

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

**Consolidated Financial Statements
As of December 31, 2020 and 2019**

(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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 4 to the consolidated financial statements, the assumptions and estimates used by the Group for impairment testing of the cash-generating unit containing goodwill are subject to change depending on the duration and severity of COVID-19, which cannot be predicted. The ultimate impact that may arise from the uncertainties from impact of COVID-19 may differ from management's estimates reflected in the accompanying consolidated financial statements of the Group. Our opinion is not modified in respect of this matter.

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, 2020. 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 intangible assets are amounted to ₩14,372,876 million, ₩5,163,972 million, ₩1,288,440 million, and ₩343,859 million, respectively, as of December 31, 2020 and in aggregate, those balances are 64.5% of total assets. Also, the Group recognized the impairment loss amounted to ₩878,156 million was recognized during 2020.



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 value 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 of CGUs impairment as a key audit matter.

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

- We have understood the Group's impairment assessment process for each CGU, and tested the management review control over impairment assessment process.
- 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 valuation specialist 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 estimation of value-in-use.

(2) Restructuring accounting

The Group is undergoing restructuring according to the restructuring plan. Considering that the users of financial information have higher attention on the information, and it has a significant impact on the consolidated financial statements, we identified restructuring accounting as a key audit matter.

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

- We understood the Group's process on undergoing restructuring, and tested certain internal controls over the recognition of restructuring provision process.
- We assessed the basis for judgment on the accounting of restructuring provision provided by the Group, and evaluated whether such basis is in compliance with the Group's accounting policy.
- We evaluated the timing of the Group's obligations for restructuring occurred and whether the lists subject to recognition of restructuring provision were completely identified as of December 31, 2020.
- We inspected documents as to the reasonableness of the classification as assets held for sale for the store subject to be restructured through the sale.

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 15, 2021

This report is effective as of March 15, 2021, 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, 2020 and 2019

(In Korean won)	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets			
Cash and cash equivalents	6,7,34,40	₩ 1,913,235,610,358	1,586,592,082,626
Trade and other receivables	5,7,39,40	663,522,831,468	889,584,567,689
Other financial assets	6,7,22,40	2,134,188,116,702	1,958,581,434,172
Inventories	8	1,247,319,667,247	1,459,488,128,039
Income tax refund receivables	33	5,818,233,561	3,300,271,581
Other non-financial assets	9	83,011,926,911	95,406,581,845
Assets held for sale	10	243,595,656,292	114,345,050,288
		<u>6,290,692,042,539</u>	<u>6,107,298,116,240</u>
Non-current assets			
Trade and other receivables	5,7,39,40	196,292,934,271	183,411,210,535
Investments in associates and joint ventures	11,12	925,509,738,836	866,308,734,865
Other financial assets	6,7,22,40	1,633,088,148,306	1,648,867,639,929
Property, plant and equipment, net	13,39	14,372,875,785,604	14,495,595,094,916
Right-of-use assets	42	5,163,972,328,969	6,126,877,376,870
Investment property, net	14	2,302,037,863,529	2,493,734,153,122
Goodwill	15	1,288,440,122,436	1,538,969,077,502
Intangible assets, net	15	343,858,545,953	309,066,105,666
Defined benefit assets	21	91,272,680,757	39,167,568,443
Deferred tax assets	33	73,922,555,503	47,750,061,992
Other non-financial assets	9	147,441,449,702	115,570,611,596
		<u>26,538,712,153,866</u>	<u>27,865,317,635,436</u>
Total assets		₩ <u>32,829,404,196,405</u>	<u>33,972,615,751,676</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
As of December 31, 2020 and 2019

(In Korean won)	Notes	2020	2019
Liabilities			
Current liabilities			
Borrowings and debentures, net of issuance costs	7,17,37,39,40	₩ 3,947,546,579,453	2,840,441,420,764
Trade and other payables	7,16,39,40	2,177,179,045,216	2,643,861,898,203
Other financial liabilities	7,22,40	475,922,005,518	571,646,455,930
Lease liabilities	7,39,42	607,479,014,103	634,234,422,249
Income tax payables	33	56,579,978,869	106,595,766,277
Unearned revenues	18	158,509,050,907	180,868,150,634
Provisions	19	39,430,273,614	49,003,274,585
Other non-financial liabilities	20	1,317,351,056,862	1,175,232,835,309
		<u>8,779,997,004,542</u>	<u>8,201,884,223,951</u>
Non-current liabilities			
Borrowings and debentures, net of issuance costs	7,17,37,39,40	6,234,702,914,892	6,710,078,874,829
Other financial liabilities	7,22,40	117,705,959,690	136,760,435,729
Lease liabilities	7,39,42	5,620,803,571,455	6,028,746,801,656
Defined benefit liabilities and other long-term employee benefits	21	44,159,835,251	70,601,708,522
Deferred tax liabilities	33	772,192,320,635	859,491,275,149
Unearned revenues	18	39,453,366,446	46,001,748,365
Provisions	19	131,626,656,188	128,042,334,522
		<u>12,960,644,624,557</u>	<u>13,979,723,178,772</u>
Total liabilities		<u>21,740,641,629,099</u>	<u>22,181,607,402,723</u>
Equity			
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	(3,012,812,991,058)	(3,012,559,256,199)
Retained earnings	25	9,176,601,093,411	9,910,184,246,799
Accumulated other comprehensive income (loss)	26	(77,855,655,752)	336,447,639
Stockholders' equity attributable to owners of the Company		9,801,587,893,040	10,613,616,884,678
Non-controlling interests		1,287,174,674,266	1,177,391,464,275
Total equity		<u>11,088,762,567,306</u>	<u>11,791,008,348,953</u>
Total liabilities and equity		<u>₩ 32,829,404,196,405</u>	<u>33,972,615,751,676</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, 2020 and 2019

(In Korean won)	Notes	2020	2019
Continuing operations			
Sales	28,36,39 ₩	16,184,381,959,951	17,622,000,488,403
Cost of sales	8,39	<u>(9,643,709,238,672)</u>	<u>(10,184,620,579,709)</u>
Gross profit		<u>6,540,672,721,279</u>	<u>7,437,379,908,694</u>
Selling, general and administrative expenses	29,39,42	(6,192,267,413,710)	(7,007,724,639,491)
Bad debt expense	29	<u>(2,320,835,748)</u>	<u>(1,744,395,592)</u>
Operating profit		<u>346,084,471,821</u>	<u>427,910,873,611</u>
Other income	30,39	219,025,974,228	88,863,626,239
Other expenses	30,39	(960,676,269,308)	(1,326,606,491,728)
Other bad debt expense	30,32,39	(7,277,913,548)	(6,963,776,667)
Finance income - Interest income calculated using the effective interest method	32	77,401,865,472	110,441,761,850
Finance income - Others	32	190,088,491,919	179,491,782,425
Finance costs	32,42	(649,110,203,946)	(693,284,586,934)
Equity method income on instruments in associates and joint ventures	11,12	<u>13,223,793,079</u>	<u>86,334,775,009</u>
Loss before income tax		<u>(771,239,790,283)</u>	<u>(1,133,812,036,195)</u>
Income tax benefit	33	<u>60,991,125,706</u>	<u>250,131,380,140</u>
Loss from continuing operations, net of tax		<u>(710,248,664,577)</u>	<u>(883,680,656,055)</u>
Profit from discontinued operations, net of tax	41	<u>23,679,056,399</u>	<u>67,203,003,872</u>
Loss for the year		<u>(686,569,608,178)</u>	<u>(816,477,652,183)</u>
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss			
Fair value gain (loss) through other comprehensive income on equity instruments		158,625,229,864	101,118,030,938
Remeasurements of net defined benefit liabilities	21	41,022,899,801	(57,813,398,995)
Net changes in equity of equity method investments		(686,121,251)	(329,709,201)
Income tax effect		<u>(23,912,199,957)</u>	<u>(15,013,915,044)</u>
Total items that will never be reclassified to profit or loss		<u>175,049,808,457</u>	<u>27,961,007,698</u>
Items that will be subsequently reclassified to profit or loss			
Fair value gain (loss) through other comprehensive income on debt instruments		45,295,061	378,204,762
Exchange rate differences on translating foreign operations		(15,459,794,023)	15,387,546,851
Gains and losses arising on revaluations of derivatives	22	(614,982,790)	(5,819,584,896)
Net changes in equity of equity method investments		(20,114,386,295)	36,999,738,770
Income tax effect		<u>7,930,414,927</u>	<u>(5,965,357,411)</u>
Total items that will be subsequently reclassified to profit or loss		<u>(28,213,453,120)</u>	<u>40,980,548,076</u>
Other comprehensive income for the year, net of tax	26	<u>146,836,355,337</u>	<u>68,941,555,774</u>
Total comprehensive loss for the year	₩	<u><u>(539,733,252,841)</u></u>	<u><u>(747,536,096,409)</u></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, 2020 and 2019

(In Korean won)	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Profit (loss) attributable to:			
Owners of the Company			
Loss from continuing operations	₩	(809,618,746,752)	(963,528,556,668)
Profit from discontinued operations		<u>23,679,056,399</u>	<u>67,203,003,872</u>
		(785,939,690,353)	(896,325,552,796)
Non-controlling interests			
Profit from continuing operations		<u>99,370,082,175</u>	<u>79,847,900,613</u>
Total comprehensive income (loss) attributable to:			
Owners of the Company	₩	(704,346,824,779)	(853,005,689,978)
Non-controlling interests		164,613,571,938	105,469,593,569
Earnings (loss) per share	27		
Basic earnings (loss) per share (in Korean won)			
From continuing operations	₩	(28,638)	(34,082)
From discontinued operations		838	2,377
Diluted earnings (loss) per share (in Korean won)			
From continuing operations		(28,956)	(34,414)
From discontinued operations		838	2,377

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, 2020 and 2019

(In Korean won)	Share capital	Capital Surplus	Capital adjustment	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
₩	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
Change in accounting policy	-	-	-	10,946,694,346	-	(14,726,887)	10,931,967,459
Restated balance at January 1, 2019	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
Comprehensive income (loss) for the period:							
Profit (loss) for the year	-	-	-	(896,325,552,796)	-	79,847,900,613	(816,477,652,183)
Other comprehensive income (loss):							
Fair value gain (loss) through other comprehensive income on financial instruments	-	-	-	(11,859,931,619)	56,171,035,794	21,071,283,213	65,382,387,388
Exchange rate differences on translating foreign operations	-	-	-	-	7,102,601,016	4,561,159,497	11,663,760,513
Gains and losses arising on revaluations of derivatives	-	-	-	-	(4,261,682,869)	(816,293)	(4,262,499,162)
Remeasurements of defined benefit liabilities	-	-	-	(36,868,934,629)	-	(9,933,461)	(36,878,868,090)
Net changes in equity of equity method investments	-	-	-	(267,894,875)	33,304,670,000	-	33,036,775,125
Subtotal	-	-	-	(48,996,761,123)	92,316,623,941	25,621,692,956	68,941,555,774
Total comprehensive income(loss) for the year	-	-	-	(945,322,313,919)	92,316,623,941	105,469,593,569	(747,536,096,409)
Transactions with owners of the company recognized directly in equity:							
Dividends	-	-	-	(147,007,328,000)	-	(36,401,816,840)	(183,409,144,840)
Change in ownership interest in subsidiaries	-	-	(102,725,361,299)	-	-	386,379,656,596	283,654,295,297
Others	-	-	(5,537,957)	-	-	-	(5,537,957)
Balance at December 31, 2019	₩ 141,443,775,000	3,574,211,671,439	(3,012,559,256,199)	9,910,184,246,799	336,447,639	1,177,391,464,275	11,791,008,348,953

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued
For the years ended December 31, 2020 and 2019

(In Korean won)	Share capital	Capital Surplus	Capital adjustment	Retained earnings	Accumulated other comprehensive income (loss)	Non- controlling interests	Total equity
₩	141,443,775,000	3,574,211,671,439	(3,012,559,256,199)	9,910,184,246,799	336,447,639	1,177,391,464,275	11,791,008,348,953
Balance at January 1, 2020							
Comprehensive income (loss) for the period:							
Profit (loss) for the year	-	-	-	(785,939,690,353)	-	99,370,082,175	(686,569,608,178)
Other comprehensive income (loss):							
Fair value gain (loss) through other comprehensive income on financial instruments	-	-	-	133,670,824,587	(52,812,947,627)	67,003,622,463	147,861,499,423
Exchange rate differences on translating foreign operations	-	-	-	-	(8,849,642,209)	(2,868,881,661)	(11,718,523,870)
Gains and losses arising on revaluations of derivatives	-	-	-	-	(1,017,449,462)	-	(1,017,449,462)
Remeasurements of defined benefit liabilities	-	-	-	26,613,941,564	-	1,108,748,961	27,722,690,525
Net changes in equity of equity method investments	-	-	-	(499,797,186)	(15,512,064,093)	-	(16,011,861,279)
Subtotal	-	-	-	159,784,968,965	(78,192,103,391)	65,243,489,763	146,836,355,337
Total comprehensive income(loss) for the year	-	-	-	(626,154,721,388)	(78,192,103,391)	164,613,571,938	(539,733,252,841)
Transactions with owners of the company recognized directly in equity:							
Dividends	-	-	-	(107,428,432,000)	-	(53,023,084,187)	(160,451,516,187)
Change in ownership interest in subsidiaries	-	-	(253,734,859)	-	-	(1,807,277,760)	(2,061,012,619)
₩	141,443,775,000	3,574,211,671,439	(3,012,812,991,058)	9,176,601,093,411	(77,855,655,752)	1,287,174,674,266	11,088,762,567,306
Balance at December 31, 2020							

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019

(In Korean won)	Notes	2020	2019
Cash flows from operating activities			
Loss for the year	₩	(686,569,608,178)	(816,477,652,183)
Adjustments	34	2,434,149,849,003	2,851,760,166,786
Changes in operating assets and liabilities	34	(138,349,425,414)	(292,630,675,570)
Income taxes paid		(119,291,369,889)	(105,866,827,390)
Net cash provided by operating activities		1,489,939,445,522	1,636,785,011,643
Cash flows from investing activities			
Decrease of short-term financial instruments		1,690,345,456,806	1,263,774,021,076
Decrease of short-term loans		8,368,706,470	18,280,110,982
Decrease of long-term loans		269,499,440	301,166,180
Proceeds from sale of debt instruments at fair value through other comprehensive income		120,500,000	-
Proceeds from sale of equity instruments at fair value through other comprehensive income		-	78,976,919,651
Proceeds from sale of debt instruments at fair value through profit or loss		1,441,604,659	3,462,226,675
Proceeds from sale of investments in associates and joint ventures		11,054,427,372	50,623,419,890
Proceeds from disposal of assets held for sale		219,553,746,801	182,329,026,693
Proceeds from disposal of property, plant and equipment		321,652,645,875	24,368,897,531
Proceeds from disposal of intangible assets		1,558,316,304	274,443,585
Proceeds from disposal of investment in properties		-	230,323
Collection of lease receivable		19,984,228,471	27,958,123,158
Cash inflows from settlement of derivatives		24,400,771,634	9,515,854,112
Cash inflows from purchase/disposal of subsidiaries		15,298,200,297	280,264,011,848
Decrease in long-term prepaid expenses		1,262,711,024	-
Cash inflows from other investing activities		184,000,000,000	-
Increase of short-term financial instruments		(2,011,549,100,534)	(1,995,664,759,964)
Increase of long-term financial instruments		(13,053,006,000)	-
Increase in short-term loans		(1,955,409,660)	(1,399,330,430)
Increase in long-term loans		(2,144,998,313)	(1,704,000,000)
Purchase of debt instrument at fair value through profit or loss		(3,540,232,731)	(7,799,996,276)
Purchase of equity instruments at fair value through other comprehensive income		-	(18,535,923,899)
Purchase of debt instruments at fair value through other comprehensive income		(4,229,310,000)	(647,910,000)
Purchase of investments in associates and joint ventures		(1,800,000,000)	(363,370,458,759)
Acquisition of property, plant, and equipment		(811,110,177,905)	(550,561,167,154)
Acquisition of right-of-use assets		(4,616,254,375)	-
Acquisition of intangible assets		(23,537,195,659)	(83,895,997,601)
Acquisition of investment property		(204,868,638,914)	(100,177,744,447)
Cash outflows from settlement of derivatives		(4,887,998,980)	-
Increase in long-term prepaid expenses		(89,519,983,466)	-
Interest received		53,533,990,606	94,925,274,457
Dividends received		25,832,948,030	47,648,587,843
Net cash used in investing activities	₩	(598,134,552,748)	(1,041,054,974,526)

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, 2020 and 2019

(In Korean won)	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Cash flows from financing activities			
Proceeds from short-term borrowings	₩	1,480,144,708,219	820,505,139,127
Proceeds from long-term borrowings		955,750,079,037	561,573,442,000
Proceeds from issuance of debentures		1,145,255,795,179	1,077,437,637,806
Capital contribution from subsidiaries		-	429,922,210,000
Cash inflows from other financing activities		159,188,071	29,659,185
Repayment of short-term borrowings		(796,609,380,320)	(905,100,229,964)
Repayment of long-term borrowings		(143,000,000,000)	-
Repayment of current portion of long-term borrowing		(680,403,627,569)	(427,936,559,306)
Redemption of debentures		(1,204,015,000,000)	(986,500,000,000)
Acquisition of additional ownership in subsidiaries		(87,166,764,607)	(156,604,275,770)
Repayment of lease liabilities		(543,897,274,167)	(505,086,084,108)
Cash outflows from other financing activities		(253,956,055)	(7,826,487,931)
Interest paid		(508,205,326,986)	(562,175,395,624)
Dividends paid		(160,451,516,187)	(183,888,981,821)
Net cash used in financing activities		<u>(542,693,075,385)</u>	<u>(845,649,926,406)</u>
Net increase (decrease) in cash and cash equivalents		349,111,817,389	(249,919,889,289)
Cash and cash equivalents at the beginning of the year		1,586,592,082,626	1,818,473,007,915
Effect of exchange rate fluctuation on cash and cash equivalents		(22,468,289,657)	18,038,964,000
Cash and cash equivalents at the end of the year	₩	<u>1,913,235,610,358</u>	<u>1,586,592,082,626</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

