

LOTTE SHOPPING CO., LTD.

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

(With Independent Auditors' Report Thereon)

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LOTTE SHOPPING CO., LTD.

Separate Statements of Financial Position

As of December 31, 2018 and 2017

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 separate financial statements of Lotte Shopping Co., Ltd. ("the Company"), which comprise the separate statement of financial position as of December 31, 2018, the separate statements of comprehensive Income(loss), changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audit 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 Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the separate 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 investment in subsidiaries, associates and joint ventures

As described in Note 11, 12 and 13, as of December 31, 2018, the carrying amount of the investments in subsidiaries, associates and joint ventures in the Company's separate statement of financial position is ₩3,573,579 million, constitute 16.3% of total assets, and the impairment loss of ₩894,942 million was recognized during 2018.

The Company reviews at the end of each reporting period on whether there are any indicators of impairment for investments in subsidiaries, associates, and joint ventures and has performed impairment test on investments in subsidiaries, associates and joint ventures for which indicators of impairment were identified by estimating recoverable amount. When the recoverable amount is less than the carrying amount, the difference has been recognized as impairment loss. The assumptions on sales growth rate, discount rate, and terminal growth rate that have significant impacts on estimating recoverable amount are based on the management's judgment. Because the judgments have a significant impact on the separate financial statements of the Company, we identified the impairment of investment in subsidiaries, associates, and joint ventures as a key audit matter.

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



- We reviewed the basis of judgment regarding the indicators of impairment on investments in subsidiaries, associates and joint ventures by the Company and checked whether such basis is in compliance with the accounting policy of the Company.
- We tested the mathematical accuracy of valuation model used by the Company.
- We evaluated the competence, qualification and objectivity of external institution engaged by the Company's in the assessment of recoverable amount.
- We evaluated the appropriateness of the assumptions including future cash flows and discount rates applied by the Company to estimate the value in use, by engaging our internal valuation specialists.

(2) Impairment of cash generating units

As described in Note 9, 14, and 16, the carrying amount of tangible assets, goodwill, intangible assets and other non-financial assets in the separate statement of financial position of the Company are ₩12,375,549 million, ₩234,870 million, ₩201,108 million, and ₩360,014 million, respectively, and in aggregate constitute 60.3% of total assets. Also, the impairment loss of ₩191,588 million was recognized during 2018.

The Company reviews at the end of each reporting period on whether there are any indicators of impairment regarding the cash generating unit, and has performed impairment test on cash generating units for which indicators of impairment were identified or including goodwill by comparing recoverable amount and the carrying amount of the respective cash generating unit. When the recoverable amount is less than the carrying amount, the difference between those amounts has been recognized as impairment loss. The assumptions on sales growth rate, discount rate, and terminal growth rate that have significant impacts on estimating recoverable amount are based on the management's judgment. Because the judgments have a significant impact on the separate financial statements of the Company, we identified the impairment of cash generating units as a key audit matter.

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

- We reviewed the basis of judgment regarding the indicators of impairment on each cash generating unit by the Company and checked whether such basis is in compliance with the accounting policy of the Company.
- We tested the mathematical accuracy of valuation model used by the Company.
- We evaluated the competence, qualification and objectivity of external institution engaged by the Company's in the assessment of recoverable amount.
- We evaluated the appropriateness of the assumptions including future cash flows and discount rates applied by the Company to estimate the value in use, by engaging our internal valuation specialists.

(3) Financial guarantee liabilities

As described in Note 40, the Company provides payment guarantees for related parties, including subsidiaries.

As a result, as described in Note 7, the Company recognized ₩329,628 million of financial guarantee liabilities in the statement of financial position.

The estimation of financial guarantee liabilities is based on the management's judgement.

Because the judgements have a significant impact on the separate financial statements of the Company, we identified financial guarantee liabilities as a key audit matter.

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

- We obtained and reviewed the minutes of the Board of Directors to confirm the completeness of the payment guarantee contracts.



