Financial Statements**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

The Group enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Group needs foreign currencies, the Group enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations.

Assets and liabilities denominated in foreign currencies other than the Group's functional currency as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019		2018	
		Assets	Liabilities	Assets	Liabilities
USD	₩	123,165	1,269,983	119,617	1,391,169
EUR		441	-	-	-
JPY		-	106,347	1	101,318
HKD		97	-	127	-
CNY		74,401	-	3,395	-
SGD		-	-	4	-
CAD		34	-	-	-
Total	₩	198,138	1,376,330	123,144	1,492,487

The average rates for the years ended December 31, 2019 and 2018, and the closing rates as of December 31, 2019 and 2018 are as follows:

(in Korean won)

		Average rate		Closing rate	
		2019	2018	2019	2018
USD	₩	1,165.65	1,100.30	1,157.80	1,118.10
EUR		1,304.81	1,298.63	1,297.43	1,279.16
JPY		10.70	9.96	10.63	10.13
HKD		148.78	140.38	148.66	142.77
CNY		168.58	166.40	165.74	162.76
SGD		854.39	815.38	858.55	818.28
CAD		878.54	847.23	886.56	820.35

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period with all other variables held constant. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate are as follows. Borrowings and debentures with currency swaps and overseas convertible notes designated as financial liabilities at fair value through profit or loss are not included.

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**40. Risk Management, continued**

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

(in millions of Korean won)

		2019		2018	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	(15,567)	15,567	(12,769)	12,769
EUR		44	(44)	-	-
JPY		(10,635)	10,635	(10,132)	10,132
HKD		10	(10)	13	(13)
CNY		7,440	(7,440)	339	(339)
SGD		-	-	-	-
CAD		3	(3)	-	-
Total	₩	(18,705)	18,705	(22,549)	22,549

The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of December 31, 2019 of the Group entities in Korea.

② Interest rate risk

Interest rate risk is the risk of changes in interest income and expense from deposits and borrowings due to fluctuations in the market interest rate. Interest rate risk of the Group arises on variable interest rate financial instruments and borrowings. The purpose of interest rate risk management is to minimize value fluctuation of financial assets and liabilities that occur from uncertainty caused by changes in interest rates.

The Group makes interest swap transactions with financial institutions for hedging interest rate risk of variable borrowings and debentures.

The book value of the Group's variable interest-bearing financial instruments as of December 31, 2019 and 2018 are as follows.

(in millions of Korean won)

		2019	2018
Financial assets	₩	580,119	254,542
Financial liabilities		3,347,056	2,289,057

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**40. Risk Management, continued**

(a) Management of financial risks, continued

(iv) Market risk, continued

② Interest rate risk, continued

The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Group's interest income and expense that would incur in relation to the deposits and borrowings for the years ended December 31, 2019 and 2018. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant. Borrowings and debentures for which the Group has entered into interest rate swap transactions are not included.

(in millions of Korean won)

		2019		2018	
		100bps increase	100bps decrease	100bps increase	100bps decrease
Interest income	₩	5,785	(5,785)	2,399	(2,399)
Interest expenses		22,560	(22,560)	11,180	(11,180)

③ Price risk

The Group is exposed to fluctuations of price in equity instrument at fair value through other comprehensive income. The book value of the marketable equity instrument at fair value through other comprehensive income as of December 31, 2019 and 2018 are ₩468,887 million and ₩229,046 million, respectively. Assuming that other variables remain the same and the prices of the equity instruments fluctuate by 10%, the effects of the fluctuation to the other comprehensive income in 2019 and 2018 are ₩46,889 million and ₩22,905 million, respectively.

(b) Capital Management

The objective of the Group's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Group makes necessary improvements to the capital structure through monthly monitoring of financial ratios such as liabilities to equity ratios and net borrowings to equity ratios in order to achieve an optimal capital structure.

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019	2018
Liabilities (A)	₩	22,070,931	13,831,936
Equity (B)		11,901,685	12,427,373
Financial instruments (C)		3,198,830	2,683,344
Borrowings (D)		9,550,520	7,794,899
Liabilities to equity ratio (A/B)		185.44%	111.30%
Net borrowings to equity ratio ((D-C)/B)		53.37%	41.13%

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**41. Discontinued Operations**

(a) Sales of discount stores in China

The Group committed to selling and liquidating the discount stores in China. Profit or loss incurred from the segment of discount stores in China is presented as discontinued operations.

Details of profit(loss) from discontinued operation for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Sales	₩ -	24,692
Cost of sales	-	(50,920)
Gross profit (loss) on sales	-	(26,228)
Selling, general and administrative expenses	(1,066)	(271,037)
Bad debt expense	-	(4,113)
Operating loss	(1,066)	(301,378)
Other income	1,526	10,644
Other expenses	(291)	(51,077)
Financial income - interest income calculated using the effective interest method	114	675
Financial income - Others	-	8,484
Financial expenses	(29)	(7,636)
Other bad debt expenses (reversal)	66,695	(42,309)
Profit in disposal of discontinued operation	254	171,752
Profit (loss) before income tax	67,203	(210,845)
Tax income(expense)	-	127
Net income(loss) from discontinued operation	₩ 67,203	(210,718)

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**41. Discontinued Operation, continued**

(b) Cash flows related to the discontinued operation for the years ended December 31, 2019 and 2018 are as follows.