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’s operations comprise 28 department stores, 21 outlet stores, 111 discount stores, 300 supermarkets and 101 H&B stores as of December 31, 2020. 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, 2020, 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	2,893,049		14,465	10.23
Hotel Lotte Co., Ltd.	2,507,158		12,536	8.86
Shin, Young Ja	297,653		1,488	1.05
Hotel Lotte Pusan Co., Ltd.	220,326		1,102	0.78
Shin, Dong Ju	199,563		998	0.71
Treasury share	18,115		91	0.06
Others	10,837,388		54,187	38.31
Total	28,288,755	₩	141,444	100.00

(b) Description of subsidiaries

(i) A summary of the subsidiaries of the Company is as follows:

<u>December 31, 2020</u>							
<u>Subsidiaries</u>	<u>Location</u>	<u>Main business</u>	<u>Fiscal year end</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 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	-	100
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	100,000	100	-	100
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	106,578	100	-	100
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 Ulsan Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	25,200	96.83	-	96.83

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

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

December 31, 2020							
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
Lotte Cultureworks Co., Ltd. (*2)	Korea	Cinema	Dec. 31	24,366	86.37	-	86.37
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	2,911	-	100	100
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	33,440	-	90	90
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	Dec. 31	4,354	-	100	100
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	-	95
LOTTE REIT Co., Ltd. (*3)	Korea	Real estate business	Dec. 31	85,984	50	-	50
Lotte Incheon Development Co., Ltd	Korea	Retail, real estate business	Dec. 31	100,000	100	-	100
Lotte Incheon Town Co.,Ltd	Korea	Real estate business	Dec. 31	65,000	100	-	100
LOTTE Town Dongtan Co.,LTD	Korea	Real estate business	Dec. 31	70,000	100	-	100
Lotte (China) Management Co., Ltd.	China	Management company	Dec. 31	8,906	70	-	70
LOTTE SHOPPING RUS Ltd.	Russia	Distribution	Dec. 31	16,176	100	-	100
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	2,736,009	100	-	100
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	98,682	100	-	100
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	52,035	100	-	100
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	367	-	100	100
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	460,142	-	100	100
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	770,305	100	-	100
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	80

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

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

December 31, 2020							
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	91,151	-	100	100
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	94,145	-	100	100
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	18	-	100	100
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	1,092	-	100	100
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	29,708	-	100	100
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	69,209	20	40	60
Lotte Holdings Hong Kong Ltd.	Hong Kong	Holding company	Dec. 31	36,107	-	100	100
HAI THAHN - LOTTE COMPANY LIMITED	Vietnam	Hotel Business	Dec. 31	51,581	-	70	70
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	29,807	-	100	100
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	159,458	80	-	80
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Distribution, real estate development	Dec. 31	160,401	-	100	100

(*1) As of December 31, 2020, the Company issued exchangeable bonds which are exchangeable to Lotte Himart Co., Ltd., common stocks (see 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 December 31, 2020 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) In accordance with stock repurchase agreement (see Note 37), shares issued to non-controlling shareholders as of December 31, 2019 have been classified as financial liabilities. The legal ownership of the Company on Lotte Cultureworks Co., Ltd., is 86.37%, however, it is reported as 100% on a consolidated financial statement.

(*3) 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, 2020 and 2019

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

(ii) A summary of the subsidiaries of the Company is as follows:

December 31, 2019							
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
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 Ulsan Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	25,200	96.83	-	96.83
Lotte Cultureworks Co., Ltd. (*2)	Korea	Cinema	Dec. 31	24,366	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. (*3)	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 CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

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

December 31, 2019							
Subsidiaries	Location	Main business	Fiscal year end	Capital (in millions of Korean won)	Percentage of ownership (%)		
					Parent Company	Subsidiary	Total
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 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 SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

1. General Information of Reporting Entity, continued

(b) Description of subsidiaries, continued

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

December 31, 2019							
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

(*1) As of December 31 2019, the Company issued exchangeable bonds which are exchangeable to Lotte Himart Co., Ltd., common stocks (see 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 December 31, 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) In accordance with stock repurchase agreement (see Note 37), shares issued to non-controlling shareholders as of December 31, 2019 have been classified as financial liabilities. The legal ownership of the Company on Lotte Cultureworks Co., Ltd., is 86.37%, however, it is reported as 100% on a consolidated financial statement.

(*3) 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, 2020 and 2019

1. General Information of Reporting Entity, continued

(c) Financial information of significant subsidiaries as of December 31, 2020 and December 31, 2019 are summarized as follows:

(i) December 31, 2020

<i>(in millions of Korean won)</i>	2020					Profit (loss) for the period
	Subsidiaries (*)	Assets	Liabilities	Equity	Sales	
Woori Home Shopping & Television Co., Ltd.	₩	1,461,722	484,368	977,354	1,075,865	100,314
Lotte Suwon Station Shopping Town Co., Ltd.		452,629	408,891	43,738	42,404	(8,054)
Lotte Songdo Shopping Town Co., Ltd.		215,697	88,463	127,234	7,385	2,448
CS Mart Co., Ltd.		161,821	57,231	104,590	343,030	(135)
Lotte Himart Co., Ltd.		3,349,190	1,423,236	1,925,954	4,051,729	28,721
Lotte Cultureworks Co., Ltd.		1,330,070	1,167,573	162,497	242,581	(235,551)
LOTTE REIT Co., Ltd.		1,573,864	724,799	849,065	76,420	31,161
Lotte Incheon Development Co., Ltd		987,886	962,376	25,510	166,553	5,872
Lotte Incheon Town Co.,Ltd		441,245	385,198	56,047	20	(8,145)
LOTTE Town Dongtan Co.,LTD		712,017	612,445	99,572	269,587	24,793
LOTTE PROPERTIES (CHENGDU) HK LIMITED		504,054	343,131	160,923	-	(7,473)
Lotte Properties (Chengdu) Limited		445,247	16,542	428,705	7,163	728
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY		442,743	397,855	44,888	300,777	(20,584)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		442,599	26	442,573	-	(13,511)
PT. LOTTE SHOPPING INDONESIA		356,518	223,309	133,209	826,547	(4,571)
PT. LOTTE MART INDONESIA		108,196	213,878	(105,682)	200,328	(15,899)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.		147,897	1	147,896	-	(35)
LOTTE PROPERTIES HANOI CO., LTD.		204,973	64,187	140,786	-	(1,626)
LOTTE CINEMA VIETNAM CO., LTD.		123,747	215,844	(92,097)	22,928	(36,651)
PT. LOTTE Shopping Avenue Indonesia		114,389	136,017	(21,628)	14,882	(12,871)

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

1. General Information of Reporting Entity, continued

(c) Financial information of significant subsidiaries as of December 31, 2020 and December 31, 2019 are summarized as follows:, continued

(ii) December 31, 2019

		2019				
<i>(in millions of Korean won)</i>						
<u>Subsidiaries (*1)</u>		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Sales</u>	<u>Profit (loss) for the period</u>
Woori Home Shopping & Television Co., Ltd.	₩	1,139,849	364,876	774,973	986,903	114,197
Lotte Suwon Station Shopping Town Co., Ltd.		475,600	423,813	51,787	44,057	(9,251)
Lotte Songdo Shopping Town Co., Ltd.		245,503	120,288	125,215	85,695	2,642
CS Mart Co., Ltd.		160,497	56,338	104,159	351,785	(11,347)
Lotte Himart Co., Ltd.		3,107,566	1,185,666	1,921,900	4,026,464	(99,907)
Lotte Cultureworks Co., Ltd.		1,396,808	965,490	431,318	723,212	(77,964)
LOTTE REIT Co., Ltd. (*2)		1,584,059	721,571	862,488	24,524	12,106
Lotte Incheon Development Co., Ltd. (*2)		1,034,198	1,014,562	19,636	100,603	(1,647)
Lotte Incheon Town Co., Ltd. (*2)		214,575	205,130	9,445	-	(110)
LOTTE Town Dongtan Co., LTD. (*2)		646,023	571,244	74,779	60,474	456
Lotte Shopping Holdings (Hong Kong) Co., Limited		167,021	349,191	(182,170)	-	(7,675)
LOTTE PROPERTIES (CHENGDU) HK LIMITED		427,833	249,254	178,579	-	(8,548)
Lotte Properties (Chengdu) Limited		393,051	23,262	369,789	9,419	4,942
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY		489,112	421,200	67,912	343,121	(13,544)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		484,250	27	484,223	-	(95,161)
PT. LOTTE SHOPPING INDONESIA		367,781	219,609	148,172	908,200	(2,705)
PT. LOTTE MART INDONESIA		130,398	227,617	(97,219)	211,304	(37,664)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.		157,425	7	157,418	-	16
LOTTE PROPERTIES HANOI CO., LTD.		220,977	69,923	151,054	-	(1,245)
Lotte Shopping Business Management (Hong Kong) Limited		349,855	350,035	(180)	-	(56)
LOTTE CINEMA VIETNAM CO., LTD.		155,530	211,842	(56,312)	46,660	(52,700)
PT. LOTTE Shopping Avenue Indonesia		130,710	140,796	(10,086)	22,962	(20,846)

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

(*2) 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, 2020 and 2019

1. General Information of Reporting Entity, continued

(d) Changes in the scope of consolidation

(i) Entities liquidated from subsidiaries in 2020 are as follows:

Subsidiaries	Description
Lotte Business Management (Tianjin) Co., Ltd.	Liquidation
Lotte DatViet Homeshopping Co., Ltd.	Liquidation
Liaoning LOTTE Mart Co., Ltd.	Liquidation
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	Liquidation
Jilin LOTTE Mart Co., Ltd.	Liquidation

(e) Non-controlling interests

Financial information relating to each of the Group's subsidiaries that has material NCI as of December 31, 2020 and December 31, 2019 are summarized as follows:

(i) December 31, 2020

(In millions of Korean won)

Subsidiaries	LOTTE REIT Co., Ltd. (*2)	Woori Home Shopping & Television Co., Ltd. (*1,2)	LOTTE Himart Co.,Ltd (*2)
NCI Percentage	50.00%	46.97%	34.75%
Current assets	₩ 42,643	929,742	988,972
Non-current assets	1,550,109	591,500	1,056,266
Current liabilities	8,501	331,295	819,366
Non-current liabilities	716,298	153,480	556,031
Net assets	867,953	1,036,467	669,841
Carrying amount of NCI	433,976	486,656	232,901
Dividends paid to NCI	22,183	20,665	8,204
Revenue	76,420	1,075,865	4,051,729
Net profit for the period	43,739	101,484	92,718
Total comprehensive income	43,739	248,048	91,659
Net profit attributable to NCI	21,870	47,662	32,222
Total comprehensive income attributable to NCI	21,870	116,496	31,854
Cash flows from operating activities	71,723	173,850	370,016
Cash flows from investing activities	(11,634)	(133,303)	(205,849)
Cash flows from financing activities	(57,894)	(58,808)	22,542
Effect on foreign currency translation	-	52	-
Net increase (decrease) in cash and cash equivalents	₩ 2,196	(18,209)	186,709

(*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, 2020 and 2019

1. General Information of Reporting Entity, continued

(e) Non-controlling interests, continued

(ii) December 31, 2019

(In millions of Korean won)

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

(*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
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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 Incheon Town Co.,Ltd	Additional acquisition	1,807	70.00%	100.00%	7,637	9,444
Lotte Department Store (Shenyang) Co., Ltd.	Capital increase	8,570	100.00%	100.00%	(7,384)	1,186
LOTTE SHOPPING RUS Ltd.	Capital increase	3,262	100.00%	100.00%	(3,086)	176
Lotte Shopping Holdings (Hong Kong) Co., Limited	Capital increase	189,491	100.00%	100.00%	(389,501)	(200,010)
Lotte Shopping Business Management (Hong Kong) Limited	Capital increase	356	100.00%	100.00%	(238)	118
Lotte Properties (Chengdu) Limited	Capital increase	56,419	100.00%	100.00%	372,287	428,706
Lotte Cinema Hong Kong Co., Limited	Capital increase	810	100.00%	100.00%	(457)	353

2. Basis of the Accounting

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

(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. Refer to Note 4 for details of more complex and higher levels of judgement, significant assumptions and estimates.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

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, 2020.

(a) Amendments to K-IFRS No. 1001 Presentation of Financial Statements and K-IFRS No. 1008 Accounting policies, changes in accounting estimates and errors – Definition of Material

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the financial statements.

(b) Amendments to K-IFRS No. 1103 Business Combination – Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

(c) Amendments to K-IFRS No. 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The Group does not expect that these amendments have a significant impact on the financial statements.

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

(a) Amendments to K-IFRS No. 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets, and K-IFRS No. 2121 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

(b) Amendments to K-IFRS No. 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application of permitted. The Group is in review for the impact of these amendments on the financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

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

(c) Amendments to K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

(d) Annual improvements to K-IFRS 2018-2020

Annual improvements of K-IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- K-IFRS No. 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters
- K-IFRS No. 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities
- K-IFRS No. 1116 Leases – Lease incentives
- K-IFRS No. 1041 Agriculture – Measuring fair value

(e) Amendments to K-IFRS No. 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

3.3 Basis of Consolidation, continued

(a) Subsidiaries, continued

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.

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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

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.

(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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

3.6 Financial assets, continued

(b) Measurement, continued

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

(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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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receivables.

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 (fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (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, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

3.7 Derivatives, continued

(a) Hedge accounting, continued

(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, 2020 and 2019

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	7 – 40
Machinery	5 – 30
Tools and equipment	1 – 5
Vehicles	5 – 12
Display fixtures	5
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, 2020 and 2019

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(a) 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 (*)	4 – 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.

Research and internally generated development cost during research phase are recognized as expense when incurred. Development costs are recognized as intangible assets when it can establish technical feasibility to complete the asset for sale or use, can demonstrate probable future benefits for the asset, and whether the cost of the asset can be measured reliably. Other development costs are recognized as expense when incurred.

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, 2020 and 2019

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" or Cash Generating Unit). 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. In accordance with stock repurchase agreement (See Note 37.(h)), shares issued to non-controlling shareholders are classified as financial liabilities.

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, 2020 and 2019

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, 2020 and 2019

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 retailers, supermarkets, H&B stores, e-commerce, cinema, etc. 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

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As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

3.22 Revenue recognition, continued

(a) Sales of goods and rendering of services, continued

- 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

(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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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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.

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 (lesser) according to the guaranteed residual value
- The exercise price of the purchase option if it is reasonably certain that the Group (lesser) will exercise the purchase option
- If the lease period reflects the exercise of the option to terminate the lease by the Group (lesser), 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.

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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

3.23 Leases, continued

(b) Lessee, continued

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.

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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

3. Significant Accounting Policies and Changes in Disclosure, continued

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, cinema, e-commerce 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.

3.27 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

3.28 Authorization of financial statements

The consolidated financial statements were authorized by the Board of Directors meeting on March 8, 2021 and may be modified at the shareholder's meeting.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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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.

During 2020, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on both domestic and global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Group.

Significant accounting estimates and assumptions applied in the preparation of the consolidated financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Group's business, financial position and financial performance cannot presently be determined.

The assumptions that sales and profitability are recovered back to the level before the spread of COVID-19 are used for the assessment starting from the year 2022; however, the high level of uncertainty about business plan for the years 2021~2025 still exists. Therefore, some assumptions used in the assessment have been modified to ensure that it cannot exceed a certain growth rate. It is deemed very difficult to fully predict the extent and duration of the impact of COVID-19 on the operations.

(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 and 15).

(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).

(d) Impairment of financial assets

The loss allowance for financial assets is measured based on assumptions about default risks and expected loss rates. The Group 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 5 and 40).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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4. Significant Accounting Estimates and Assumptions, continued

(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) Provision for restructuring costs

The Group recognizes restructuring provision when there is a detailed formal plan for the restructuring and the Group has raised a valid expectation in those affected that the plan will be implemented – either by starting to implement the plan or announcing its main features to those affected.