- In order to verify the completeness of the payment guarantee contract, we received confirmation letters from all financial institutions that had transactions during the reporting period to confirm the completeness of payment guarantee contracts.
- We reviewed the financial status of the related parties subject to payment guarantee and the Company's capital increase plan to confirm whether the Company's judgment on the feasibility of the payment guarantee is appropriate.

Other matters

The accompanying separate financial statements of the Company for the year ended December 31, 2017 were audited by Samil PricewaterhouseCoopers in accordance with Korean Standards on Auditing, whose report thereon dated March 14, 2018, expressed an unqualified opinion.

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

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the separate 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 Company'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



separate 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 Samjory Accounting Corp.

Seoul, Korea
March 20, 2019

This report is effective as of March 20, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate 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.
Separate Statements of Financial Position
As of December 31, 2018 and 2017

(In Korean won)	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Current assets			
Cash and cash equivalents	7,36,41	₩ 1,005,319,543,648	1,687,990,452,840
Trade and other receivables	5,7,40,41	589,822,640,895	690,431,124,078
Other financial assets	6,7,23,41	478,940,270,619	524,593,338,902
Inventories	8	491,729,201,355	494,839,548,664
Income tax refund receivables	35	4,043,670,661	-
Other non-financial assets	9	83,742,434,039	77,864,269,706
Assets held for sale	10	277,409,134,858	-
		<u>2,931,006,896,075</u>	<u>3,475,718,734,190</u>
Non-current assets			
Investments in subsidiaries, associates and joint ventures	11,12,13,40	3,573,579,087,258	3,108,918,658,538
Other financial assets	6,7,23,41	1,194,522,492,242	1,272,572,859,924
Property, plant and equipment, net	14	12,375,549,148,308	13,133,743,541,514
Investment property, net	15	991,787,629,037	758,673,160,729
Goodwill	16	234,869,521,541	229,567,686,369
Intangible assets, net	16	201,107,665,736	253,498,715,053
Other non-financial assets	9	360,014,110,098	588,173,316,243
		<u>18,931,429,654,220</u>	<u>19,345,147,938,370</u>
Total assets		₩ <u>21,862,436,550,295</u>	<u>22,820,866,672,560</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Financial Position
As of December 31, 2018 and 2017

(In Korean won)	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Liabilities			
Current liabilities			
Borrowings and debentures, net of issuance costs	7,18,41	₩ 1,457,243,412,271	1,468,536,247,270
Trade and other payables	7,17,40,41	2,158,255,041,766	2,722,960,092,916
Other financial liabilities	7,23,41	639,583,690,111	936,421,633,818
Income tax payables	35	-	64,239,737,216
Unearned revenues	19	126,193,601,024	124,270,243,359
Provisions	20	15,006,717,712	1,592,747,411
Other non-financial liabilities	21	795,607,452,634	828,862,399,197
		<u>5,191,889,915,518</u>	<u>6,146,883,101,187</u>
Non-current liabilities			
Borrowings and debentures, net of issuance costs	7,18,41	3,883,373,774,519	3,096,884,820,813
Other financial liabilities	7,23,41	178,600,896,719	86,228,682,141
Net of defined benefit liabilities and other long-term employee benefits	22	8,745,088,503	16,299,700,924
Deferred tax liabilities		947,555,254,079	924,083,178,875
Unearned revenues	19	28,870,573,021	4,392,653,637
Other non-financial liabilities	21	51,194,026,022	34,108,219,093
		<u>5,098,339,612,863</u>	<u>4,161,997,255,483</u>
Total liabilities		<u>10,290,229,528,381</u>	<u>10,308,880,356,670</u>
Equity			
Share capital	1,24	141,443,775,000	140,610,235,000
Capital surplus	24	3,590,535,627,005	3,557,027,319,005
Hybrid securities	25	-	269,118,000,000
Capital adjustments	26	(2,818,298,047,582)	(2,802,985,678,651)
Retained earnings	27	10,618,311,454,631	11,309,446,385,538
Accumulated other comprehensive income	28	40,214,212,860	38,770,054,998
Total equity		<u>11,572,207,021,914</u>	<u>12,511,986,315,890</u>
Total equity and liabilities		<u>₩ 21,862,436,550,295</u>	<u>22,820,866,672,560</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Comprehensive Income (loss)
For the years ended December 31, 2018 and 2017