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities	₩ (3,827)	(273,678)
Cash flows from investing activities	54,265	82,809
Cash flows from financial activities	(25,514)	314,681
Effect of currency exchange rate changes on cash and cash equivalents	-	(1)
Exchange difference on translating foreign operations	<u>699</u>	<u>(8,094)</u>
Total	₩ <u>25,623</u>	<u>115,717</u>

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**42. Lease**

The Group adopted K-IFRS No.1116, which is revised retrospectively effective on January 1, 2019, but its consolidated financial statements of previous year is not restated in a manner permitted by the transitional provisions of the Standards. Accordingly, reclassification and adjustment under the amended lease standard was recognized in the beginning balance of financial statements as of January 1, 2019.

(a) Adjustments recognized in accordance with the adoption of K-IFRS No.1116 'Lease'

In accordance with K-IFRS No.1116, the Company recognized lease liabilities related to leases that were classified as 'operating leases' with respect to the principles of K-IFRS No.1017. The according lease liability is measured at the present value of the remaining lease payments discounted at the incremental borrowing rate of the lessee as of January 1, 2019. As of January 1, 2019, the incremental borrowing interest rate used to measure lease liabilities is around 1.93 ~ 14.96%.

The future minimum lease payments for irrevocable operating leases as of December 31, 2018 and the lease liabilities recognized as of the initial application date are as follows:

<i>(in millions of Korean won)</i>	<u>January 1, 2019</u>
Operating lease commitments as of December 31, 2018	₩ 8,686,742
Leases of low-value assets and short-term leases at transition	(37,539)
Discount amount using the lessee's incremental borrowing interest rate as of the date of initial application	<u>(1,799,358)</u>
Lease liabilities as of January 1, 2019, the date of initial application	<u>₩ 6,849,845</u>

Right-of-use assets are measured by adjusting the amount of prepaid or unpaid lease payments in relation to the lease recognized in the consolidated statement of financial position as of December 31, 2018 at the same amount as the lease liabilities.

As a result of the change in accounting policy at the initial application date, major items in the consolidated statement of financial position have been adjusted as follows:

<i>(in millions of Korean won)</i>	<u>January 1, 2019</u>
Equity as of December 31, 2018	₩ 12,427,373
K-IFRS No.1116 initial application	
Financial lease receivables	210,138
Right-of-use assets	7,266,728
Prepaid expenses, etc.	(614,537)
Lease liabilities	6,849,845
Deferred tax liabilities	<u>1,553</u>
Adjustment subtotal	<u>10,931</u>
Restated equity as of January 1, 2019	<u>₩ 12,438,304</u>

At of the date of initial application, retained earnings amounting to ₩10,931 million has been adjusted.

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**42. Lease, continued**

(a) Adjustments recognized in accordance with the adoption of K-IFRS No.1116 'Lease', continued

The Group has applied the followings in the initial adoption of K-IFRS No.1116.

- Applying a single discount rate to a lease portfolio with substantially similar characteristics
- Accounting for operating leases for which the lease period is terminated within 12 months as of the initial application date is in the same manner as the short-term lease
- Initial direct costs are excluded in the measurement of right-of-use assets for the initial application date.
- Use of hindsight to determine the lease term of the contract with extension option or termination option

In addition, the Group did not revalue whether the contract is subject to lease or inherent in a lease as of initial application date. Instead, the Company applied K-IFRS No.1116 for the contracts entered into before the initial application date to the contracts identified as lease by applying K-IFRS No.1017 and K-IFRS No.2104 'Determining whether an Arrangement contains a Lease.'

(b) Amount recognized in the consolidated statement of financial position

The items recognized in the consolidated statement of financial position for the lease are as follows:

<i>(in millions of Korean won)</i>		<u>December 31, 2019</u>	<u>January 1, 2019</u>
Right-of-use assets			
Land	₩	743,552	781,087
Buildings		5,257,940	6,292,189
Vehicles		2,520	4,290
Others		122,865	189,162
Total		<u>6,126,877</u>	<u>7,266,728</u>
Investment property		136,794	188,498
Lease receivables:			
Current		26,318	32,910
Non-current		154,445	177,228
Total		<u>180,763</u>	<u>210,138</u>
Lease liabilities			
Current		634,234	644,427
Non-current		6,028,747	6,205,418
Total	₩	<u>6,662,981</u>	<u>6,849,845</u>

**LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES**  
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**42. Lease, continued**

(c) Amount recognized in the consolidated statement of comprehensive loss

The items recognized in the consolidated statement of comprehensive loss for the lease are as follows:

*(in millions of Korean won)*

	<u>2019</u>
Depreciation expense on right-of-use assets	
Land	₩ 36,178
Buildings	688,733
Vehicles	2,370
Others	17,001
Total	<u>₩ 744,282</u>
Depreciation expense on investment properties	₩ 11,506
Interest income on lease payments receivables	10,650
Interest expenses on lease liabilities	230,108
Leases of low-value assets and short-term leases	147,807
Impairment loss on right-of-use assets	₩ 947,514

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**42. Lease, continued**

(d) The contractual maturity of lease liabilities as of December 31, 2019 are as follows:

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	414,458	408,952	719,585	1,920,943	4,945,710	8,409,648
Net minimum lease payments		312,858	321,376	687,684	1,554,769	3,786,294	6,662,981

Total cash outflow for the lease for the year ended December 31, 2019 is ₩770,746 million.