(i) 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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5. Trade and Other Receivables

(a) Trade and other receivables as of December 31, 2020 are as follows:

(in millions of Korean won)

		Trade receivables	Other receivables	Lease receivables	Total
Current:					
Total carrying amount	₩	410,595	282,315	30,775	723,685
Reduction: allowance for bad debt		(6,127)	(53,959)	(76)	(60,162)
Net carrying amount		<u>404,468</u>	<u>228,356</u>	<u>30,699</u>	<u>663,523</u>
Non-current:					
Total carrying amount		1,990	22,936	172,128	197,054
Reduction: allowance for bad debt		-	(195)	(566)	(761)
Net carrying amount	₩	<u>1,990</u>	<u>22,741</u>	<u>171,562</u>	<u>196,293</u>

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

(in millions of Korean won)

		Trade receivables	Other receivables	Lease receivables	Total
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
Reduction: allowance for bad debt		-	(72)	(21)	(93)
Net carrying amount	₩	<u>-</u>	<u>28,965</u>	<u>154,446</u>	<u>183,411</u>

6. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

Account	Description	Depository	2020	2019	Details
Cash and cash equivalents	Cash and cash equivalents	Agricultural Bank of China	₩ -	66,130	Frozen assets of Lotte Properties (Chengdu) Limited
		HSBC and others	-	8,181	Pledged assets, etc.
Other financial assets (current)	Short-term financial instruments	Agricultural Bank of China	66,617	-	Frozen assets of Lotte Properties (Chengdu) Limited
		Industrial Bank of Korea and others	238,098	242,129	Deposits for Mutually Beneficial Cooperation Fund, etc
Other financial assets (non-current)	Long-term financial instrument	Hana Bank and others	12,944	34	Pledged assets, etc.
	Other comprehensive income - Fair value	Busan city hall and others	7,700	12,973	Payment guarantee
			₩ <u>325,359</u>	<u>329,447</u>	

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7. Fair Value of Financial Instruments

(a) Carrying amount and fair value of financial assets as of December 31, 2020 and December 31, 2019 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>	
Financial assets measured at fair value (*1):				
Fair value through profit or loss	Current assets:			
	Short-term financial instruments	₩ 238,000	236,000	
	Current debt instruments	1,876	2,960	
	Current derivatives assets held for trading	-	17,702	
	Non-current assets:			
	Non-current debt instruments	24,564	20,708	
	Non-current derivatives assets held for trading	9,724	21,544	
	Subtotal	<u>274,164</u>	<u>298,914</u>	
	Fair value through other comprehensive income	Current assets:		
		Current debt instruments	10,806	130
Non-current assets:				
Equity instruments (*2)		411,837	591,876	
Non-current debt instruments		5,890	12,302	
Subtotal	<u>428,533</u>	<u>604,308</u>		
Derivatives assets	Current derivatives assets held for hedging	1,086	-	
	Non-current derivatives assets held for hedging	-	21,899	
	Subtotal	<u>1,086</u>	<u>21,899</u>	
Total financial assets measured at fair value		<u>703,783</u>	<u>925,121</u>	
Financial assets not being measured at fair value:				
Financial assets at amortized cost (*3)	Current assets:			
	Cash and cash equivalents	1,913,236	1,586,592	
	Trade and other receivables	663,523	889,585	
	Short-term financial instruments	1,724,284	1,393,185	
	Short-term loans	10,854	3,416	
	Accrued income	6,935	10,834	
	Current portion of security deposits	140,347	294,355	
	Non-current assets:			
	Long-term financial instruments	1,844	34	
	Long-term loans	20,423	22,994	
	Security deposit	1,158,806	1,039,189	
	Long-term account receivables	196,293	183,411	
	Subtotal	<u>5,836,545</u>	<u>5,423,595</u>	
Total financial assets not being measured at fair value:		<u>5,836,545</u>	<u>5,423,595</u>	
Total financial assets		₩ <u>6,540,328</u>	<u>6,348,716</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 for the year 2019 included stock from momo.com Inc. of ₩81,679 million, which were classified as assets held for sale and all were disposed during the year 2020.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2020 and 2019

7. Fair value of Financial Instruments, continued

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

(b) Other financial assets as of December 31, 2020 and December 31, 2019 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Current:			
Short-term financial instruments	₩	1,962,284	1,629,185
Short-term loans		10,854	3,416
Accrued income		6,934	10,834
Current portion of security deposits		140,347	294,354
Current debt instruments		12,683	3,090
Derivatives assets held for trading		-	17,702
Derivatives assets held for hedging		1,086	-
Total		<u>2,134,188</u>	<u>1,958,581</u>
Non-current:			
Long-term financial instruments		1,844	34
Long-term loans		20,423	22,994
Security deposits		1,158,806	1,039,189
Non-current debt instruments		30,454	33,010
Non-current equity instruments		411,837	510,197
Derivatives assets held for trading		9,724	21,545
Derivatives assets held for hedging		-	21,899
Total	₩	<u>1,633,088</u>	<u>1,648,868</u>

(c) Financial assets at fair value through other comprehensive income as of December 31, 2020 and December 31, 2019 are summarized as follows:

(i) Equity instruments

<i>(in millions of Korean won, except number of shares)</i>	<u>2020</u>			<u>2019</u>	
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable equity instruments measured at fair value through other comprehensive income:					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	48,529	65,446
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,248	9,971	13,487
momo.com Inc. (*1)	14,014,000	10.01%	1,728	345,204	238,063
INNOCEAN WORLDWIDE INC. (*2)	-	-	-	-	146,054
Others	-	-	8,843	4,828	5,837
Subtotal			<u>68,998</u>	<u>408,532</u>	<u>468,887</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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, 2020 and December 31, 2019 are summarized as follows:, continued

(i) Equity instruments, continued

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

	2020		Acquisition cost	Carrying amount	2019
	Number of shares	Percentage of ownership			Carrying amount
Non-marketable equity instruments measured at fair value through other comprehensive income:					
Lotte Properties (Shenyang) Limited	47,858,756	17.93%	₩ 61,213	-	101,504
LOTTE MART COMPANY LIMITED (*3)	-	5.00%	12,820	13,347	13,300
Others	-	-	3,446	3,305	8,185
Subtotal			77,479	16,652	122,989
Total			₩ 146,477	425,184	591,876

(*1) The momo.com Inc was partially classified as assets held for sale in the year 2019 and all were disposed during the year 2020.

(*2) During the year 2020, it was classified as investment in associates.

(*3) During the year 2020, it was reclassified as assets held for sale.

(ii) Debt instruments

(in millions of Korean won)

	2020		2019
	Acquisition cost	Carrying amount	Carrying amount
National housing bond	₩ 16,141	16,696	12,432
Urban railway bond	-	-	-
Total	₩ 16,141	16,696	12,432

(d) Carrying amount and fair value of financial liabilities as of December 31, 2020 and December 31, 2019 are summarized as follows:

(in millions of Korean won)

		2020	2019
Financial liabilities measured at fair value:			
Fair value through profit or loss	Current derivatives liabilities held for trading	₩ 13,566	-
	Non-current financial liabilities	37,007	110,676
	Subtotal	50,573	110,676
Derivatives liabilities	Current derivatives liabilities held for hedging	27,945	780
	Non-current derivatives liabilities held for hedging	43,718	8,663
	Subtotal	71,663	9,443
Total financial liabilities measured at fair value:		122,236	120,119

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair value of Financial Instruments, continued

(d) Carrying amount and fair value of financial liabilities as of December 31, 2020 and December 31, 2019 are summarized as follows; continued

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Financial liabilities not being measured at fair value:			
Financial liabilities at amortized cost (*)			
	Current:		
	Trade payables and other payables	₩ 2,177,179	2,643,862
	Short-term borrowings	1,553,891	916,101
	Current portion of long-term borrowings	1,251,849	727,998
	Current debentures	1,141,807	1,196,342
	Accrued expenses	242,307	263,459
	Current portion of security deposits	188,580	225,146
	Lease liabilities	607,479	634,234
	Others	508	76,417
	Non-current:		
	Long-term borrowings	2,093,155	2,514,548
	Long-term debentures	4,141,548	4,195,532
	Security deposits received	23,639	4,329
	Lease liabilities	5,620,804	6,028,748
	Others	13,342	13,091
	Subtotal	<u>19,056,088</u>	<u>19,439,807</u>
Other financial liabilities	Financial guarantee liabilities	<u>3,015</u>	<u>5,844</u>
	Total financial liabilities not being measured at fair value:	<u>19,059,103</u>	<u>19,445,651</u>
	Total financial liabilities	<u>₩ 19,181,339</u>	<u>19,565,770</u>

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

(e) Other financial liabilities as of December 31, 2020 and December 31, 2019 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Current:			
	Accrued expenses	₩ 242,307	263,459
	Current portion of security deposits	188,580	225,146
	Derivatives liabilities held for hedging	27,945	780
	Derivatives liabilities held for trading	13,566	-
	Others	3,524	82,261
	Total	<u>₩ 475,922</u>	<u>571,646</u>
Non-current:			
	Security deposits	₩ 23,639	4,330
	Derivatives liabilities held for hedging	43,718	8,663
	Financial liabilities (*)	37,007	110,676
	Others	13,342	13,091
	Total	<u>₩ 117,706</u>	<u>136,760</u>

(*) During the year 2019, since there was conditional repurchase agreement existed when trading in-kind contributions of Lotte Cultureworks Co., Ltd, a subsidiary of the Group, the estimated repurchased amounts for the future were classified as financial liabilities (See Note 37).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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7. Fair value of Financial Instruments, continued

(f) Fair value hierarchy

When measuring the fair value of an asset or a liability, the Group uses market observable data as much 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)

The fair value measurements of financial instruments that are measured at fair value, classified by fair value hierarchy as of December 31, 2020 and December 31, 2019 are as follows:

(i) December 31, 2020

(in millions of Korean won)

		2020			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	274,164	274,164
Financial assets at fair value through other comprehensive income		408,532	16,696	3,305	428,533
Derivatives assets held for hedging		-	1,086	-	1,086
Total		<u>408,532</u>	<u>17,782</u>	<u>277,469</u>	<u>703,783</u>
Financial liabilities at fair value through profit or loss		-	13,566	37,007	50,573
Derivatives liabilities held for hedging		-	71,663	-	71,663
Total	₩	<u>-</u>	<u>85,229</u>	<u>37,007</u>	<u>122,236</u>

(ii) December 31, 2019

(in millions of Korean won)

		2019			
		Level 1	Level 2	Level 3	Total
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>
Financial liabilities at fair value through profit or loss				110,676	110,676
Derivatives liabilities held for hedging		-	9,443	-	9,443
Total	₩	<u>-</u>	<u>9,443</u>	<u>110,676</u>	<u>120,119</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
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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, 2020 and December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning balance	₩	311,227	482,306
Total income (loss) for the year		(38,011)	39,866
Gain (loss) included in profit and loss		63,568	36,430
Gain (loss) included in OCI		(101,579)	3,436
Purchases		10,540	19,861
Disposal		(29,994)	(97,591)
Reclassification		(13,300)	1,077
Others		-	(134,292)
Ending balance	₩	<u>240,462</u>	<u>311,227</u>

(h) Sensitivity analysis

For the fair values of Level 3 financial instruments, reasonably possible changes as of December 31, 2020 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values:

(i) Settlement contract

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Settlement contract	₩	4	(4)

(ii) Financial liabilities at fair value through profit or loss

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>0.5%p Decrease</u>	<u>0.5%p Increase</u>
Financial liabilities at fair value through profit or loss	₩	6,135	(5,427)

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8. Inventories

(a) Inventories as of December 31, 2020 and December 31, 2019 are summarized as follows:

(in millions of Korean won)

		2020			2019		
		Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Merchandise (*)	₩	1,072,686	(27,873)	1,044,813	1,245,057	(33,487)	1,211,570
Finished goods		21,525	(3,774)	17,751	24,017	(5,482)	18,535
Semi-finished goods		27	-	27	254	-	254
Work in process		433	-	433	713	-	713
Raw materials		9,779	(174)	9,605	8,478	(262)	8,216
Ingredients		1,094	-	1,094	882	-	882
Supplies		774	-	774	616	-	616
Materials-in-transit		13,715	-	13,715	10,644	-	10,644
Unsold building		74,029	(22,233)	51,796	78,092	(22,359)	55,733
Unfinished building		86,984	-	86,984	152,325	-	152,325
Land		20,328	-	20,328	-	-	-
Total	₩	<u>1,301,374</u>	<u>(54,054)</u>	<u>1,247,320</u>	<u>1,521,078</u>	<u>(61,590)</u>	<u>1,459,488</u>

(*) As of December 31, 2020 inventories expected to be returned of ₩1,061 million are included (2019: ₩1,602 million).

(b) For the years ended December 31, 2020 and December 31, 2019, 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)

		2020	2019
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	9,279,094	9,692,049
- Decrease in valuation allowance of inventories		(7,536)	(5,402)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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9. Other Non-financial Assets

Other non-financial assets as of December 31, 2020 and December 31, 2019, are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Current:			
Advance payments	₩	16,116	21,563
Prepaid expenses		26,913	50,224
Prepaid value added tax		39,948	23,595
Other assets		35	25
Total		<u>83,012</u>	<u>95,407</u>
Non-current:			
Long-term advance payments		136,088	81,190
Long-term prepaid expenses		11,353	34,381
Total	₩	<u>147,441</u>	<u>115,571</u>

10. Assets and Liabilities Held for Sale

Assets held for sale as of December 31, 2020 and December 31, 2019 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Equity instruments at fair value through other comprehensive income (*1)	₩	13,347	81,679
Investments in associates and joint ventures		-	579
Land and others (*2)		230,249	32,087
Total	₩	<u>243,596</u>	<u>114,345</u>

(*1) The Group disposed all marketable equity instruments from momo.com Inc., which were classified as assets held for sale. The equity instruments at fair value through other comprehensive income from LOTTE MART COMPANY LIMITED, were classified as assets held for sale during the year 2020.

(*2) During the year 2020, the Group classified 4 discount stores (₩196,199 million) and 1 supermarket (₩15,172 million) as assets held for sale with the Board's decision to approve terminating the operation.

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

(a) The details of associates as of December 31, 2020 and December 31, 2019, are summarized as follows:

(in millions of Korean won)

Company	Location	Major operation	2020	
			Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 256,835
Zara Retail Korea Co.,Ltd	Korea	Import and selling of clothing	20.00	29,269
LOTTE CARD Co.,Ltd.	Korea	Credit finance business	20.00	349,070
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00	85,392
LOTTE –KDB Open Innovation Fund	Korea	Investment on new technology	41.47	9,791
INNOCEAN WORLDWIDE INC. (*)	Korea	Advertising agency and advertisement production	10.30	111,263
Others	-	-	-	35,189
Total				₩ 876,809

(*) As it became possible to participate at the board meeting of INNOCEAN WORLDWIDE INC., during the year 2020, the relevant ownership was reclassified from equity instruments at fair value through other comprehensive income to an associate. In accordance with stock trading agreement from May 10, 2019, the 2,060,000 shares of INNOCEAN WORLDWIDE INC., cannot be transferred voluntarily nor provided as pledged assets from the closing date of stock trading to the listing date of Lotte Cultureworks Co., Ltd unless the seller agrees in advance.

(in millions of Korean won)

Company	Location	Major operation	2019	
			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 CARD Co.,Ltd.	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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

11. Investments in Associates, continued

(b) Changes in investments in associates for the years ended December 31, 2020 and December 31, 2019 are summarized as follows:

(in millions of Korean won)

		2020								
		Beginning balance	Acquisition (*1)	Dividends	Profit (loss) accounted for by equity method	Changes in equity accounted for by equity method	Impairment	Disposal	Others (*2)	Ending balance
FRL Korea Co., Ltd.	₩	281,283	-	-	(10,623)	(13,824)	-	-	-	256,836
Zara Retail Korea Co.,Ltd		32,649	-	(2,000)	(1,332)	-	-	-	(49)	29,268
Lotte Card Co., Ltd.		336,570	-	(5,710)	18,589	426	-	-	(805)	349,070
LOTTE PROPERTIES										
HCMC COMPANY LIMITED		87,044	-	-	3,663	(5,315)	-	-	-	85,392
LOTTE -KDB Open Innovation Fund		10,265	-	-	(474)	-	-	-	-	9,791
Innocean Worldwide Inc. (*3)		-	-	(3,090)	4,766	(1,859)	-	-	111,446	111,263
Others		46,964	1,800	-	(1,200)	(325)	(3,773)	(8,277)	-	35,189
Total	₩	794,775	1,800	(10,800)	13,389	(20,897)	(3,773)	(8,277)	110,592	876,809

(*1) Newly acquired investment from Start-up Fund No. 1 was added.

(*2) Others include changes in equity method-retained earnings and others.

(*3) As it became possible to participate at the board meeting of INNOCEAN WORLDWIDE INC., during the year 2020, the relevant ownership was reclassified from equity instruments at fair value through other comprehensive income to an associate. In accordance with stock trading agreement from May 10, 2019, the 2,060,000 shares of INNOCEAN WORLDWIDE INC., cannot be transferred voluntarily nor provided as pledged assets from the closing date of stock trading to the listing date of Lotte Cultureworks Co., Ltd unless the seller agrees in advance.

(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 (*)	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
Total	₩	512,302	359,302	(32,086)	96,530	11,708	(108,565)	(45,064)	648	794,775

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

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11. Investments in Associates, continued

(c) Financial information of significant associates as of and for the years ended December 31, 2020 and December 31, 2019, are summarized as follows:

(in millions of Korean won)

		2020							
		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income(loss) (*2)	Total comprehensive income (loss) (*3)
FRL Korea Co., Ltd	₩	529,030	159,650	94,011	70,516	574,606	(12,914)	(28,213)	(49,892)
Zara Retail Korea Co.,Ltd		118,554	236,237	107,370	101,078	342,010	(3,593)	(246)	(6,905)
Lotte Card Co., Ltd. (*1)		14,746,498	-	12,274,949	-	1,733,478	117,427	(2,024)	97,107
LOTTE PROPERTIES HCMC COMPANY LIMITED		197,166	17,704	1,150	239	-	(1,203)	-	9,157
LOTTE -KDB Open Innovation Fund		3,884	19,729	-	-	-	(1,158)	-	(1,158)
Innocean Worldwide Inc.		1,579,822	462,859	1,051,894	206,880	1,221,072	111,418	(15,898)	47,510

(*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 or non-current.

(*2) (*3) Other comprehensive income(loss) and total comprehensive income(loss) exclude amounts attributed to non-controlling shareholders.

(in millions of Korean won)

		2019							
		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income(loss)	Total comprehensive income (loss)(*2)
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 or non-current.

(*2) Total comprehensive income(loss) excludes amounts attributed to non-controlling shareholders.

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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, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

		2020						
		Net assets	Ownership %	Group's share of net asset	Impairment	Goodwill	Others (*2)	Carrying amount
		(a)(*1)	(b)	(a*b)				
FRL Korea Co., Ltd	₩	524,153	49.00	256,835	-	-	-	256,835
Zara Retail Korea Co.,Ltd		146,343	20.00	29,269	-	-	-	29,269
Lotte Card Co., Ltd.		2,445,124	20.00	489,025	(105,209)	-	(34,745)	349,071
LOTTE PROPERTIES								
HCMC COMPANY								
LIMITED		213,480	40.00	85,392	-	-	-	85,392
LOTTE -KDB Open								
Innovation Fund.		23,612	41.47	9,791	-	-	-	9,791
Innocean Worldwide Inc.		775,438	10.30	79,870	-	24,034	7,359	111,263

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

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

(in millions of Korean won)

		2019						
		Net assets (a)(*1)	Ownership % (b)	Group's share of net asset (a*b)	Impairment	Others (*2)	Carrying amount	
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	
LOTTE PROPERTIES								
HCMC COMPANY								
LIMITED		217,611	40.00	87,045	-	-	87,045	
LOTTE -KDB Open								
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.