(In Korean won, except for per share information)	Notes	2018	2017
Sales	30,37,40	₩ 10,217,788,016,203	10,571,819,537,236
Cost of sales	8,33,40	(5,123,113,479,132)	(5,253,990,625,015)
Gross profit		5,094,674,537,071	5,317,828,912,221
Selling, general and administrative expenses	31,33,40	(4,691,109,414,397)	(4,827,602,240,138)
Bad debts expenses	31,33,41	(424,734,446)	(76,030,552)
Operating profit		403,140,388,228	490,150,641,531
Other income	32	54,008,213,429	1,762,250,674,257
Other expenses	32	(322,371,050,727)	(398,610,097,570)
Finance income - Interest income calculated using the effective interest method	34	64,896,915,484	57,001,531,387
Finance income - Others	34	431,363,118,813	315,820,558,668
Finance costs	34	(1,083,694,691,553)	(1,714,424,521,751)
Other bad debt expenses	32,34	(5,885,917,059)	(2,569,183,637)
Profit (loss) before income tax		(458,543,023,385)	509,619,602,885
Income tax expense	35	(44,375,251,999)	(139,981,919,618)
Profit (loss) for the year		(502,918,275,384)	369,637,683,267
Other comprehensive income (loss)			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities	22	(41,066,464,884)	402,981,067
Net changes in fair values of equity instruments at fair value through other comprehensive income	28	9,715,218,936	-
Income tax on items that will never be reclassified to profit or loss		8,621,592,637	316,283,774
Total items that will never be reclassified to profit or loss		(22,729,653,311)	719,264,841
<i>Items that may be subsequent reclassified to profit or loss</i>			
Net changes in debt instruments at fair value through other comprehensive income	28	184,662,391	-
Net changes in unrealized fair value of available-for-sale financial assets	28	-	9,753,804,908
Effective portion of unrealized changes in fair values of cash flow hedges	23,28	(7,523,819,822)	20,233,739,575
Income tax on items that may be reclassified to profit or loss		2,018,268,293	(9,021,691,718)
Total items that may be reclassified to profit or loss		(5,320,889,138)	20,965,852,765
Other comprehensive profit (loss) for the year, net of tax		(28,050,542,449)	21,685,117,606
Total comprehensive profit (loss) for the year	₩	(530,968,817,833)	391,322,800,873
Profit (loss) per share	29		
Basic profit (loss) per share	₩	(18,297)	12,209

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Changes in Equity
For the years ended December 31, 2018 and 2017

	Share capital	Capital surplus	Hybrid securities	Capital adjustment	Retained earnings	Accumulated other comprehensive income	Total equity
(In Korean won)							
Balance at January 1, 2017	₩ 157,454,460,000	3,962,093,654,690	269,118,000,000	(1,805,705,449)	11,065,343,685,832	53,550,155,306	15,505,754,250,379
Adjustment on initial application of K-IFRS No.1115, net of tax	-	-	-	-	(54,401,622,324)	-	(54,401,622,324)
Restated balance at January 1, 2017	₩ 157,454,460,000	3,962,093,654,690	269,118,000,000	(1,805,705,449)	11,010,942,063,508	53,550,155,306	15,451,352,628,055
Comprehensive income (loss) for the year	-	-	-	-	369,637,683,267	-	369,637,683,267
Profit for the year	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	5,474,481,716	5,474,481,716
Net changes in unrealized fair values of available-for-sale financial assets	-	-	-	-	-	-	-
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	15,491,371,049	15,491,371,049
Remeasurements of net defined benefit liabilities	-	-	-	-	719,264,841	-	719,264,841
Subtotal	-	-	-	-	719,264,841	-	719,264,841
Total comprehensive income (loss) for the year	-	-	-	-	719,264,841	20,965,852,765	21,685,117,606
Transactions with owners of the Company	-	-	-	-	370,356,948,108	20,965,852,765	391,322,800,873
recognized directly in equity	-	-	-	-	-	-	-
Spin-off	(16,844,225,000)	(405,066,335,685)	-	(2,799,190,203,950)	-	(35,745,953,073)	(3,256,846,717,708)
Acquisition of treasury stock	-	-	-	(1,989,769,252)	-	-	(1,989,769,252)
Interests paid for hybrid securities	-	-	-	-	(12,748,218,078)	-	(12,748,218,078)
Dividends	-	-	-	-	(59,104,408,000)	-	(59,104,408,000)
Total transactions with owners of the Company	(16,844,225,000)	(405,066,335,685)	-	(2,801,179,973,202)	(71,852,626,078)	(35,745,953,073)	(3,330,689,113,038)
Balance at December 31, 2017	₩ 140,610,235,000	3,557,027,319,005	269,118,000,000	(2,802,985,678,651)	11,309,446,385,538	38,770,054,998	12,511,986,315,890