(e) The contractual maturity of lease payments receivables as of December 31, 2019 are as follows:

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	13,179	13,562	25,777	68,879	89,755	211,152
Net minimum lease payments		12,986	13,332	23,527	59,286	71,632	180,763

(f) Operating lease

The Group entered into and maintains an operating lease agreement to lease property, plant and equipment. The collection plan of lease receivables related to the operating lease contract as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
Within 1 year	₩	89,045	85,877
Within 1 ~ 5 years		76,437	178,550
Over 5 years		<u>86,313</u>	<u>359,255</u>
Total	₩	<u>251,795</u>	<u>623,682</u>

The lease income related to the operating lease recognized by the Group during 2019 and 2018 are ₩1,343,986 million and ₩1,314,831 million respectively.

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**43. Business Combination**

(a) Lotte Incheon Development Co., Ltd

(i) General information

On May 27, 2019, the Group acquired 100% shares of Lotte Incheon Development Co., Ltd. and obtained control.

(ii) Identifiable acquired assets and liabilities

The acquired assets and liabilities that are identifiable at the acquisition date are as follows:

*(In millions of Korean won)*

	Amount
Cash and cash equivalents	₩ 77,815
Inventories	3,114
Property, plant and equipment	1,024,221
Other assets	34,847
Borrowings	(922,639)
Other liabilities	(101,231)
Net identified controlling interest	₩ 116,127

(iii) Goodwill

Goodwill arising from the business combination is as follows:

*(In millions of Korean won)*

	Amount
Total consideration transferred	₩ 159,000
Fair value of identifiable net assets	116,127
Goodwill	₩ 42,873

(iv) Net cash outflows resulting from the business combination is as follows:

*(In millions of Korean won)*

	Amount
Consideration paid by cash	₩ 159,000
Deduction: acquired cash and cash equivalents	(77,815)
Total	₩ 81,185

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**43. Business Combination, continued**

(b) Lotte Incheon Town Co.,Ltd

(i) General information

On May 27, 2019, the Group acquired 70% of Lotte Incheon Town Co.,Ltd. and obtained control.

(ii) Identifiable acquired assets and liabilities

The acquired assets and liabilities that are identifiable at the current acquisition date are as follows:

*(In millions of Korean won)*

	<u>Amount</u>
Cash and cash equivalents	₩ 8,001
Property, plant and equipment	229,379
Other assets	2,262
Borrowings	150,000
Financial liabilities	75,876
Other liabilities	3,023
Non-controlling interests	1,839
Net identified controlling interest	<u>₩ 8,904</u>

(iii) Goodwill

Goodwill arising from the business combination is as follows:

*(In millions of Korean won)*

	<u>Amount</u>
Total consideration transferred	₩ 9,701
Fair value of identifiable net assets	8,904
Goodwill	<u>₩ 797</u>

(iv) Net cash outflows resulting from business combination is as follows:

*(In millions of Korean won)*

	<u>Amount</u>
Consideration paid by cash	₩ 9,701
Deduction: cash and cash equivalents acquired	(8,002)
Total	<u>₩ 1,699</u>

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**43. Business Combination, continued**

(c) LOTTE Town Dongtan Co.,LTD

(i) General information

On June 28, 2019, the Group acquired additional 50% of LOTTE Town Dongtan Co.,LTD and obtained control.

(ii) Identifiable acquired assets and liabilities

The acquired assets and liabilities that are identifiable at the current acquisition date are as follows:

*(In millions of Korean won)*

	Amount
Cash and cash equivalents	₩ 158,138
Inventories	169,116
Property, plant and equipment	332,607
Other assets	11,698
Borrowings	419,000
Other liabilities	137,728
Net identified controlling interest	₩ <u>114,831</u>

(iii) Goodwill

Goodwill arising from the business combination is as follows:

*(In millions of Korean won)*

	Amount
Total consideration transferred	₩ 146,909
Fair value of identifiable net assets	114,831
Goodwill	₩ <u>32,078</u>

The consideration transferred consists of ₩73,455 million in cash and ₩73,455 million in fair value of the investment shares of the associates.

(iv) Net cash outflows resulting from business combination is as follows:

*(In millions of Korean won)*

	Amount
Consideration paid by cash	₩ 73,455
Deduction: cash and cash equivalents acquired	(158,138)
Total	₩ <u>(84,683)</u>

**44. Subsequent Event**

The spread of coronavirus infections-19 (COVID-19) after the reporting period has led the world to face uncertainty. Since the impact to the Group from the situation caused by the mentioned uncertainty is not predictable, the effect of this uncertainty on the Group is not reflected in the consolidated financial statements of the current term.