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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, 2020 are as follows:

<i>(in millions of Korean won)</i>	2020	
	Unrecognized profits/ (losses) for the year	Unrecognized accumulated losses
Coralis S.A.	₩ (5,301)	(6,620)
Prototype	(32)	(146)

12. Investments in joint venture

(a) The details of joint ventures as of December 31, 2020 and December 31, 2019 are summarized as follows:

<i>(in millions of Korean won)</i>	2020			
	Company	Location	Major operation	Percentage of ownership (%)
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,978
International Business Center Company Limited	Vietnam	Distribution	50.00	44,977
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	896
Others	-	-	-	849
Total				₩ <u>48,700</u>

<i>(in millions of Korean won)</i>	2019			
	Company	Location	Major operation	Percentage of ownership (%)
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				₩ <u>71,533</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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12. Investments in joint venture, continued

(b) Changes in joint ventures for the years ended December 31, 2020 and 2019, are summarized as follows:

(in millions of Korean won)

		2020							
		Beginning balance	Dividends	Share of profit (loss) of associates	Share of other comprehensive income(loss) of associates	Impairment	Disposal	Others (*)	Ending balance
STL Co., Limited	₩	1,964	-	14	-	-	-	-	1,978
International Business Center Company Limited		54,426	(4,570)	4,057	(994)	(4,192)	-	(3,750)	44,977
LOTTE JTB Co., Ltd.		11,160	-	(4,211)	-	(6,221)	-	168	896
Others		3,984	-	(26)	(34)	-	(3,075)	-	849
Total	₩	71,534	(4,570)	(166)	(1,028)	(10,413)	(3,075)	(3,582)	48,700

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

(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 JTB 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.

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12. Investments in joint venture, continued

(c) Financial information of significant joint ventures as at and for the years ended December 31, 2020 and December 31, 2019 are summarized as follows:

(in thousands of Korean won)

		2020							
		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	₩	5,301	351	764	217	11,958	20	-	28
International Business Center Company Limited		12,993	36,405	16,680	1,825	20,073	9,908	-	8,114
LOTTE JTB Co., Ltd.		82,333	53,185	119,953	3,702	4,983	(8,832)	336	(8,086)

(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)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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, 2020 and 2019 are summarized as follows:

(in millions of Korean won)

		2020						
		Net	Ownership	Group's	Goodwill	Impairment	Others	Carrying
		assets (a)	% (b)	share of net			(*)	amount
					asset (a*b)	Loss		
STL Co., Limited	₩	4,670	50.00	2,335	-	-	(357)	1,978
International Business Center Company Limited		30,893	50.00	15,446	30,133	-	(602)	44,977
LOTTE JTBC Co., Ltd.		11,862	50.00	5,931	-	(5,035)	-	896

(*) Others include unamortized amounts of difference of fair value, unrecognized amounts of profit or loss and foreign currency differences arising from translation.

(in millions of Korean won)

		2019					
		Net assets	Ownership	Group's			Carrying
		(a)	% (b)	share of net	Goodwill	Others (*)	amount
					asset (a*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

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

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13. Property, Plant and Equipment

(a) Details of property, plant and equipment as of December 31, 2020 and 2019 are summarized as follows:

(in millions of Korean won)

		2020				2019			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	8,014,779	-	(1,099)	8,013,680	7,976,868	-	(1,434)	7,975,434
Buildings		7,082,199	(2,556,477)	(17,102)	4,508,620	7,213,584	(2,475,091)	(14,622)	4,723,871
Structures		334,830	(146,659)	(29,275)	158,896	343,797	(139,587)	(10,117)	194,093
Machinery		232,824	(153,621)	(18,521)	60,682	230,830	(144,233)	(2,750)	83,847
Vehicles		7,910	(5,593)	(402)	1,915	8,097	(5,740)	(343)	2,014
Display fixtures		472,829	(397,148)	(15,650)	60,031	508,890	(409,941)	(11,531)	87,418
Furniture and fixtures		4,142,277	(3,372,366)	(219,055)	550,856	4,190,808	(3,286,952)	(188,123)	715,733
Tools and equipment		98,605	(76,785)	(3,717)	18,103	97,042	(72,422)	(3,796)	20,824
Other PP&E		55,125	(28,879)	(8,332)	17,914	64,595	(32,357)	(8,356)	23,882
Construction-in-progress		991,019	-	(8,840)	982,179	668,479	-	-	668,479
Total	₩	21,432,397	(6,737,528)	(321,993)	14,372,876	21,302,990	(6,566,323)	(241,072)	14,495,595

(b) Changes in property, plant and equipment for the years ended December 31, 2020 are as follows:

(in millions of Korean won)

		2020					Ending balance	
		Beginning balance	Acquisitions	Depreciation	Impairment	Disposals		Others (*)
Land	₩	7,975,433	79	-	(456)	(243,014)	281,638	8,013,680
Buildings		4,723,871	40,487	(198,178)	(3,804)	(59,596)	5,840	4,508,620
Structures		194,092	729	(11,262)	(19,014)	(296)	(5,353)	158,896
Machinery		83,847	8,255	(15,906)	(16,755)	(364)	1,605	60,682
Vehicles		2,014	864	(730)	(107)	(94)	(33)	1,914
Display fixtures		87,417	5,809	(40,596)	(9,032)	(505)	16,937	60,030
Furniture and fixtures		715,735	117,727	(250,492)	(58,006)	(19,601)	45,493	550,856
Tools and equipment		20,824	5,361	(8,473)	(363)	(25)	780	18,104
Other PP&E		23,882	49	(1,563)	(3,379)	(15)	(1,062)	17,912
Construction-in-progress		668,480	612,936	-	(9,085)	(811)	(289,339)	982,181
Total	₩	14,495,595	792,296	(527,200)	(120,001)	(324,321)	56,506	14,372,875

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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13. Property, Plant and Equipment, continued

(c) Changes in property, plant and equipment for the year ended December 31, 2019 is as follows:

(in millions of
Korean won)

		2019							
		Beginning balance	Acquisitions	Changes due to business combination	Depreciation	Impairment	Disposals	Others (*)	Ending balance
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

(*) Others include reclassification between accounts, changes in acquisition cost, 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, supermarkets, cinema, e-commerce, etc. that have indication of impairment, and the details of impairment losses for the year ended December 31, 2020 are summarized as follows:

		2020							
		Department Store	Discount store	Consumer electronics retail	Supermarket	Cinema	E-Commerce	Others	Total
Impairment loss on property, plant and equipment	₩	27,492	70,015	1,048	4,344	12,431	-	4,670	120,000
Impairment loss on intangible assets (excluding goodwill)		169	256	-	-	2,557	5,261	851	9,094
Impairment loss on goodwill		135,872	42,763	28,394	66	-	28,265	9,383	244,743
Impairment loss on right-of-use asset		109,719	268,464	2,499	18,550	96,618	-	8,468	504,318
Impairment loss on other non-current assets		-	360	-	-	-	-	-	360
Total	₩	273,252	381,858	31,941	22,960	111,606	33,526	23,372	878,515

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13. Property, Plant and Equipment, continued

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

<i>(in millions of Korean won)</i>	2019							Total	
	Department Store	Discount store	Consumer electronics retail	Supermarket	Cinema	E-Commerce	Others		
Impairment loss on property, plant and equipment	₩	4,649	36,544	1,688	23,260	4,532	-	16,990	87,663
Impairment loss on intangible assets (excluding goodwill)		380	570	9	17	11	3,165	865	5,017
Impairment loss on goodwill		-	2,293	99,731	40,625	2,156	-	87	144,892
Impairment loss on right-of-use asset		263,475	490,766	2,137	120,271	45,796	-	25,068	947,513
Impairment loss on other non-current assets		-	1,911	-	-	554	-	-	2,465
Total	₩	268,504	532,084	103,565	184,173	53,049	3,165	43,010	1,187,550

-Due to change in categorization of sales segments during the year 2020, the financial information from the year 2019 was restated.

-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, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020					
	Offered assets (*)	Book amount	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings	₩	2,217,156	2,067,173	Secured Loan and others	1,665,790	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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	2020	2019
Capitalized borrowing costs	₩ 18,631	10,475
Capitalization interest rates	1.99%~4.60%	1.99%~4.60%

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14. Investment Property

(a) Investment property as of December 31, 2020 and December 31, 2019 are summarized as follows:

(in millions of Korean won)

		2020				2019			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	1,193,342	-	-	1,193,342	921,977	-	-	921,977
Buildings		594,326	(161,664)	(23)	432,639	786,302	(149,091)	(1)	637,210
Others (*)		751,241	(35,862)	(39,322)	676,057	964,231	(11,509)	(18,175)	934,547
Total	₩	2,538,909	(197,526)	(39,345)	2,302,038	2,672,510	(160,600)	(18,176)	2,493,734

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

(b) Changes in investment property for the year ended December 31, 2020 are as follows:

(in millions of Korean won)

		2020				
		Beginning balance	Acquisitions	Depreciation	Others (*2)	Ending balance
Land	₩	921,977	134,307	-	137,058	1,193,342
Buildings		637,210	70,376	(9,719)	(265,228)	432,639
Others (*1)		934,548	185	(19,164)	(239,512)	676,057
Total	₩	2,493,735	204,868	(28,883)	(367,682)	2,302,038

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

(*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, 2019 are as follows:

(in millions of Korean won)

		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.

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, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

		2020	2019
Rental income	₩	210,310	180,849
Direct operating expense (including maintenance and repair expenses)		65,888	56,800

(e) Fair value of investment property as of December 31, 2020 is as follows:

(in millions of Korean won)

		Book value	Fair value
Land and buildings	₩	2,302,038	3,757,637

15. Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2020 and December 31, 2019 are summarized as follows:

(in millions of Korean won)

		2020				2019			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	2,736,553	-	(1,448,113)	1,288,440	2,742,340	-	(1,203,371)	1,538,969
Industrial property rights		146,536	(9,407)	(449)	136,680	148,104	(10,769)	(225)	137,110
Rights to use facility		39,456	(37,694)	(608)	1,154	40,249	(37,775)	(578)	1,896
Membership		31,097	-	(3,553)	27,544	31,292	-	(3,647)	27,645
Other intangible Assets		411,149	(224,018)	(8,650)	178,481	325,525	(180,592)	(2,518)	142,415
Total	₩	<u>3,364,791</u>	<u>(271,119)</u>	<u>(1,461,373)</u>	<u>1,632,299</u>	<u>3,287,510</u>	<u>(229,136)</u>	<u>(1,210,339)</u>	<u>1,848,035</u>

(b) Changes in intangible assets for the year ended December 31, 2020 is as follows:

(in millions of Korean won)

		2020						Ending Balance
		Beginning balance	Acquisition	Amortization	Impairment	Disposals	Others (*)	
Goodwill	₩	1,538,969	-	-	(244,742)	(164)	(5,623)	1,288,440
Industrial property rights		137,110	220	(453)	(227)	(5)	35	136,680
Rights to use facility		1,896	-	(666)	(74)	-	(2)	1,154
Membership		27,645	-	-	(169)	(195)	263	27,544
Other intangible assets		142,415	21,621	(95,504)	(8,625)	(3,490)	122,064	178,481
Total	₩	<u>1,848,035</u>	<u>21,841</u>	<u>(96,623)</u>	<u>(253,837)</u>	<u>(3,854)</u>	<u>116,737</u>	<u>1,632,299</u>

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

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15. Goodwill and Intangible Assets, continued

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

(in millions of Korean won)

		2019								
		Beginning balance	Changes in accounting policy	Acquisitions	Business combination	Amortization	Impairment	Disposals	Others(*)	Ending balance
Goodwill	₩	1,601,819	(544)	86	75,747	-	(144,892)	(42)	6,795	1,538,969
Industrial property rights		138,818	-	230	-	(1,218)	(874)	-	154	137,110
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	₩	2,053,477	(159,282)	85,274	75,748	(101,726)	(149,909)	(1,518)	45,971	1,848,035

(*) 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, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

		2020	2019 (*)
Department stores	₩	99,829	235,701
Discount stores		34,986	83,463
Consumer electronics retail		843,673	872,067
TV home shopping		273,296	273,296
Supermarket		3,337	3,567
E-Commerce		-	28,265
Others		33,319	42,610
Total	₩	1,288,440	1,538,969

(*) Due to change in categorization of sales segments during the year 2020, the financial information from the year 2019 was restated.

- 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, 2020 was consistent with those used in 2019. 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.

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15. Goodwill and Intangible Assets, continued

- 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% (2019: 0~3.5%).

- The weighted average cost of capital from the same industry 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:

	<u>2020</u>	<u>2019</u>
Department stores	5.50%~7.38%	5.51% ~ 9.34%
Discount stores	5.50% ~10.00%	5.51% ~ 8.70%
Consumer electronics retail	7.63%	7.34%
TV home shopping	6.67%	6.67%
Supermarket	5.50% ~ 7.42%	5.51% ~ 7.40%
Cinema	8.86%	8.58%
E-Commerce	5.50%	5.51%
Others	4.55% ~ 9.77%	6.06% ~ 13.17%

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, 2020, recoverable amounts of the cash-generating units in discount stores, supermarket, consumer electronic retail and e-commerce were less than its book value, including goodwill, therefore impairment losses were recognized.

The impairment losses recognized in goodwill for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Department stores	₩	135,872	-
Discount stores		42,763	2,293
Supermarkets		66	40,712
Consumer electronics retail		28,394	99,731
Cinema		-	2,156
E-Commerce		28,264	-
Others		9,383	-
Total	₩	<u>244,742</u>	<u>144,892</u>

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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, 2020 and December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Department stores	₩	10,721	10,890
Discount stores		1,360	1,555
Consumer electronics retail		139,723	139,469
TV home shopping		8,775	8,775
Supermarket		1,744	1,744
Cinema		803	803
E-Commerce		406	406
Others		88	88
Total	₩	<u>163,620</u>	<u>163,730</u>

The impairment loss of ₩94 million is recognized during the current period, and as a result of the Group's impairment test on indefinite intangible assets for the year 2019, ₩389 million was recognized as impairment loss.

16. Trade and Other Payables

Details of trade and other payables as of December 31, 2020 and December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Trade payables	₩	681,214	753,030
Other payables		1,495,965	1,890,832
Total	₩	<u>2,177,179</u>	<u>2,643,862</u>

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17. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

		2020	2019
Current:			
Short-term borrowings	₩	1,553,891	916,101
Current portion of long-term borrowings		1,251,848	729,021
Current portion of discount on long-term borrowings		-	(1,023)
Current portion of debentures		1,142,080	1,197,340
Current portion of discount on debentures		(273)	(998)
Subtotal		<u>3,947,546</u>	<u>2,840,441</u>
Non-current:			
Long-term borrowings		2,115,453	2,520,830
Discount on long-term borrowings		(22,298)	(6,283)
Long-term debentures		4,163,800	4,224,584
Discount on debentures		(9,920)	(8,234)
Debentures redemption premium		7,681	7,681
Exchange rights adjustment		(20,013)	(28,499)
Subtotal		<u>6,234,703</u>	<u>6,710,079</u>
Total	₩	<u>10,182,249</u>	<u>9,550,520</u>

(b) Short-term borrowings as of December 31, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

Lender	Details	Annual interest rate		2020	2019
Korea Development Bank and others (*)	General note	1.05% ~ CoF 3M+2.50%	₩	1,353,891	816,101
Shinhan Bank	Financial note	CD (91) + 0.30% ~ CD (91) + 0.50%		200,000	100,000
	Total		₩	<u>1,553,891</u>	<u>916,101</u>

(*) As of the end of the reporting period, CoF 3M: 4.30%, CD(91): 0.66%

(c) Long-term borrowings as of December 31, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

Lender	Details	Annual interest rate		2020	2019
Mizuho Corporate Bank, Ltd. and others	Local currency	1.84% ~ 4.01%	₩	2,951,000	2,569,512
Lotte Holdings Co. Ltd (Japan) and others (*)	Foreign currency	3M USD Libor + 1.0% ~ CoF 2W + 0.9%		416,302	680,339
	Subtotal			<u>3,367,302</u>	<u>3,249,851</u>
Less: Discount on long-term borrowings				(22,298)	(7,305)
	Subtotal			<u>3,345,004</u>	<u>3,242,546</u>
Less: Current portion of long-term borrowings, net of discount				(1,251,848)	(727,998)
	Total		₩	<u>2,093,156</u>	<u>2,514,548</u>

(*) 3M USD Libor as of the end of reporting period: 0.24%, COF 2W: 5.95%

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17. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)

Description	Maturity	Annual interest rate	2020	2019
65-1st placed	2020-03-03	- ₩	-	160,000
65-2nd placed	2022-03-03	2.45%	240,000	240,000
66-1st placed	2020-06-23	-	-	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	-	-	110,000
70-2nd placed	2021-04-04	2.02%	170,000	170,000
70-3rd placed	2026-04-04	2.48%	70,000	70,000
72-1st placed	2020-01-23	-	-	240,000
72-2nd placed	2022-01-23	2.36%	160,000	160,000
73-1st placed	2020-06-15	-	-	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	108,800	115,780
76-2nd placed (foreign currency)	2021-05-21	3M USD Libor + 0.95	190,400	202,615
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	174,080	185,248
78-2nd placed (foreign currency)	2021-08-28	3M USD Libor + 0.95	108,800	115,780
79th placed	2033-08-07	3.55%	70,000	70,000
80th placed	2038-08-29	3.40%	30,000	30,000
81st placed (foreign currency)	2022-01-28	3M USD Libor	108,800	115,780
82-1st placed	2022-01-28	2.09%	110,000	110,000
82-2nd placed	2024-01-30	2.29%	150,000	150,000
82-3rd placed	2029-01-30	2.73%	140,000	140,000
83-1st placed	2024-08-29	1.59%	100,000	100,000
83-2nd placed	2026-08-28	1.67%	70,000	70,000
83-3rd placed	2029-08-29	1.80%	110,000	110,000
84th placed (foreign currency)	2022-11-29	3M USD Libor	108,800	115,780
85th placed	2023-04-28	2.33%	350,000	-

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17. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2020 and December 31, 2019 are as follows:, continued