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Changes in Equity, Continued
For the years ended December 31, 2018 and 2017

	Share capital	Capital surplus	Hybrid securities	Capital adjustment	Retained earnings	Accumulated other comprehensive income	Total equity
(In Korean won)							
Balance at January 1, 2018	₩ 140,610,235,000	3,557,027,319,005	269,118,000,000	(2,802,985,678,651)	11,309,446,385,538	38,770,054,998	12,511,986,315,890
Adjustment on initial application of K-IFRS No.1109, net of tax	-	-	-	-	12,189,626,098	(12,189,626,098)	-
Restated balance at January 1, 2018	₩ 140,610,235,000	3,557,027,319,005	269,118,000,000	(2,802,985,678,651)	11,321,636,011,636	26,580,428,900	12,511,986,315,890
Comprehensive income (loss) for the year							
Loss for the year	-	-	-	-	(502,918,275,384)	-	(502,918,275,384)
Other comprehensive income (loss)							
Net changes in fair values of equity instruments at fair value through other comprehensive income	-	-	-	-	(11,911,139,369)	18,954,673,098	7,043,533,729
Net changes in fair values of debt instruments at fair value through other comprehensive income	-	-	-	-	-	133,880,233	133,880,233
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(5,454,769,371)	(5,454,769,371)
Remeasurements of net defined benefit liabilities	-	-	-	-	(29,773,187,040)	-	(29,773,187,040)
Subtotal	-	-	-	-	(41,684,326,409)	13,633,783,960	(28,050,542,449)
Total comprehensive income (loss) for the year	-	-	-	-	(544,602,601,793)	13,633,783,960	(530,968,817,833)
Transactions with owners or the company recognized directly in equity							
Merger	833,540,000	33,508,308,000	-	(14,422,766,707)	-	-	19,919,081,293
Acquisition of treasury stock	-	-	-	(7,602,224)	-	-	(7,602,224)
Repayment of hybrid securities	-	-	(269,118,000,000)	(882,000,000)	-	-	(270,000,000,000)
Interests paid for hybrid securities	-	-	-	-	(12,581,295,612)	-	(12,581,295,612)
Dividends	-	-	-	-	(146,140,659,600)	-	(146,140,659,600)
Total transactions with owners of the Company	₩ 833,540,000	33,508,308,000	(269,118,000,000)	(15,312,368,931)	(158,721,955,212)	-	(408,810,476,143)
Balance at December 31, 2018	₩ 141,443,775,000	3,590,535,627,005	-	(2,818,298,047,582)	10,618,311,454,631	40,214,212,860	11,572,207,021,914

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows
Years Ended December 31, 2018 and 2017

<i>(In Korean won)</i>	Notes	2018	2017
Cash flows from operating activities			
Profit (Loss) for the year		₩ (502,918,275,384)	369,637,683,267
Adjustments	36	1,547,064,202,684	886,144,069,757
Changes in operating assets and liabilities		(580,926,550,020)	520,887,788,855
Income taxes paid		(80,592,431,381)	(120,796,638,604)
Net cash provided by operating activities		382,626,945,899	1,655,872,903,275
Cash flows from investing activities			
Proceeds from sale of financial assets		362,494,747,800	182,387,839,593
Collection of short-term loans		6,332,278,000	1,835,444,000
Collection of long-term loans		-	6,164,556,000
Decrease of long-term financial instruments		2,000,385,763	-
Proceeds from sale of available-for-sale financial assets		-	12,924,905,272
Proceeds from sale of equity instruments at fair value through other comprehensive income		5,582,800,000	-
Proceeds from sale of debt instruments at fair value through profit or loss		33,477,598	-
Proceeds from sale of investments in subsidiaries, associates and joint ventures		3,141,956,789	25,030,420
Proceeds from disposal of assets held for sale		24,340,759,589	-
Proceeds from disposal of property, plant and equipment		24,704,059,430	32,986,343,184
Proceeds from disposal of intangible assets		849,380,409	32,777,276
Cash inflows from capital distribution of subsidiaries, associates and joint ventures		1,121,999,802	1,381,562,879
Cash inflows from settlement of derivative instruments		6,932,273,235	2,567,293,802
Cash inflows from business transfer		27,299,500,000	-
Cash inflows from business combination		15,471,571,979	-
Increase of short-term financial instruments		(280,000,000,000)	(409,334,924,793)
Purchase of available-for-sale financial assets		-	(1,756,588,053)
Purchase of debt instrument at fair value through profit or loss		(2,300,000,000)	-
Purchase of equity instruments at fair value through other comprehensive income		(19,862,422,909)	-
Purchase of debt instruments at fair value through other comprehensive income		(356,220,000)	-
Purchase of investments in subsidiaries, associates and joint ventures		(942,974,999,110)	(322,451,074,699)
Acquisition of property, plant, and equipment		(453,567,647,207)	(650,241,339,400)
Acquisition of intangible assets		(741,079,099)	(45,345,936,770)
Cash outflows from spin-off		(180,636,458,541)	-
Interest received		28,126,226,378	16,219,778,536
Dividends received		116,188,684,203	98,997,363,364
Net cash used in investing activities	₩	(1,255,818,725,891)	(1,073,606,969,389)

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows, Continued
Years Ended December 31, 2018 and 2017

(In Korean won)	Notes	2018	2017
Cash flows from financing activities			
Proceeds from short-term borrowings	₩	-	1,027,759,094,020
Proceeds from long-term borrowings		437,117,000,000	149,602,740,320
Proceeds from issuance of debentures		1,558,570,999,237	957,444,500,000
Repayment of short-term borrowings		(156,000,000,000)	(250,000,000,000)
Repayment of current portion of long-term debts		(1,120,067,642,984)	(876,098,800,000)
Payment of hybrid securities interests		(12,581,295,612)	(12,748,218,078)
Repayment of hybrid securities		(270,000,000,000)	-
Acquisition of treasury shares		(7,602,224)	(3,795,474,701)
Cash outflows from spin-off		-	(586,748,348,806)
Interest paid		(105,239,228,900)	(124,271,920,891)
Dividends paid		(146,140,659,600)	(59,104,408,000)
Net cash provided by financing activities		185,651,569,917	222,039,163,864
Net increase (decrease) in cash and cash equivalents		(687,540,210,075)	804,305,097,750
Cash and cash equivalents at the beginning of the year		1,687,990,452,840	882,890,128,352
Effect of exchange rate fluctuation on cash and cash equivalents		4,869,300,883	795,226,738
Cash and cash equivalents at the end of the year	₩	1,005,319,543,648	1,687,990,452,840

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
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1. General Information of Reporting Entity

Organization and Description of the Company

Lotte Shopping Co., Ltd. (the "Company") was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, outlet stores, discount stores, supermarkets and H&B stores. The Company's stock was listed on the Korea Exchange through an initial public offering on February 9, 2006.