Description	Maturity	Annual interest rate	2020	2019
86-1st placed	2025-07-18	2.20%	30,000	-
86-2nd placed	2030-07-19	2.58%	20,000	-
87-1st placed (foreign currency)	2023-08-18	3M USD Libor+1.40	108,800	-
87-2nd placed (foreign currency)	2023-08-21	3M USD Libor+1.30	54,400	-
87-3rd placed (foreign currency)	2023-08-28	3M USD Libor+2.10	54,400	-
88-1st placed	2025-09-23	2.07%	135,000	-
88-2nd placed	2030-09-23	2.55%	60,000	-
Exchangeable bonds (*)	2023-04-04	-	303,600	303,600
1st collateralized public bond (LOTTE REIT Co., Ltd.)	2022-07-30	1.55%	170,000	170,000
4-2nd corporate bond (Lotte Himart Co., Ltd.)	2020-10-28	-	-	100,000
4-3rd corporate bond (Lotte Himart Co., Ltd.)	2022-10-28	2.70%	40,000	40,000
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
7th corporate bond (Lotte Himart Co., Ltd.)	2023-06-11	2.18%	200,000	-
20-1st placed (Lotte Cultureworks Co., Ltd.)	2023-08-20	2.01%	60,000	-
20-2nd placed (Lotte Cultureworks Co., Ltd.)	2023-09-24	2.07%	40,000	-
20-3rd placed (Lotte Cultureworks Co., Ltd.)	2023-11-26	3.55%	20,000	-
Lotte Shopping Business Management (Hong Kong) Limited (Lotte Shopping Holdings(Hong Kong) Co., Ltd.))	2020-09-05	-	-	347,340
Subtotal			<u>5,305,880</u>	<u>5,421,923</u>
Less: Discount on debentures			(10,193)	(9,232)
Debentures redemption premium			7,681	7,681
Less: Exchange rights adjustment			(20,013)	(28,499)
Total book value			<u>5,283,355</u>	<u>5,391,873</u>
Less: Current portion of debentures			(1,141,807)	(1,196,342)
Total			<u>₩ 4,141,548</u>	<u>4,195,531</u>

(*) 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: | |

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17. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2020 and December 31, 2019 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, 2020 are as follows:

(in millions of Korean won)

		2020		
		Borrowings	Debentures	Total
	₩	1,251,849	1,142,080	2,393,929
2021.01.01 ~ 2021.12.31		824,845	1,187,600	2,012,445
2022.01.01 ~ 2022.12.31		1,290,608	1,501,200	2,791,808
2023.01.01 ~ 2023.12.31		-	500,000	500,000
2024.01.01 ~ 2024.12.31		-	975,000	975,000
After 2025.01.01		-	975,000	975,000
Total	₩	3,367,302	5,305,880	8,673,182

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18. Unearned Revenues

The details of unearned revenues as of December 31, 2020 and December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Current:			
Membership points	₩	1,015	1,450
Other points		49,326	47,362
Unearned rental income		9,444	10,528
Others (*)		98,724	121,528
Total		<u>158,509</u>	<u>180,868</u>
Non-current:			
Unearned rental income		39,453	46,002
Total	₩	<u>39,453</u>	<u>46,002</u>

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

19. Provisions

(a) Changes in provisions for the year ended December 31, 2020 are as follows:

<i>(in millions of Korean won)</i>	Beginning balance	Increase	Utilization	Ending balance
Current:				
Provision for bonus payable	₩ 620	46,206	(46,238)	588
Provision for sales return	8,738	5,799	(6,341)	8,196
Provision for restoration	2,301	783	(180)	2,904
Provision for litigation	3,314	2,103	(3,180)	2,237
Provision for restructuring	22,187	38,595	(48,172)	12,610
Other provisions (*)	11,845	32,043	(30,991)	12,897
Total	<u>49,005</u>	<u>125,529</u>	<u>(135,102)</u>	<u>39,432</u>
Non-current:				
Provision for restoration	128,041	4,673	(8,004)	124,710
Provision for litigation	-	6,915	-	6,915
Total	₩ <u>128,041</u>	<u>11,588</u>	<u>(8,004)</u>	<u>131,625</u>

(*) Other provisions include provision for broadcasting reserve fund and others.

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19. Provisions, continued

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

<i>(in millions of Korean won)</i>	Beginning balance	Increase	Utilization	Changes in subsidiaries	Ending balance
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 (*)	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>

(*) Other provisions include provision for broadcasting reserve fund and others.

20. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2020 and December 31, 2019 are summarized as follows:

<i>(in millions of Korean won)</i>	2020	2019
Current:		
Withholdings ₩	76,595	82,584
Withholdings of value added tax	87,596	122,367
Advances received	1,151,860	968,323
Other liabilities	1,300	1,959
Total ₩	<u>1,317,351</u>	<u>1,175,233</u>

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21. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2020 and 2019 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Present value of defined benefit obligations	₩	906,824	882,045
Fair value of plan assets		(985,359)	(921,213)
Defined benefit liabilities (assets)	₩	<u>(78,535)</u>	<u>(39,168)</u>

(b) Details of present value of other long-term employee benefits as of December 31, 2020 and 2019 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Present value of other long-term employee benefits	₩	31,422	70,602

(c) Changes in the defined benefit obligations for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning balance	₩	882,045	762,292
Current service costs		137,373	110,144
Past service costs		-	1,267
Interest costs		21,638	21,005
Remeasurements:			
Actuarial loss from change in demographic assumptions		1,594	(1,112)
Actuarial gain from change in financial assumptions		(33,946)	21,228
Actuarial gain from experience adjustments		(15,298)	29,104
Subtotal		<u>(47,650)</u>	<u>49,220</u>
Benefit payments		(87,788)	(52,406)
Others		1,206	(9,550)
Changes due to business combination		-	73
Ending balance	₩	<u>906,824</u>	<u>882,045</u>

(d) Changes in the plan assets for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning balance	₩	921,212	794,791
Return on plan assets		23,684	23,231
Remeasurements		(6,627)	(8,593)
Employer contribution		124,986	151,022
Benefit payments		(76,679)	(42,147)
Others		(1,217)	2,908
Ending balance	₩	<u>985,359</u>	<u>921,212</u>

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21. Employee Benefits, continued

The estimated contributions to the plan for the next annual reporting period are ₩107,519 million.

(e) The components of plan assets as of December 31, 2020 and 2019 are summarized as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Principal guaranteed insurance policies	₩ 985,217	921,067
Contributions to the National Pension Fund	141	145
Total	₩ <u>985,358</u>	<u>921,212</u>

(f) Expenses recognized for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Current service costs	₩ 137,373	110,144
Past service costs	-	1,267
Interest costs	21,638	21,005
Return on plan assets	(23,684)	(23,231)
Contributions to defined contribution plans and others	7,211	4,616
Long-term employee benefits	(30,740)	17,216
Total	₩ <u>111,798</u>	<u>131,017</u>

(g) Defined benefit obligation

① Actuarial assumptions

The principal actuarial assumptions used as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	1.42~7.99%	1.48~7.98%
Expected rate of promotion	0.94~3.86%	0.95~4.41%
Expected rate of increase in salaries	0.20~10.07%	0.67~11.43%

② Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions would have affected the defined benefit obligation by the amounts are as follows:

<i>(in millions of Korean won)</i>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩ (75,984)	88,379
Expected rate of promotion (1%p movement)	86,183	(61,648)
Expected rate of increase in salaries (1%p movement)	85,668	(77,003)

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

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21. Employee Benefits, continued

(h) Information about the maturity profile of the defined benefit obligation as of December 31, 2020 is as follows:

<i>(in millions of Korean won)</i>		Less than 1 year	Between 1-2 years	Between 2-5 years	Between 5-10 years	Over 10 years
Benefits payment	₩	70,245	79,515	259,921	533,825	1,833,130

The weighted average duration of the defined benefit obligation is 8.44 years.

22. Derivatives

(a) Details of derivatives outstanding as of December 31, 2020 are as follows:

Purpose	Type	Description
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures and borrowings in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Fixed interest is paid regarding variable interest of KRW and foreign currency borrowings.
Trade	Total return swap (*)	Cash flows of an investor in beneficiary are exchanged with contracted cash flows.
	Currency forward	The principal amount in KRW is exchanged based on agreed exchange rate at the maturity date.

(*) Total return swaps of the Group as of December 31, 2020 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.,			₩ 120,000								
		Silver Investment No. 2 Co., Ltd.	2016-04-27	2021-04-29	50,000						KB Securities		
		J's C No. 1 Co., Ltd.			50,000								
		LOG No. 1 Co., Ltd.			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.	2017-02-17	2022-02-17	24,300							KB Securities	
		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.			12,800							KB Securities	
		LMC No. 3 Co., Ltd.	2017-06-14	2022-06-16	20,000								
		LOY No. 1 Co., Ltd.			57,000								
		LOY No. 2 Co., Ltd.	2017-07-19	2022-07-20	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								

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22. Derivatives, continued

(b) Hedge Accounting

As of December 31, 2020, the Group entered into currency swap contracts to hedge fair value risk that debentures issued in foreign currency redeemed on the maturity date are dependent on changes in foreign currency. The gain or loss arising from changes in fair value of derivatives are recognized as profit or loss for the period since gain or loss on foreign currency translation from the debentures issued in foreign currency can be hedged through the currency swap.

Meanwhile, the Group entered into interest swap contracts for the purpose of hedging changes in interest rate of certain debentures issued in foreign currency and borrowings in Korean won. Effective portion of gain or loss on derivatives arising from the interest rate swaps is recognized in other comprehensive income and any ineffective portion is recognized in profit or loss for the period. The gain or loss on derivatives from the interest swap contracts are recognized in other comprehensive income as it is determined to be all effective.

Details of derivative contracts for hedging as of December 31, 2020 are as follows:

(in thousands of Korean won, full foreign currency)

Type	Description	Amount	Exchange Rate (KRW: in Korean won)	Annual Interest Rate	Payable interest rate	Maturity	Remarks	
Currency Swap	76-1st placed (foreign currency)	USD 100,000,000	KRW 1,078.50	3M USD Libor	2.38%	2021-05-21	MUFG Bank	
	76-2nd placed (foreign currency)	USD 175,000,000	KRW 1,078.50	3M USD Libor+0.95%	2.26%	2021-05-21	SMBC Bank	
	78-1st placed (foreign currency)	USD 160,000,000	KRW 1,136.00	3M USD Libor	2.46%	2021-08-17	MUFG Bank	
	78-2nd placed (foreign currency)	USD 100,000,000	KRW 1,122.00	3M USD Libor+0.95%	2.27%	2021-08-28	DBS Bank	
	81st placed (foreign currency)	USD 100,000,000	KRW 1,128.00	3M USD Libor	2.24%	2022-01-28	MUFG Bank	
	84th placed (foreign currency)	USD 100,000,000	KRW 1,177.00	3M USD Libor	1.87%	2022-11-29	MUFG Bank	
	87-1st placed (foreign currency)	USD 100,000,000	KRW 1,193.8	3M USD Libor+1.40%	2.26%	2023-08-18	Kookmin Bank	
	87-2nd placed (foreign currency)	USD 50,000,000	KRW 1,193.3	3M USD Libor+1.30%	1.47%	2023-08-21	Hana Bank	
	87-3rd placed (foreign currency)	USD 50,000,000	KRW 1,190.5	3M USD Libor+2.10%	2.16%	2023-08-28	Credit Agricole	
	Long-term Borrowing		USD 62,825,000	VND 23,232.86	Libor 3M+2.6%	5.13%	2023-09-08	Techcom bank
			USD 20,000,000	VND 23,292	Libor 3M+2.6%	5.13%	2023-09-08	Maritime bank
			USD 30,175,000	VND 23,190	Libor 3M+2.6%	4.81%	2023-09-08	Maritime bank
			USD 20,000,000	VND 23,190	Libor 3M+2.6%	4.92%	2023-09-08	Maritime bank
			USD 7,000,000	VND 23,190	Libor 3M+3.2%	5.41%	2023-09-08	Shinhan Bank
		USD 60,000,000	VND 23,190	Libor 3M+3.2%	5.52%	2023-09-08	Shinhan Bank	
		USD 10,000,000	VND 22,787	Libor 3M+1.6%	6.00%	2021-04-13	Standard Chartered bank	
		USD 10,000,000	VND 23,680	Libor 3M+1.0%	5.45%	2023-01-19	Standard Chartered bank	
		USD 5,000,000	VND 23,680	Libor 3M+2.0%	6.45%	2023-03-23	Standard Chartered bank	
Short-term borrowing			USD 9,000,000	VND 23,480	Libor 3M+2.7%	3.80%	2021-01-14	Maritime bank
		USD 5,000,000	VND 23,213	Libor 3M+2.7%	4.75%	2021-04-14	Maritime bank	
		USD 5,000,000	VND 23,250	Libor 3M+1.15%	5.05%	2021-02-10	Standard Chartered bank	
		USD 20,000,000	VND 23,260	Libor 3M+2.3%	5.50%	2021-06-23	Standard Chartered bank	

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Type	Description	Amount	Exchange Rate (KRW: in Korean won)	Annual Interest Rate	Payable interest rate	Maturity	Remarks
		USD 25,000,000	VND 23,260	Libor 3M+2.5%	5.70%	2021-06-23	Standard Chartered bank
		USD 10,000,000	VND 23,200	Libor 3M+2.17%	4.20%	2021-09-24	Standard Chartered bank
Interest rate Swap	Long-term borrowing	KRW 50,000,000	Not Applicable	CD (91) + 2.314%	3.43%	2021-04-13	KEB Hana Bank
	Short-term borrowing	KRW 200,000,000	Not Applicable	CD (91) + 0.50%	1.62%	2023-03-17	Shinhan Bank

22. Derivatives, continued

(c) Fair value of derivatives outstanding as of December 31, 2020 and 2019 are summarized as follows:

(in millions of Korean won)

Description	Type	2020		2019	
		Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swaps	₩ 1,086	44,800	21,899	9,156
	Interest swaps	-	26,863	-	287
Trade	Total return swap	9,724	-	21,545	-
	Currency forward	-	13,566	-	-
	Currency swaps	-	-	17,702	-
	Total	₩ 10,810	85,229	61,146	9,443

(d) Fair value gain (loss) of derivatives for the year ended December 31, 2020 are as follows:

(in millions of Korean won)

Purpose	Type	Amount	Note
Cash flow hedge	Currency swaps	₩ (83,638)	Profit or loss (*)
		372	Other comprehensive income
	Interest rate swaps	(987)	Other comprehensive income
Trade	Total return swap	(608)	Profit or loss
	Currency forward	(13,566)	Profit or loss
	Currency swaps	(3,117)	Profit or loss

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

23. Share Capital and Capital Surplus

(a) The share capital of the Company as of December 31, 2020 and 2019 are as follows:

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

	2020	2019
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)	28,288,755	28,288,755
Share capital	₩ 141,444	141,444

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23. Share Capital and Capital Surplus, continued

(b) Capital surplus as of December 31, 2020 and 2019 consists of the following:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Additional paid-in capital	₩	3,414,873	3,414,873
Others		159,339	159,339
Total	₩	<u>3,574,212</u>	<u>3,574,212</u>

24. Capital Adjustments

Capital adjustments as of December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Treasury stocks	₩	3,803	3,803
Other capital adjustments		3,009,010	3,008,756
Total	₩	<u>3,012,813</u>	<u>3,012,559</u>

25. Retained Earnings

Details of retained earnings as of December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Legal reserves	₩	241,885	231,142
Voluntary reserves		9,320,052	10,220,052
Unappropriated deficit		(385,336)	(541,010)
Total	₩	<u>9,176,601</u>	<u>9,910,184</u>

26. Accumulated Other Comprehensive Income (loss)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>			
		<u>Beginning balance</u>	<u>Changes for the year</u>	<u>Tax effects for the year</u>	<u>Ending balance</u>
Fair value gain (loss) through other comprehensive income	₩	109,741	(63,484)	10,671	56,928
Exchange rate differences on translating foreign operations		(60,776)	(11,852)	3,003	(69,625)
Cash flow hedge		(12,410)	(509)	(509)	(13,428)
Interests in the other comprehensive income in investment in associates		(36,219)	(20,114)	4,602	(51,731)
Total	₩	<u>336</u>	<u>(95,959)</u>	<u>17,767</u>	<u>(77,856)</u>

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26. Accumulated Other Comprehensive Income (loss), continued

(in millions of Korean won)

		2019			
		Beginning balance	Changes for the year	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	53,570	82,199	(26,028)	109,741
Exchange rate differences on translating foreign operations		(67,878)	9,370	(2,268)	(60,776)
Cash flow hedge		(8,148)	(5,793)	1,531	(12,410)
Interests in the other comprehensive income in investment in associates		(69,524)	37,000	(3,695)	(36,219)
Total	₩	(91,980)	122,776	(30,460)	336

27. Earnings (losses) per Share

(a) Basic earnings (losses) per share for the years ended December 31, 2020 and 2019 are as follows:

(i) December 31, 2020

(in Korean won, except for number of shares)

		2020	
		Continuing operations	Discontinued operations
Profit (Loss) for the year attributable to the owners of the Company	₩	(809,618,746,752)	23,679,056,399
Weighted average number of common shares outstanding		28,270,640	28,270,640
Basic earning (loss) per share	₩	(28,638)	838

(ii) December 31, 2019

(in Korean won, except for number of shares)

		2019	
		Continuing operations	Discontinued operations
Profit (Loss) for the year attributable to the owners of the Company	₩	(963,528,556,668)	67,203,003,872
Weighted average number of common shares outstanding		28,270,640	28,270,640
Basic earning (loss) per share	₩	(34,082)	2,377

(iii) Weighted average number of common shares outstanding

(in number of shares)

	2020	2019
Initial number of common shares outstanding	28,288,755	28,288,755
Treasury share	(18,115)	(18,115)
Weighted average number of common shares outstanding	28,270,640	28,270,640

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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, 2020 and 2019 are as follows:

(i) December 31, 2020

(in Korean won, except for number of shares)

		2020	
		Continuing operations	Discontinued operations
Profit (Loss) for the year attributable to the owners of the Company	₩	(809,618,746,752)	23,679,056,399
Effect of exchange of exchangeable bond, net of tax (*)		(8,994,156,899)	-
Diluted profit(loss) attributable to common shareholders		(818,612,903,651)	23,679,056,399
Weighted average number of common shares for diluted earnings per share		28,270,640	28,270,640
Diluted earning (loss) per share	₩	(28,956)	838

(*) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd. for the year ended December 31, 2020.