The shareholders of the Company as of December 31, 2018 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	10,974,799	₩	54,874	38.80
Shin, Dong Bin	2,783,700		13,919	9.84
Hotel Lotte Co., Ltd.	2,507,158		12,536	8.86
Shin, Kyuk Ho	262,438		1,312	0.93
Hotel Lotte Pusan Co., Ltd.	220,326		1,102	0.78
Shin, Young Ja	210,174		1,051	0.74
Shin, Dong Ju	133,953		670	0.47
Treasury share	18,115		91	0.06
Others	11,178,092		55,889	39.52
	<u>28,288,755</u>	₩	<u>141,444</u>	<u>100.00</u>

The Company spun off the cinema business division on June 1, 2018 and merged with LOTTE.COM INC. on August 1, 2018 to establish e-commerce business division of the Company.

2. Basis of Accounting

Statement of compliance

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

These financial statements are separate financial statements prepared in accordance with Korean IFRS 1027 Separate Financial Statements presented by a parent, an investor in an associate or a venture in a joint venture in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate financial statements were authorized for issue by the Board of Directors on March 14, 2019, which will be submitted for approval to the shareholders' meeting to be held on March 29, 2019.

LOTTE SHOPPING CO., LTD.
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2. Basis of Accounting, continued

(b) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(d) Use of estimates and judgments

The preparation of the separate financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(i) Judgment of management

The information regarding the application of accounting policies, which has a significant influence on the recognized amount in the separate financial statements, and related significant judgment of management, are included in following notes.

Note 10: Assets and liabilities held for sale

Note 11: Investments in associates

Note 12: Investments in joint ventures

Note 13: Investments in subsidiaries

LOTTE SHOPPING CO., LTD.
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As of December 31, 2018 and 2017

2. Basis of Accounting, continued

(d) Use of estimates and judgments, continued

(ii) Information about assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 10: Assets and liabilities held for sale

Note 11: Investments in associates

Note 12: Investments in joint ventures

Note 13: Investments in subsidiaries

Note 14: Property, plant and equipment

Note 16: Goodwill and intangible assets

Note 20: Provisions

Note 22: Employee benefits

Note 35: Income taxes

Note 39: Contingencies and commitments

Note 41: Risk management

(iii) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

2. Basis of Accounting, continued

(d) Use of estimates and judgments, continued

- 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)

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in following note:

Note 7 - Fair value of financial instruments

3. Changes in Accounting Policies

The Company has initially applied the following enacted, amended standards from the year beginning January 1, 2018.

- K-IFRS No. 1109 "Financial Instrument"

The Company adopted K-IFRS No. 1109 "Financial Instrument" as of January 1, 2018 initial date of adoption. The financial statements presented in comparative form out of has not been restated in accordance with the transition rule. All impact of initial adoption has been recognized in equity as of January 1, 2018.

In case of the classification and measurement of financial instruments, ₩203,728 million out of ₩223,396 million of equity instrument that is not held for the purpose of short-term sales at the beginning of 2018 has been reclassified to "Equity instrument at fair value through other comprehensive income" from available-for-sale financial assets, and ₩19,667 million has been reclassified from available-for-sale financial assets to "Financial assets at fair value through profit or loss". Government and public bonds of ₩8,686 million has been reclassified to "Debt instrument at fair value through other comprehensive income" from available-for-sale financial assets.

The details of reclassification on each account of financial instrument upon the adoption of K-IFRS No. 1109 as of January 1, 2018, the initial date of adoption, are as follows.

<i>(in millions of Korean won)</i>	Measurement category		Carrying amount	
	Korean IFRS No. 1039	Korean IFRS No. 1109	Korean IFRS No. 1039	Korean IFRS No. 1109
Trade receivables and other receivables	Loans and account receivables	Financial assets measured at amortized cost	₩ 690,431	690,431
Other financial assets	Loans and account receivables	Financial assets measured at amortized cost	1,419,098	1,419,098

LOTTE SHOPPING CO., LTD.
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3. Changes in Accounting Policies, continued