(ii) December 31, 2019

(in Korean won, except for number of shares)

		2019	
		Continuing operations	Discontinued operations
Profit (Loss) for the year attributable to the owners of the Company	₩	(963,528,556,668)	67,203,003,872
Effect of exchange of exchangeable bond, net of tax (*)		(9,363,465,684)	-
Diluted profit(loss) attributable to common shareholders		(972,892,022,352)	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	₩	(34,414)	2,377

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

(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, 2020 and 2019 are as follows:

		<u>2020</u>	<u>2019</u>
<i>(in millions of Korean won)</i>			
	Sales of merchandise	₩ 19,667,770	21,428,199
	Sales of products	651,705	529,361
	Other sales (*)	1,512,610	1,862,178
	Total sales	<u>21,832,085</u>	<u>23,819,738</u>
Revenue from contracts with customers	Sales discounts and sales returns	(1,185,998)	(1,207,320)
	Provision for sales return and deferred sales	(236,468)	(283,469)
	Cost of specific sales	(5,390,436)	(6,050,934)
	Total sales deduction	<u>(6,812,902)</u>	<u>(7,541,723)</u>
	Revenue from other sources: rental revenue	1,165,199	1,343,985
	Total	<u>₩ 16,184,382</u>	<u>17,622,000</u>

(*) Due to COVID-19, other sales include government grant of ₩3,068 million received from Korean Film Council for cinema promotion and also include government grant of ₩5,871 million received from Korea Argo-Fisheries & Food Trade Corporation and Korea Fisheries Association to promote agricultural consumption.

(b) The contract assets and liabilities of the Group recognized related to the revenue from contracts with customers as of December 31, 2020 and 2019 are as follows:

		<u>2020</u>	<u>2019</u>
<i>(in millions of Korean won)</i>			
Contract assets			
	Inventory expected for return	₩ 1,061	1,602
	Total	<u>1,061</u>	<u>1,602</u>
Contract liabilities			
	Customer loyalty program	93,474	102,956
	Gift vouchers	817,378	780,208
	Others	156,887	133,137
	Total	<u>₩ 1,067,739</u>	<u>1,016,301</u>

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28. Sales, continued

(c) The amounts recognized as revenue and redemption of gift vouchers for the year ended December 31, 2020, in relation to contract liabilities carried forward from the year ended December 31, 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Revenue			
Customer loyalty programs		102,806	69,579
Others	₩	<u>129,338</u>	<u>120,922</u>
Total		<u>232,144</u>	<u>190,501</u>
Collected			
Gift vouchers		<u>406,947</u>	<u>477,207</u>
Total	₩	<u>406,947</u>	<u>477,207</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>
₩	817,378	428,836	385,001	3,541

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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, 2020 and December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Salaries and bonuses	₩ 1,289,127	1,372,955
Retirement benefits	143,064	112,718
Long-term employee benefits	(30,206)	17,025
Employee benefits	242,929	269,163
Training expenses	9,845	17,250
Travel expenses	15,904	24,863
Vehicles maintenance expenses	2,501	2,978
Insurance premiums	14,136	16,945
Taxes and dues	190,033	300,812
Entertainment expenses	4,115	4,979
Supplies expenses	49,720	64,107
Publication expenses	1,606	1,668
Communication expenses	22,630	24,190
Utility expenses	256,673	291,434
Repairs and maintenance	41,530	40,944
Rental expenses	124,299	154,592
Depreciation	1,162,104	1,400,751
Amortization	48,088	33,273
Commission expenses	1,079,057	1,150,973
Service commission expenses	919,590	1,005,704
Advertising expenses	182,796	233,328
Samples expenses	232	210
Sales commissions	115,581	141,287
Sales promotion expenses	99,741	139,472
Decoration expenses	8,756	8,571
Bad debt expenses	2,321	1,744
Transportation expenses	176,809	182,339
Research and development expenses	276	343
Provisions (reversal)	4,708	(20,629)
Compensation expenses	14,893	11,916
Others	1,730	3,564
Total	₩ <u>6,194,588</u>	<u>7,009,469</u>

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30. Other Income and Expenses

Details of other income and expenses for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Other income:			
Gain on foreign currency transactions	₩	2,906	2,313
Gain on foreign currency translation		492	424
Gain on disposal of property, plant and equipment		17,102	5,377
Gain on disposal of intangible assets		-	3
Reversal of impairment loss on intangible assets		263	-
Gain on expired lease		119,376	3,063
Gain on disposal of right-of-use assets		22,271	4,314
Gain on bargain purchase		-	706
Gain on disposal of assets and liabilities held for sale		3,351	3,373
Gain on disposal of other non-current assets		-	3,038
Reversal of impairment losses on other non-current assets		52	-
Miscellaneous gains		53,213	66,253
Total	₩	<u>219,026</u>	<u>88,864</u>
Other expenses:			
Loss on foreign currency transactions	₩	2,655	1,415
Loss on foreign currency translation		2,345	680
Loss on disposal of property, plant and equipment		19,888	7,841
Impairment loss on right-of-use assets		504,318	947,514
Impairment loss on property, plant and equipment		120,001	87,662
Loss on disposal of intangible assets		2,318	342
Impairment loss on intangible assets		253,837	149,909
Loss on expired lease		3,215	322
Loss on disposal of right-of-use assets		14,997	3,500
Loss on disposal of assets held for sale		295	-
Impairment loss on assets held for sale		-	35,288
Impairment loss on other non-current assets		360	2,465
Donations		17,640	23,316
Other bad debt expenses		7,278	6,964
Miscellaneous losses		18,347	66,258
Others		460	94
Total	₩	<u>967,954</u>	<u>1,333,570</u>

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31. Nature of expenses

Details of nature of expenses for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Purchase of inventories	₩	9,278,386	9,890,083
Changes in inventories		191,830	3,624
Employee benefits		1,662,228	1,792,521
Rental expenses		127,034	157,727
Depreciation and amortization		1,274,746	1,519,024
Sales commissions		115,581	141,287
Sales promotion expenses		109,490	164,391
Commission expenses		1,093,441	1,165,165
Service expenses		941,092	1,080,191
Advertising expenses		195,731	262,176
Utility expenses		261,756	297,677
Taxes and dues		192,455	303,212
Others		394,527	417,012
Total of costs of goods sold and selling, general and administration expenses	₩	<u>15,838,297</u>	<u>17,194,090</u>

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32. Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Finance income:			
Interest income according to the effective interest rate method	₩	77,402	110,441
Dividend income		11,227	11,043
Gain on foreign currency transactions		6,766	17,798
Gain on foreign currency translation		83,310	8,689
Gain on valuation of debt instrument measured at fair value through profit or loss		2,819	2,076
Gain on disposal of debt instrument measured at fair value through profit or loss		4	77
Gain on valuation of financial liability measured at fair value through profit or loss		73,669	23,616
Gain on valuation of derivatives held for hedging		-	24,463
Gain on valuation of derivatives held for trading		7,462	24,691
Gain on transaction of derivatives held for hedging		18	7,110
Gain on transaction of derivatives held for trading		817	4,051
Gain on disposal of investments in subsidiaries, associates and joint ventures		1,879	55,879
Reverse of impairment loss on investments in associates		1,964	-
Gain on disposal of assets and liabilities held for sales		153	-
Total	₩	<u>267,490</u>	<u>289,934</u>
Finance costs:			
Interest expense	₩	486,530	491,246
Loss on foreign currency transactions		3,469	18,457
Loss on foreign currency translation		22,556	37,988
Loss on valuation of debt instrument measured at fair value through profit or loss		5,207	2,275
Loss on disposal of debt instrument measured at fair value through profit or loss		-	2
Loss on valuation of derivatives held for hedging		83,638	2,462
Loss on valuation of derivatives held for trading		24,753	14,379
Loss on transaction of derivatives held for hedging		66	120
Loss on transaction of derivatives held for trading		3,426	468
Financial guarantee expense		2,991	-
Loss on disposal of investments in subsidiaries, associates and joint ventures		323	10,064
Impairment loss on investments in associates & joint ventures		16,151	115,824
Total	₩	<u>649,110</u>	<u>693,285</u>

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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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020							
		Cash and cash equivalents	Financial assets at amortized cost	Financial instruments at fair value through profit or loss	Financial instruments 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	₩	34,090	43,312	-	-	-	-	-	77,402
Interest expense		(2,265)	(17,818)	-	-	(3,642)	-	(462,804)	(486,529)
Dividend income		-	-	-	11,227	-	-	-	11,227
Valuation / Disposal		-	-	71,437	-	(19,900)	(83,686)	-	(32,149)
Impairment		-	(9,599)	-	-	-	-	-	(9,599)
Exchange differences		3,976	(2,361)	(1,646)	72,220	-	-	(9,740)	62,449
Financial guarantee expense		-	-	-	-	-	-	(2,991)	(2,991)
Subtotal		35,801	13,534	69,791	83,447	(23,542)	(83,686)	(475,535)	(380,190)
Recognized in other comprehensive income (loss)(*)									
Fair value gain through other comprehensive income		-	-	-	158,670	-	-	-	158,670
Gain (loss) on valuation of derivatives		-	-	-	-	-	(615)	-	(615)
Subtotal		-	-	-	158,670	-	(615)	-	158,055
Total	₩	35,801	13,534	69,791	242,117	(23,542)	(84,301)	(475,535)	(222,135)

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

(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)	23,653	-	13,894	28,990	-	66,375
Impairment		-	(8,690)	-	-	-	-	(18)	(8,708)
Exchange differences		(1,734)	4,988	(5)	-	-	-	(32,566)	(29,317)
Subtotal		42,898	48,612	26,166	8,551	13,894	28,990	(510,522)	(341,411)
Recognized in other comprehensive income (loss) (*)									
Fair value gain through other comprehensive income		-	-	-	101,496	-	-	-	101,496
Gain (loss) on valuation of derivatives		-	-	-	-	-	(5,819)	-	(5,819)
Subtotal		-	-	-	101,496	-	(5,819)	-	95,677
Total	₩	42,898	48,612	26,166	110,047	13,894	23,171	(510,522)	(245,734)

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

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33. Income Taxes

(a) Tax income for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Current income taxes	₩	68,462	104,539
Deferred tax due to temporary differences		<u>(113,471)</u>	<u>(333,691)</u>
Total income tax effect		(45,009)	(229,152)
Income tax charged directly to equity		<u>(15,982)</u>	<u>(20,979)</u>
Tax income (*)	₩	<u><u>(60,991)</u></u>	<u><u>(250,131)</u></u>

(*) 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, 2020 and 2019, are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Fair value gain (loss) through other comprehensive income	₩	(10,809)	(36,114)
Exchange differences on translating foreign operations		3,741	(3,724)
Gain (loss) on valuation of derivatives		(403)	1,557
Remeasurements of defined benefit liabilities		(13,300)	20,935
Changes in equity of equity method investments		<u>4,789</u>	<u>(3,633)</u>
Income tax charged directly to equity	₩	<u><u>(15,982)</u></u>	<u><u>(20,979)</u></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.

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33. Income Taxes, continued

(c) Income tax expense and related accounting benefits for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Net loss before income tax expense	₩	(747,561)	(1,066,609)
Income tax using statutory tax rate		(180,448)	(256,878)
Adjustment:			
Tax effects on non-taxable income		(94,565)	(107,162)
Tax effects on non-deductible expense		47,312	107,644
Tax credit		(879)	(1,941)
Adjustment for prior periods		(19,481)	(14,013)
Tax effects on share of profit (loss) of subsidiaries and associates		(20,283)	(30,074)
Changes in deferred tax assets that are not realizable		117,620	48,182
Changes in deferred tax due to change in tax rate		50,010	-
Others		39,723	4,111
Tax income	₩	<u>(60,991)</u>	<u>(250,131)</u>
Effective tax rate (*)		-	-

(*) The Group did not present effective tax rate due to loss incurred in 2020 and 2019.

(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
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33. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020			
		Beginning balance	Profit or loss	Equity	Ending balance
Buildings	₩	(10,397)	825	-	(9,572)
Depreciation		84,738	(15,204)	-	69,534
Allowance for bad debt expense		1,445	9,359	-	10,804
Accrued income		(2,238)	934	-	(1,304)
Unearned revenues		4,119	(3,547)	-	572
Long-term prepaid expenses		(35,982)	(498)	-	(36,480)
Losses on valuation of inventories		7,988	(1,941)	-	6,047
Provision for sales return		1,407	15	-	1,422
Property, plant and equipment (capitalization of borrowing costs)		(10,719)	1,196	-	(9,523)
Land		32,283	(74)	-	32,209
Land (asset revaluation)		(1,071,987)	9,225	-	(1,062,762)
Provision for mileage program		182	262	-	444
Accrued expense		13,171	(3,402)	-	9,769
Gain (loss) on foreign currency translation		1,763	(210)	-	1,553
Construction-in-progress		1,619	(263)	-	1,356
Other intangible assets		(47,010)	42,895	-	(4,115)
Security deposits for leases		27,288	41,861	-	69,149
Goodwill		(47,554)	32,989	-	(14,565)
Exchangeable bonds		(7,837)	2,994	-	(4,843)
Investments in subsidiaries and associates		(113,500)	551	4,789	(108,160)
Fair value gain (loss) on equity instruments through other comprehensive income		(93,029)	-	(10,809)	(103,838)
Loss (gain) on valuation of derivatives		5,338	(402)	(402)	4,534
Salaries and retirement benefits		23,022	(4,981)	(13,300)	4,741
Translation difference of foreign subsidiaries		2,547	-	3,741	6,288
Right-of-use assets and lease liabilities		318,164	(47,887)	-	270,277
Others		103,437	64,756	-	168,193
Total	₩	(811,742)	129,453	(15,981)	(698,270)

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33. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2020 and 2019 are as follows, continued

(in millions of Korean won)

		2019			
		Beginning balance	Profit or loss	Equity	Ending balance
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)

(f) As of December 31, 2020 and 2019, 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)

		2020	2019
Investments in associates	₩	73,063	281,325
Investments in subsidiaries		2,435,785	2,361,895
Total	₩	2,508,848	2,643,220

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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34. Consolidated Statements of Cash Flows

(a) As of December 31, 2020 and 2019, the details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Cash	₩	17,533	16,948
Deposits		334,088	483,574
Other cash equivalents		1,561,615	1,086,070
Total	₩	<u>1,913,236</u>	<u>1,586,592</u>

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 2020 and 2019 are as follows:

(i) Adjustments

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Retirement benefits	₩	135,327	109,184
Long-term employee benefits (reversal)		(30,740)	17,216
Depreciation		1,178,122	1,417,298
Amortization		96,624	101,726
Impairment loss on intangible assets		253,837	149,909
Loss on disposal of intangible assets		2,318	523
Loss on foreign currency translation		24,901	38,667
Loss on foreign currency transactions		2,209	16,764
Loss on disposal of property, plant and equipment		19,888	7,951
Loss on expired lease		3,215	322
Loss on disposal of right-of-use assets		14,997	3,500
Impairment loss on property, plant and equipment		120,001	87,662
Impairment loss on right-of-use assets		504,318	947,513
Financial guarantee expense		2,991	-
Bad debt expense (reversal)		(18,775)	(74,613)
Contribution (reversal) to other provisions liabilities		11,717	(23,763)
Impairment loss on other non-current assets		360	2,465
Loss on valuation of debt instrument at fair value through profit or loss		5,207	2,275
Loss on disposal of debt instrument at fair value through profit or loss		-	2
Loss on transactions of derivatives		3,492	588
Loss on valuation of derivatives		108,392	16,841
Equity method loss on instrument in associates and joint ventures		21,024	46,818
Loss on disposal of investments in associates, joint ventures and subsidiaries		323	10,670
Impairment loss on investments in associates and joint ventures		16,150	115,824
Miscellaneous losses		3,249	13,211
Impairment loss on assets held for sale		-	35,288
Loss on disposal of assets held for sale		295	-
Other expenses without cash outflows		1,349	10,634

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2020 and 2019

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, 2020 and 2019 are as follows:, continued

(i) Adjustments, continued

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Interest expense	₩	500,667	507,894
Income tax profit		(60,991)	(250,131)
Gain on foreign currency translation		(83,802)	(9,113)
Gain on foreign currency transactions		(6,464)	(17,048)
Gain on disposal of property, plant and equipment		(17,101)	(5,377)
Gain on disposal of intangible assets		-	(3)
Gains on the disposal of assets held for sale		(3,505)	(3,373)
Gains on expired lease		(119,376)	(3,063)
Gain on disposal of right-of-use assets		(22,271)	(4,314)
Gain on valuation of debt instrument at fair value through profit or loss		(2,819)	(2,076)
Gain on disposal of debt instrument at fair value through profit or loss		(4)	(77)
Gain on valuation of financial liabilities at fair value through profit or loss		(73,669)	(23,616)
Gain on transactions of derivatives		(836)	(11,160)
Gain on valuation of derivatives		(7,462)	(49,153)
Equity method profit on instrument in associates and joint ventures		(34,248)	(133,153)
Gain on disposal of investments in associates, joint ventures and subsidiaries		(4,613)	(56,740)
Other income without cash inflows		(21,484)	(20,614)
Interest income		(77,436)	(110,555)
Dividend income		(11,227)	(11,043)
Total	₩	<u>2,434,150</u>	<u>2,851,760</u>

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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, 2020 and 2019 are as follows:, continued

(ii) Changes in operating assets and liabilities

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Decrease in trade receivables	₩	201,625	38,423
Decrease in other receivables		24,904	65,936
Decrease in other financial assets		71,981	49,207
Decrease (increase) in inventories		242,881	(5,112)
Decrease (increase) in other non-financial assets		(19,388)	48,577
Decrease in trade payables		(52,749)	(12,756)
Decrease in other payables		(361,613)	(310,650)
Decrease in other financial liabilities		(63,760)	(65,397)
Increase (decrease) in unearned revenues		(23,999)	32,946
Decrease in provisions		(2,818)	(17,307)
Increase (decrease) in other non-financial liabilities		(16,191)	52,100
Payment of defined benefit liabilities		(83,240)	(52,954)
Payment of other long-term employee benefits		(7,080)	(5,889)
Increase in plan assets		(48,902)	(109,755)
Total	₩	<u>(138,349)</u>	<u>(292,631)</u>

(c) Non-cash transactions for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Payables for acquisition of property, plant and equipment	₩	(18,815)	(1,357)
Payables for acquisition of intangible assets		(1,697)	1,378
Acquisition of right-of-use assets		189,435	453,497
Reclassification of borrowings and debentures to current portion		2,393,656	1,924,340
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, 2020 are as follows:

(in millions of Korean won)

		2020					Total
		Liabilities from financing activities					
		Short-term borrowings and debentures	Long-term borrowings and debentures	Non-current financial liabilities at fair value through profit or loss (*2)	Lease liabilities	Derivatives for hedging	
Beginning balance	₩	2,840,441	6,710,079	110,676	6,662,981	(12,456)	16,311,721
Net cash flow from financing activities		(1,200,883)	1,958,006	-	(543,897)	-	213,226
Non-cash flows(*1)		2,307,988	(2,433,382)	(73,669)	109,199	83,033	(6,831)
Ending balance	₩	3,947,546	6,234,703	37,007	6,228,283	70,577	16,518,116

(*1) 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.

(*2) Since there was conditional repurchase agreement existed when trading in-kind contributions of Lotte Cultureworks Co., Ltd, the estimated repurchased amounts for the future were classified as non-current financial liabilities at fair value through profit or loss.

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

(in millions of Korean won)

		2019					Total
		Liabilities from financing activities					
		Short-term borrowings and debentures	Long-term borrowings and debentures	Non-current financial liabilities at fair value through profit or loss (*2)	Lease liabilities	Derivatives for hedging	
Beginning balance	₩	1,980,154	5,814,745	-	6,849,845	25,589	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(*1)		2,079,319	(1,955,316)	110,676	318,087	(38,045)	514,721
Ending balance	₩	2,840,441	6,710,079	110,676	6,662,981	(12,456)	16,311,721

(*1) 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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As of December 31, 2020 and 2019

34. Consolidated Statements of Cash Flows, continued

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

(*2) Since there was conditional repurchase agreement existed when trading in-kind contributions of Lotte Cultureworks Co., Ltd, the estimated repurchased amounts for the future were classified as non-current financial liabilities at fair value through profit or loss.

35. Greenhouse Gases Emission Rights

(a) Emission Right

The Company 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 (tCO₂-eq)</u>
2018	810,303
2019	759,093
2020	679,878

The Company has carried forward emission right of 112,674 tCO₂-eq from the previous compliance period. There are no pledged emission rights as of the end of 2020, and the submitted emission rights to the government is 801,340 tCO₂-eq in 2018 and 744,228 tCO₂-eq in 2019. The Group has 750,571 tCO₂-eq as of December 31, 2020.

(b) Emission liabilities

The Company disposed of 35,347 tCO₂-eq and 30,462 tCO₂-eq of emission in 2020 and 2019 respectively and estimated to emit 699,346 tCO₂-eq of CO₂ in 2020.

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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:

Classification	Department store	Discount store	Consumer electronics retail	Supermarket	TV home shopping	Cinema	E-Commerce	Others
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	Movie and video screening business	Retail industry under e-commerce regulation	Others
Major products or services	Sales of merchandise and leasing		Sales of home appliance	Sales of merchandise and leasing	Sales of merchandise	Operating movie theaters	Sales of merchandise, leasing, etc.	
Major Customers	General Consumers							

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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020								
		Department store	Discount store	Consumer electronics retail	Supermarket	TV home shopping	Cinema	E-commerce	Others	Total
Revenue from customers	₩	2,585,206	5,968,174	4,051,681	1,649,711	1,051,824	265,351	115,249	497,186	16,184,382
Inter-segment sales		69,934	70,629	48	6,826	24,041	348	22,647	128,901	323,374
Total segment sales	₩	2,655,140	6,038,803	4,051,729	1,656,537	1,075,865	265,699	137,896	626,087	16,507,756

(in millions of Korean won)

		2019								
		Department store	Discount store	Consumer electronics retail	Supermarket	TV home shopping	Cinema	E-commerce	Others	Total
Revenue from customers	₩	3,045,857	6,286,762	4,026,381	1,850,300	966,668	769,954	158,334	517,744	17,622,000
Inter-segment sales		84,557	43,906	83	10,863	20,235	1,117	31,613	76,147	268,521
Total segment sales	₩	3,130,414	6,330,668	4,026,464	1,861,163	986,903	771,071	189,947	593,891	17,890,521

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36. Operating Segment, continued

(c) Reconciliations of total segment sales and operating profit to their respective consolidated financial statements line items for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		Sales		Operating profit	
		2020	2019	2020	2019
Department store	₩	2,655,140	3,130,414	327,707	519,368
Discount store		6,038,803	6,330,668	17,948	(26,160)
Consumer electronics retail		4,051,729	4,026,464	161,076	109,857
Supermarket		1,656,537	1,861,163	(20,071)	(103,845)
TV home shopping		1,075,865	986,903	125,194	120,046
Cinema		265,699	771,071	(160,442)	1,396
E-Commerce		137,896	189,947	(94,831)	(55,999)
Others		626,087	593,891	41,660	(6,791)
Segment total		16,507,756	17,890,521	398,241	557,872
Elimination of inter-segment amounts		(323,374)	(268,521)	(50,481)	(131,027)
Reclassification of income from discontinued operations		-	-	(1,676)	1,066
After consolidated adjustments	₩	16,184,382	17,622,000	346,084	427,911

(in millions of Korean won)

		Depreciation and amortization		Profit (loss) for the year	
		2020	2019	2020	2019
Department store	₩	559,063	634,619	(70,923)	244,762
Discount store		306,641	401,495	(427,137)	(626,471)
Consumer electronics retail		143,805	135,559	28,903	(99,861)
Supermarket		54,345	93,618	(54,535)	(198,976)
TV home shopping		26,589	24,843	101,588	112,951
Cinema		166,376	214,433	(235,380)	(62,645)
E-Commerce		20,999	15,630	(120,261)	(45,527)
Others		99,502	83,322	(27,526)	(82,430)
Segment total		1,377,320	1,603,519	(805,271)	(758,197)
Elimination of inter-segment amounts		(102,574)	(84,495)	118,702	(58,280)
Reclassification of income from discontinued operations		-	(12)	(23,679)	(67,203)
After consolidated adjustments	₩	1,274,746	1,519,012	(710,248)	(883,680)

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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, 2020 and 2019 are as follows:

(in millions of Korean won)

		Assets		Liabilities	
		2020	2019	2020	2019
Department store	₩	17,312,152	18,350,588	13,359,745	13,833,628
Discount store		8,563,053	9,524,551	3,515,422	4,036,288
Consumer electronics retail		3,349,436	3,095,023	1,423,236	1,173,059
Supermarket		1,006,103	1,091,996	361,374	404,805
TV home shopping		1,525,077	1,201,685	484,813	365,296
Cinema		1,453,481	1,552,152	1,308,233	1,135,958
E-Commerce		205,618	265,367	127,512	152,017
Others		5,723,951	5,828,502	2,855,978	3,362,107
Segment total		39,138,871	40,909,864	23,436,313	24,463,158
Elimination of inter-segment amounts		(6,309,467)	(6,937,248)	(1,695,671)	(2,281,551)
After consolidated adjustments	₩	32,829,404	33,972,616	21,740,642	22,181,607

(e) Sales, before consolidated adjustments, by geographical areas for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

Region		2020	2019
Domestic	₩	15,075,343	16,254,734
China		38,829	59,016
Vietnam		351,582	433,595
Indonesia		1,041,838	1,143,023
Russia		164	153
Total	₩	16,507,756	17,890,521

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37. Contingencies and Commitments

(a) As of December 31, 2020, the Group has the following credit 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	1,466,500	1,307,000
	CNY	248,000,000	248,000,000
	VND	1,785,000,000,000	1,217,000,000,000
	USD	638,000,000	638,000,000
	IDR	2,710,000,000,000	2,510,000,000,000
Discount of bill	KRW	550,000	500,000
Buyer's credit	KRW	303,000	6,552
Bank overdraft	KRW	75,000	-
	IDR	282,100,200,000	-
Letter of credit and others	USD	42,000,000	7,692,852

(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, discount stores and supermarket. In return, the Company receives 10% of operating profits (before depreciation expenses) as management fees and this is recorded as other sales.

2) Woori Home Shopping & Television Co.Ltd.

Woori Home Shopping & Television Co. Ltd., a subsidiary of Group, has signed a partnership card issuance agreement with Shinhan Card Co., Ltd, 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 Co., Ltd, 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.

4) LOTTE Town Dongtan Co.,LTD

LOTTE Town Dongtan Co.,LTD, a subsidiary of Group, agrees to provide subrogation with Lotte Engineering & Construction and right-holders of purchase of the building (apartment), regarding the obligation to repay principal loan amount from intermediate loan agreement, which amount is not guaranteed by Korea Housing & Urban Guarantee Corporation. This is in relation to construction of "Dongtan Station Lotte Castle" which is expected to initiate construction in Hwasung City, Dongtan 2, C-11 Block.

(c) As of December 31, 2020 the Group is involved in 33 lawsuits as a plaintiff totaling ₩65,484 million and the Group is involved in 43 lawsuits as a defendant totaling ₩104,290 million. Regarding 9 lawsuits as a defendant, the Group recorded ₩9,152 million as provisions.

Also, the Group is involved in 8 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩23,487 million and the Group recognized other liabilities of ₩2,236 million in regard to the claim on

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

victims of humidifier disinfectant as of December 31, 2020.

37. Contingencies and Commitments, continued

The group 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.

The administrative lawsuit is in place currently as the Company was fined by the Fair Trade Commission in connection with the promotion cost of the discount store business unit. At this time, the Company cannot reliably estimate the impact from the result of the litigation. The imposed fine was fully recognized as an expense during the year 2019.

Also, 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. The lawsuit to request for cancellation of suspension and execution were filed and, suspension of execution was admitted.

The lawsuit between Lotte Properties (Chengdu) Limited, a subsidiary of the Group, and the Chinese government is in place regarding short-term financial instrument with restricted usage. It was frozen by the Chinese government in connection with land-raising payments. The result of the litigation cannot reliably estimate at this time.

(d) As of December 31, 2020, the Group has entered into loan agreements securing trade receivables with KEB Hana Bank and others amounting to ₩1,135,000 million.

(e) Performance guarantees and others.

1) Lotte Shopping Co., Ltd.

As of December 31, 2020, the Company is provided performance guarantees totaling ₩55,551 million (126 cases) from Seoul Guarantee Insurance Company and others for its business.

2) Woori Home Shopping Co., Ltd.

As of December 31, 2020, Woori Home Shopping Co., Ltd., a subsidiary of Group, is provided the payment guarantee for product sales from the INDUSTRIAL BANK OF KOREA (₩5,300 million) and agreement performance guarantee form Seoul Guarantee Insurance Company (₩2,664 million).

3) Lotte Himart Co., Ltd.

As of December 31, 2020, 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 ₩10,855 million from Seoul Guarantee Insurance Company.

4) LOTTE Town Dongtan Co.,LTD

As of December 31, 2020, LOTTE Town Dongtan Co.,LTD. is provided the guarantees in relation with the implementation of agreement on Korea Land and Housing Corporation, totaling of ₩28,460 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, 2020. 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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37. Contingencies and Commitments, continued

(g) As of December 31, 2020, the Company 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 24th, 2022) of KORAMCO Specialty Investment Private Property Investment Trust No. 57.

(h) Lotte Cultureworks Co., Ltd, a subsidiary of the Group, issued common shares of 7,687,456 in exchange for common shares of 1,860,000 as in-kind contributions from Innocean Worldwide Inc. in 2019. At the issuance date, Lotte Cultureworks Co., Ltd. agreed to purchase all shares issued to the new owner with cash if Lotte Cultureworks Co., Ltd did not disclose the Company information to the public within a certain period of time based on agreement with the new owner. The Company does not oppose performance of such obligation unless it violates the law. The new owner cannot dispose the shares to the third party voluntarily nor provide it as pledged assets without consent from Lotte Cultureworks Co., Ltd. until the listing date. If the new owner wishes to sell the shares after the listing date, Lotte Cultureworks Co., Ltd. can exercise its preferential right to purchase directly or by designating the third party.

(i) In accordance with stock trading agreement on May 10, 2019 with the seller, the common shares of 2,060,000 from Innocean Worldwide Inc. cannot be disposed or provided as pledged assets without the prior consent from the seller until the listing date of Lotte Cultureworks Co., Ltd. Also, if the Group wishes to sell the shares from Innocean Worldwide Inc. after the listing date to the third party, the seller can exercise its preferential right to purchase directly or by designating the third party.

(j) As of December 31, 2020, the Company has provided investment commitments (LOC, LOA, LOU) to SC Bank and others in relation to loan agreements for the following subsidiaries; Lotte Songdo Shopping Town Co., Ltd, PT. LOTTE SHOPPING INDONESIA, LOTTE CINEMA VIETNAM CO., LTD., LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY, LOTTE PROPERTIES HANOI CO., LTD. However, the investment commitment is not considered as payment guarantees.

(k) The debentures of 20-1st placed and 20-2nd placed issued by Lotte Cultureworks Co., Ltd, a subsidiary of the Group, were fully acquired by Kodit 2020 the 13th & 15th Securitization Specialty Co., Ltd. of Special Purpose Corporation (“SPC”) and bonds were issued accordingly. The early redemption of debentures is available 6 months from the issuance date and payment guarantee is provided by Credit Guarantee Corporation on the debentures with first priority. Also, Lotte Cultureworks Co., Ltd. has purchased ₩3,000 million of subordinate debentures issued by Kodit 2020 the 13th & 15th Securitization Specialty Co., Ltd. of the SPC and the SPC has the right of pledge for the debentures. If there is a change in major shareholder or the credit rating falls below BBB+ for Lotte Cultureworks Co., Ltd, the early redemption of ₩20,000 million is agreed in relation to the 20-3rd placed private equity bond.

(l) 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 Group 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. During the year 2020, the operation for Lotte mart Hangdong store was discontinued.

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. During the year 2020, the operation for Lotte mart Guro store was discontinued.

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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

37. Contingencies and Commitments, continued

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
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

38. Inter Company Transactions and Balances with Consolidated Companies

(a) The Company has provided payment guarantees and collaterals for consolidated companies as of December 31, 2020 as follows:

(Foreign Currency)

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Remarks
Subsidiaries				
Lotte Department Store (Chengdu) Co., Ltd.	KEB Hana Bank	CNY 228,000,000	May 29, 2020 ~ May 28, 2021	
		CNY 20,000,000	May 29, 2020 ~ May 28, 2021	
PT. Lotte Mart Indonesia	Standard Chartered Bank Korea Ltd.	IDR 300,000,000,000	April 13, 2020 ~ April 13, 2021	
	HSBC	IDR 250,000,000,000	April 14, 2020 ~ April 14, 2021	
	JP Morgan	USD 30,000,000	May 23, 2020 ~ May 23, 2021	
Lotte Cinema Vietnam Co., Ltd.	Standard Chartered Bank Korea Ltd	USD 10,000,000	April 13, 2018 ~ April 13, 2021	
		USD 5,000,000	Feb 13, 2020 ~ Feb 13, 2021	
		USD 25,000,000	June 24, 2020 ~ June 23, 2021	
	The Export-Import Bank of Korea	USD 20,000,000	July 2, 2019 ~ July 1 2022	Payment guarantee for financing
		USD 10,000,000	Sept 25, 2020 ~ Sept 24, 2021	
	KEB Hana Bank	USD 10,000,000	Jan 21, 2020 ~ Jan 20, 2023	
		USD 5,000,000	March 25, 2020 ~ March 24, 2023	
		USD 20,000,000	June 25, 2020 ~ June 25, 2021	
	USD 165,000,000	March 13, 2020 ~ March 12, 2021		
LOTTE PROPERTIES (CHENGDU) HK LIMITED	KOOKMIN BANK	USD 165,000,000	March 13, 2020 ~ March 12, 2021	
	NongHyup Bank	USD 60,000,000	March 13, 2020 ~ March 12, 2021	
	Shinhan Bank	USD 30,000,000	November 17, 2020 ~ November 16, 2021	
	Woori Bank	USD 30,000,000	November 17, 2020 ~ November 16, 2021	
	Industrial and Commercial Bank of China	USD 30,000,000	November 17, 2020 ~ November, 16 2021	

(b) As of December 31, 2020, the Company 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 (₩200,000 million of par value maturing on February 26, 2021), LOTTE Ulsan Development Co., Ltd. (₩60,000 million of par value maturing on April 22, 2021), LOTTE Town Dongtan Co., LTD (₩620,000 million of par value maturing on October 28, 2021), Lotte Incheon Development Co., Ltd (₩90,000 million of par value June 25, 2021) in default of Suwon Landmark the Third Co., Ltd., LIT the first Co., Ltd., KS the first Co., Ltd., Marsld the first, Sincheon development the first. If the Company fails to meet the Company’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 Company 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
Notes to the Consolidated Financial Statements
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39. Related Party Transactions

(a) Details of the Company's major shareholders as of December 31, 2020 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 Company.