- K-IFRS No. 1109 “Financial Instrument”, continued

<i>(in millions of Korean won)</i>	Measurement category		Carrying amount	
	Korean IFRS No. 1039	Korean IFRS No. 1109	Korean IFRS No. 1039	Korean IFRS No. 1109
Other financial assets	Loans and account receivables	Financial assets measured at fair value through profit or loss	₩ 109,000	109,000
Other financial assets	Financial assets at fair value through profit or loss	Financial assets measured at fair value through profit or loss	35,616	35,616
Other financial assets	Derivative assets held for risk hedging	Derivative assets held for risk hedging	1,371	1,371
Other financial assets	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	232,082	19,668
Other financial assets	Available-for-sale financial Assets	Financial assets measured at fair value through other comprehensive income		212,414

Moreover, the change in fair value of equity instrument that is not held for the purpose of short-term sales being previously classified as available-for-sale financial assets has been elected to be presented in other comprehensive income. The amount of ₩12,190 million previously recognized as impairment have been adjusted in the beginning balance of retained earnings.

<i>(in millions of Korean won)</i>	Retained earnings	Accumulated other comprehensive income (loss)	
		Gains (losses) on valuation of available-for-sale financial assets	Other comprehensive income - profit (loss) on assessment of fair value financial assets
Carrying amount under K-IFRS No. 1039	₩ 11,309,446	42,158	-
Adjustment:			
Reclassification from “available-for-sale financial assets” to “financial assets at fair value through other comprehensive income”	12,190	(42,158)	29,968
Total adjustment	12,190	(42,158)	29,968
Carrying amount under K-IFRS No. 1109	₩ 11,321,636	-	29,968

As a result of adoption of K-IFRS No. 1109, the Company has applied the amendments to K-IFRS No. 1001 “Presentation of Financial Statements”, which requires the Company to present separately with the interest income calculated using the effective interest method and the impairment of financial assets in the statement of comprehensive income. Bad debt expenses and impairment loss of other assets were originally included in general, selling and administrative expenses and other expenses and presented, respectively.

LOTTE SHOPPING CO., LTD.
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3. Changes in Accounting Policies, continued

- Amendments to K-IFRS No. 1028 'Investments in Associates and Joint Ventures'

When investment in associates or joint venture held by such Companies as venture capital organization or mutual funds is not measured at equity method but fair value, the amendment ensures that an entity shall elect selective application for each investment. The exemption is not applicable to those which are not such Companies as venture capital organization or mutual funds, so there is no significant influence on the separate financial statements.

- Amendments to K-IFRS No. 1040, "Investment Property"

Paragraph 57 of Korean IFRS No. 1040 clarifies that a transfer to, or from, investment property including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. Furthermore, it clarifies that the property under construction is included in the subject of application of the regulation of account reclassification. The amendment did not have a significant impact on the separate financial statements.

- Amendments to K-IFRS No. 1102 "Share-based Payment"

Amendments to K-IFRS No. 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendment did not have a significant impact on the financial statements.

- Enactment of Interpretation No. 2122 "Foreign Currency Transactions and Advance Consideration"

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on recognition of the related asset, expense, or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or liability arising from the payment or receipt of advance consideration. The amendment did not have a significant impact on the financial statements.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

4. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set below have been applied consistently to all periods presented in these separate financial statements, except for the changes in accounting policies as explained in Note 3.

4.1 Investments in subsidiaries, associates and joint ventures

These separate financial statements are prepared and presented in accordance with Korean IFRS No. 1027 "Separate Financial Statements". Investments in subsidiaries, associates and joint ventures are carried at cost less impairment, if any, in accordance with Korean IFRS 1027. Dividends from a subsidiary, associate or joint venture are recognized in profit or loss when the right to receive the dividend is established.

4.2 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 Company 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.

4.3 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 following methods:

Classification	Department store	Discount store	Supermarket, etc.	E-commerce
Merchandise	Retail method	Moving average method	Retail method / moving average method	Total weighted average method
Finished goods	-	Moving average method	Moving average method	-
Others	Specific identification method	Specific identification method	Specific identification method	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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, continued

4.4 Financial assets

The Company classifies the financial assets in the following categories from January 1, 2018.