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

Name of related parties	2020				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*2,3)	Other expenses (*3)
Shareholders:					
Lotte Corporation	₩ 4,397	-	-	5	34,139
Hotel Lotte Co., Ltd.	58,994	8,920	42	38	40,148
Hotel Lotte Pusan Co., Ltd.	4,695	-	189	92	8,572
Subtotal	68,086	8,920	231	135	82,859
Associates:					
FRL Korea Co., Ltd.	24,812	-	-	-	14
Zara Retail Korea	9,548	-	-	-	-
LOTTE CARD Co, Ltd	3,437	-	-	422	168,528
Others	378	-	-	3	243
Subtotal	38,174	-	-	425	168,785
Others (*1):					
Lotte Engineering & Construction Co., Ltd.	1,099	626	386,761	-	674
Lotte Confectionery Co., Ltd.	9,242	61,394	-	-	9,560
Lotte Chilsung Beverage Co., Ltd.	7,749	55,610	-	42	309
Lotte Data Communication Company	1,139	299	50,570	93	147,157
Daehong Communications Co., Ltd.	48	168	-	-	23,514
Lotte Station B/D. Co., Ltd.	13,264	-	-	17	1,288
Lotte GRS Co., Ltd.	9,827	670	-	22	3,295
Lotte International Co., Ltd.	885	121,117	-	9	11
LOTTE FOOD CO., LTD.	3,686	98,472	-	-	8,784
LOTTE ALUMINIUM CO., LTD.	71	6,142	1,881	29	9,385
Lotte Global Logistics Co., Ltd.	2,079	1,040	177	328	288,176
Korea Fuji Film Co., Ltd.	747	57	-	5	24
LOTTE Property&Development	23,464	-	2,531	66	33,731
LOTTE ASSET DEVELOPMENT CO.,LTD.	34,883	-	1,694	3,999	19,832
Korea Seven Co., Ltd.	2,665	90	-	656	919
Others	19,661	11,577	8,433	1,598	107,929
Subtotal	130,509	357,262	452,047	6,864	654,588
Total	₩ 236,769	366,182	452,278	7,424	906,232

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

(*3) 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, 2020 are included in other income and expenses.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2020 and 2019

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, 2020 and 2019 are as follows:, continued

(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)
Shareholders:					
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
Associates:					
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
Others (*1):					
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 Daehong Communications Co., Ltd.	992	1,639	68,137	-	157,528
Lotte Station B/D. Co., Ltd.	1,043	-	2,148	-	43,035
Lotte GRS Co., Ltd.	10,151	-	-	308	1,276
Lotte International Co., Ltd.	15,118	2,333	-	20	2,803
LOTTE FOOD CO., LTD.	1,066	145,162	-	186	19
LOTTE ALUMINIUM CO., LTD.	5,386	120,772	-	3	10,211
LOTTE ALUMINIUM CO., LTD.	39	6,710	5,118	18	14,251
Lotte Global Logistics Co., Ltd.	3,706	23,178	-	-	258,112
Korea Fuji Film Co., Ltd.	3,095	370	6	18	2
LOTTE Property&Development CO.,LTD.	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.

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39. Related Party Transactions, continued

(c) Fund transactions with related parties for the year ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020		
Name of related parties		Borrowing	Repayment	Stock purchase
Associates:				
Lotte start-up fund No. 1	₩	-	-	1,800
Others (*):				
LOTTE ASSET DEVELOPMENT CO., LTD		7,041	7,041	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others		-	7,956	-
Subtotal		7,041	14,997	-
Total	₩	7,041	14,997	1,800

(*) 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.

<i>(in millions of Korean won)</i>		2019				
Name of related parties		Borrowing	Repayment	Stock purchase	Stock disposal	Cash contribution
Shareholders:						
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	-
Associates:						
Lotte start-up fund No. 1		-	-	-	-	1,800
Lotte 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
Joint ventures:						
PT. INDO LOTTE MAKMUR		-	-	-	-	4,063
Subtotal		-	-	-	-	4,063
Others (*1):						
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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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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.

39. Related Party Transactions, continued

(*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

(d) Account balances with related companies as of December 31, 2020 and 2019 are summarized as follows:

(in millions of Korean won)

Name of related parties	2020						
	Receivables			Payables			
	Trade receivables	Financial lease receivables	Other receivables	Trade payables	Borrowings	Lease liabilities	Other payables
Shareholders:							
Lotte Corporation	₩ 6	-	14,026	-	-	100,802	877
Hotel Lotte Co., Ltd.	1,662	-	51,936	3	-	338,248	33,242
Hotel Lotte Pusan Co., Ltd.	-	-	20,035	-	-	28,127	1,586
Subtotal	1,668	-	85,997	3	-	467,177	35,705
Associates:							
FRL Korea Co., Ltd.	852	-	-	-	-	-	12,449
Zara Retail Korea Co.,Ltd	-	-	-	-	-	-	3,504
LOTTE CARD Co.,Ltd. (*2)	29,929	96	212	1	-	-	23,050
Others	69	-	-	-	-	-	110
Subtotal	30,850	96	212	1	-	-	39,113
Others (*1):							
Lotte Engineering & Construction Co., Ltd.	31	-	7,620	-	-	1,176	51,006
Lotte Confectionery Co., Ltd.	240	-	1,099	5,848	-	4,741	1,671
Lotte Chilsung Beverage Co., Ltd.	729	-	3,952	4,631	-	476	9,871
Lotte Data Communication Company	-	-	18,830	-	-	4,797	22,505
Daehong Communications Co., Ltd.	189	-	12	-	-	-	8,237
Lotte Station B/D Co., Ltd.	2,888	-	10,958	-	-	12,345	7,894
Lotte GRS Co., Ltd.	26	927	698	14	-	-	6,421
Lotte International Co., Ltd.	-	-	752	8,915	-	-	546
LOTTE FOOD CO., LTD.	-	169	1,280	7,198	-	854	12,446
LOTTE ALUMINIUM CO., LTD.	-	-	6	1,035	-	-	2,615
Lotte Global Logistics Co., Ltd.	79	-	1,458	76	-	1,415	30,377
Korea Fuji Film Co., Ltd.	5	102	0	4	-	-	635
LOTTE Property & Development	-	-	4,882	-	54,554	514,586	4,887
Lotte Asset Development Co., Ltd	408	135,028	15,424	-	-	11,393	22,020
Others (*3)	8,907	5,997	8,558	1,142	105,426	33,360	12,694
Subtotal	13,502	142,223	75,529	28,863	159,980	585,143	193,825
Total	₩ 46,020	142,319	161,738	28,867	159,980	1,052,320	268,643

(*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 ₩105,426 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, 2020 and 2019 are summarized as follows;
continued

(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
Shareholders:							
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
Associates:							
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
Others (*1):							
Lotte Engineering & Construction Co., Ltd.	251	-	4,028	-	-	1,193	48,020
Lotte Confectionery Co., Ltd.	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.	3,789	-	146	-	-	-	20,975
Lotte Station B/D Co., Ltd.	4,054	-	8,936	-	-	10,038	7,911
Lotte GRS Co., Ltd.	393	1,074	749	198	-	-	8,368
Lotte International 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 Global Logistics Co., Ltd.	10	-	978	41	-	3,959	25,818
Korea Fuji Film Co., Ltd.	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 Co., Ltd. in the amount of ₩106,347 million is included.

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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, 2020 and 2019 are as follows:

(in millions of Korean won)

Name of related parties	2020	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	10,481
Hotel Lotte Co., Ltd.	-	81,792
Hotel Lotte Pusan Co., Ltd.	-	14,067
Subtotal	-	106,340
Associates:		
Lotte Card Co, Ltd.	68	-
Others (*1):		
LOTTE Property & Development	-	40,179
Lotte Station B/D Co., Ltd.	-	2,488
Korea Seven Co.,Ltd.	66	2,675
Korea Fuji Film Co., Ltd.	81	-
Lotte Engineering & Construction Co., Ltd.	-	78
Lotte Data Communication Company	-	4,164
Lotte Asset Development Co., Ltd	14,157	1,012
Others	221	2,427
Subtotal	14,525	53,023
Total	₩ 14,593	159,363

(*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.

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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, 2020 and 2019 are as follows:, continued

(in millions of Korean won)

Name of related parties	2019	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	9,813
Hotel Lotte Co., Ltd.	-	78,980
Hotel Lotte Pusan Co., Ltd.	-	14,133
Subtotal	-	102,926
Associates:		
Lotte Card Co, Ltd.	580	-
Lotte Ps Net	-	2,868
Subtotal	580	2,868
Others (*1):		
LOTTE Property & Development	-	40,307
Lotte Station B/D 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.

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39. Related Party Transactions, continued

(f) Details of payment guarantees and collateral provided by the Group for the financial supports to the related parties as of December 31, 2020 are as follows, and no collateral and payment guarantees are provided by the related parties:

(in CNY, VND, USD)

Name of company	Guaranteed by	Guaranteed amount	Guarantee period	Remarks
Associates				
Shandong Longzhile Cinema Co., Ltd.	KEB Hana bank	CNY 7,000,000	January 10, 2020 ~ January 10, 2021	Working capital
	Industrial Bank of Korea	CNY 4,500,000	July 17, 2020 ~ July 31, 2021	Working capital
Joint ventures				
International Business Center Company Limited	DBS	USD 6,000,000	April 2, 2020 ~ April 1, 2021	Working capital
	The Export-Import Bank of Korea	USD 6,000,000	April 3, 2020 ~ April 2, 2021	Working capital
Lotte Entertainment Vietnam Co, Ltd.	Industrial Bank of Korea	VND 42,000,000,000	October 30, 2020 ~ October 31, 2021	Working capital

(g) 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) of Lotte town Dongtan Co., Ltd.

(h) Details of purchased card transactions with Lotte Card Co., Ltd. as of December 31, 2020 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 Co., Ltd.	₩ 240,000	2,299,506	2,299,506	-
	Lotte Himart Co., Ltd.	150,000	2,066,707	2,066,707	-
	Lotte Incheon Development Co., Ltd	30,000	77,042	77,042	-
	Lotte Cultureworks Co., Ltd.	20,000	10,656	12,064	993

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Cash equivalent (*1)	₩	1,895,702	1,569,644
Trade and other receivables		859,816	1,072,996
Other financial assets (current)		2,134,188	1,958,581
Other financial assets (non-current) (*2)		<u>1,221,251</u>	<u>1,138,671</u>
Total	₩	<u>6,110,957</u>	<u>5,739,892</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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2020 and 2019

40. Risk Management, continued

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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020			2019		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	879,578	4.30%	37,784	1,096,892	6.62%	72,601
0 ~ 3 months past due		11,401	5.06%	577	12,057	3.41%	411
3 ~ 6 months past due		4,325	14.14%	612	32,557	2.15%	699
6 ~ 9 months past due		3,009	37.05%	1,115	2,990	8.67%	259
9 ~ 12 months past due		1,120	47.12%	528	606	22.64%	137
12 ~ 15 months past due		1,545	60.31%	931	2,423	21.95%	532
15 months past due		19,761	98.05%	19,376	16,915	99.35%	16,805
Total	₩	920,739		60,923	1,164,440		91,444

Other financial assets (current) before deducting the allowance for doubtful accounts as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020			2019		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	2,134,188	-	-	1,958,581	-	-
15 months past due		34	100%	34	34	100%	34
Total	₩	2,134,222		34	1,958,615		34

Other financial assets (non- current) before deducting the allowance for doubtful accounts as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020			2019		
		Total carrying amount	Probability of default	Allowance for doubtful accounts	Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,222,287	0.08%	1,036	1,139,670	0.09%	1,000
15 months past due		2,567	100.00%	2,567	5,504	100.00%	5,504
Total	₩	1,224,854		3,603	1,145,174		6,504

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40. Risk Management, continued

Movements in the allowance for doubtful trade and other receivables for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning Balance	₩	91,444	140,505
Provision		9,536	8,187
Reversal of impairment loss		(14,323)	(56,874)
Write-offs		(26,496)	(5,544)
Others		762	5,170
Ending balance	₩	<u>60,923</u>	<u>91,444</u>

Movements in the allowance for doubtful other financial assets (current) for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning Balance	₩	34	5,142
Provision		-	-
Write-offs		-	(5,108)
Ending balance	₩	<u>34</u>	<u>34</u>

Movements in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning Balance	₩	6,504	3,592
Provision		35	2,936
Others		(2,936)	(24)
Ending balance	₩	<u>3,603</u>	<u>6,504</u>

③ Payment guarantees

As of December 31, 2020, 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 ₩16,999 million.

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

(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.

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2020 are as follows:

(in millions of Korean won)

	2020					Cash Flow
	Book Balance	3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year	
Borrowings and debentures (current) ₩ (*1,2)	3,947,547	1,069,489	1,426,634	1,475,453	-	3,971,576
Trade payables and other payables	2,177,179	2,175,231	1,012	1,634	-	2,177,877
Other financial liabilities (current) (*3)	1,080,386	584,321	168,942	425,393	-	1,178,656
Borrowings and debentures (non-current) (*1, 2)	6,234,703	37,788	38,223	78,130	6,613,546	6,767,687
Other financial liabilities(non-current) (*3)	5,738,510	1,729	1,699	3,467	6,410,211	6,417,106
Financial guarantee contract	3,015	16,999	-	-	-	16,999
Total	₩ 19,181,340	3,885,557	1,636,510	1,984,077	13,023,757	20,529,901

(*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.

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40. Risk Management, continued

(iv) Market risk, continued

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.

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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020		2019	
		Assets	Liabilities	Assets	Liabilities
USD	₩	358,317	1,388,072	123,165	1,269,983
EUR		-	31	441	-
JPY		-	105,426	-	106,347
HKD		357	-	97	-
CNY		4,921	-	74,401	-
CAD		-	-	34	-
TWD		1,694	-	-	-
Total	₩	365,289	1,493,529	198,138	1,376,330

The average rates for the years ended December 31, 2020 and 2019, and the closing rates as of December 31, 2020 and 2019 are as follows:

(in Korean won)

		Average rate		Closing rate	
		2020	2019	2020	2019
USD	₩	1,180.05	1,165.65	1,088.00	1,157.80
EUR		1,345.99	1,304.81	1,338.24	1,297.43
JPY		11.0507	10.6976	10.5426	10.6347
HKD		152.14	148.78	140.35	148.66
CNY		170.88	168.58	166.96	165.74
CAD		879.91	878.54	853.30	886.56
TWD		40.07	37.74	38.67	38.48

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40. Risk Management, continued

(iv) Market risk, continued

① Currency risk, continued

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 are not included.

<i>(in millions of Korean won)</i>		2020		2019	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	14,781	(14,781)	(15,567)	15,567
EUR		(3)	3	44	(44)
JPY		-	-	(10,635)	10,635
HKD		36	(36)	10	(10)
CNY		492	(492)	7,440	(7,440)
CAD		-	-	3	(3)
TWD		169	(169)	-	-
Total	₩	15,475	(15,475)	(18,705)	18,705

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, 2020 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Financial assets	₩	272,200	580,119
Financial liabilities		2,075,621	3,347,056

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40. Risk Management, continued

(iv) Market risk, continued

② Interest risk, continued

The table below summarizes the impact of increases or 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, 2020 and 2019. The analysis is based on the assumption that the interest rate has increased or 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)

		2020		2019	
		100bps increase	100bps decrease	100bps increase	100bps decrease
Interest income	₩	2,703	(2,703)	5,785	(5,785)
Interest expenses		5,819	(5,819)	22,560	(22,560)

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, 2020 and 2019 are ₩408,532 million and ₩468,887 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 2020 and 2019 are ₩40,853 million and ₩46,889 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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020	2019
Liabilities (A)	₩	21,740,642	22,181,607
Equity (B)		11,088,763	11,791,008
Financial instruments (C)		3,859,797	3,198,830
Borrowings (D)		10,182,249	9,550,520
Liabilities to equity ratio (A/B)		196.06%	188.12%
Net borrowings to equity ratio ((D-C)/B)		57.02%	53.87%

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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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Sales	₩ -	-
Cost of sales	-	-
Gross profit (loss) on sales	-	-
Selling, general and administrative expenses	1,676	(1,066)
Bad debt expense	-	-
Operating profit (loss)	1,676	(1,066)
Other income	4,998	1,526
Other expenses	-	(291)
Financial income - interest income calculated using the effective interest method	34	114
Financial income - Others	492	-
Financial expenses	-	(29)
Reversal of other allowance for doubtful accounts	13,745	66,695
Profit in disposal of discontinued operation	2,734	254
Profit before income tax	23,679	67,203
Tax expense	-	-
Net income from discontinued operation	₩ 23,679	67,203

(b) Cash flows related to the discontinued operation for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities	₩ 2,466	(3,827)
Cash flows from investing activities	13,780	54,265
Cash flows from financial activities	(14,137)	(25,514)
Exchange difference on translating foreign operations	281	699
Total	₩ 2,390	25,623

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42. Lease

(a) Amount recognized in the consolidated statement of financial position

Details recognized in the consolidated statement of financial position related to leases as of December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Right-of-use assets			
Land	₩	712,689	743,552
Buildings		4,349,589	5,257,940
Vehicles		3,053	2,520
Others		98,641	122,865
Total		<u>5,163,972</u>	<u>6,126,877</u>
Investment property		212,994	136,794
Lease receivables:			
Current		30,699	26,318
Non-current		171,562	154,445
Total		<u>202,261</u>	<u>180,763</u>
Lease liabilities			
Current		607,479	634,234
Non-current		5,620,804	6,028,747
Total	₩	<u>6,228,283</u>	<u>6,662,981</u>

(b) Amount recognized in the consolidated statement of comprehensive loss

Details recognized in the consolidated statement of comprehensive income related to leases during December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2020</u>
Depreciation expense on right-of-use assets			
Land and building	₩	597,771	724,911
Vehicles		2,050	2,370
Others		22,219	17,001
Total	₩	<u>622,040</u>	<u>744,282</u>
Depreciation expense on investment properties	₩	19,164	11,506
Interest expenses on lease liabilities		223,747	230,108
Interest income on lease receivables		7,667	10,650
Leases of low-value assets and short-term leases		87,917	147,807
Impairment loss on right-of-use assets	₩	504,318	947,514

Total cash outflow for the lease for the year ended December 31, 2020 and 2019 are ₩767,645 million and ₩770,746 million.

The Group uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Group recognized ₩7,684 million in profit or loss during the year ended December 31, 2020, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

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42. Lease, continued

(c) The contractual maturity of lease liabilities as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020					
		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	389,434	384,235	734,296	1,879,768	4,409,925	7,797,658
Net minimum lease payments		307,423	300,056	626,311	1,562,515	3,431,977	6,228,282

(in millions of Korean won)

		2019					
		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

(d) The contractual maturity of lease receivables as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020					
		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	16,966	16,154	24,455	61,540	95,587	214,702
Net minimum lease payments		15,786	14,913	23,397	57,940	90,225	202,261

(in millions of Korean won)

		2019					
		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	13,331	23,527	59,286	71,633	180,763

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42. Lease, continued

(e) 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>	<u>2020</u>	<u>2019</u>
Within 1 year	₩ 75,639	89,045
Within 1 ~ 5 years	75,086	76,437
Over 5 years	<u>19,981</u>	<u>86,313</u>
Total	<u>₩ 170,706</u>	<u>251,795</u>

The lease income related to the operating lease recognized by the Group during 2020 and 2019 are ₩1,165,199 million and ₩1,343,986 million respectively.