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

(a) Classification

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

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company 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 Company 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 Company measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

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

(i) Debt instrument

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, continued

4.4 Financial assets, continued

(b) Measurement, continued

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 'Financial 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. Interest income from these financial assets is included in 'Financial income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'Other income and expenses' and impairment losses are presented in 'Other expenses'.

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 'Financial income and cost' in the year in which it arises.

(ii) Equity instrument

The Company subsequently measures all equity investments at fair value. Where the Company'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. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings. 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 'Other income and 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, continued

4.4 Financial assets, continued

(c) Impairment

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

- Trade receivables and agreement assets

For trade receivables and contract assets, the Company applies the simplified approach, which requires expected lifetime losses to be recognized. For measuring expected credit losses, trade receivables and contract assets are classified based on characteristics of credit risk and overdue date.

- Financial assets measured at amortized cost

Credit risk on financial assets measured at amortized cost is considered as low, if default risk is low and issuer has sufficient ability to pay the cash flow in the agreement within short-term period. The Company measures the loss allowance at an amount equal to 12-month expected credit losses.

- Debt instruments measured at fair value through other comprehensive income

Debt instruments measured at fair value through other comprehensive income include public bonds, corporate bonds and trade receivables in factoring arrangements. For debt instruments measured at fair value through other comprehensive income, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company 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 Company has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the statement of financial position.

(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

LOTTE SHOPPING CO., LTD.
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4. Significant Accounting Policies, continued

4.4 Financial assets, continued

default, insolvency or bankruptcy of the Company or the counterparty.

4.5 Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(a) Hedge accounting

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

On initial designation of the hedge, the Company 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 separate statement of comprehensive income. The Company 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.

(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 derivative 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 derivative 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, continued

4.5 Derivative financial instruments, continued

(b) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (i) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (ii) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss.

(c) Other derivative financial instruments

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

4.6 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 Company's property, plant and equipment are as follows:

	<u>Useful lives (years)</u>
Buildings	10 - 50
Structures	7 - 40
Machinery	5 - 30
Vehicles	5
Display fixtures	5
Furniture and fixtures	5

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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, continued

4.6 Property, Plant and Equipment, continued

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 profit or loss.

4.7 Intangible Assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets, except for goodwill, is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships trademark and trade name are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	<u>Useful lives (years)</u>
Industrial property rights	5
Rights to use facility	10 - 20
Other intangible assets	4 – 5

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.

4.8 Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any 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 Company 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 10 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.
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4. Significant Accounting Policies, continued

4.9 Non-current Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

4.10 Impairment of Non-financial Assets

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

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

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

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

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4. Significant Accounting Policies, continued

4.11 Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its separate statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

4.12 Borrowing Costs

The Company capitalizes borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

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4. Significant Accounting Policies, continued

4.12 Borrowing Costs, continued

To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

4.13 Financial Liabilities

(i) Classification and measurement

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

The Company 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 cost in the statement of comprehensive income.

(ii) De-recognition

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.

4.14 Employee Benefits

(i) 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 Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

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4. Significant Accounting Policies, continued

4.14 Employee Benefits, continued

(ii) 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 Company'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.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

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4. Significant Accounting Policies, continued

4.14 Employee Benefits, continued

Provisions are recognized when the Company 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 of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is presented as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

4.15 Provisions

Provisions are recognized when the Company 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 of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

4.16 Foreign Currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other

comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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4. Significant Accounting Policies, continued

4.17 Equity Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

4.18 Revenue

(i) Sales of goods and rendering of services

The Company operates department stores, outlet stores, discount stores, supermarkets, H&B stores and E-Commerce. Sales of goods from contracts with customers are generally recognized when the goods are delivered to the customers. Under K-IFRS 1115, revenue is recognized applying the following five-step process to contracts with customers:

- 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 1115, in the case of certain specific sales where the Company acts as an agent, the Company recognizes net sales, after deducting the cost of specific sales, as revenue upon delivery to customers.

(ii) Customer loyalty program

The Company 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.

(iii) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust the time value of the transaction price.

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4. Significant Accounting Policies, continued

4.18 Revenue, continued

(iv) Commissions

When the Company 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 Company.

(v) 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.

4.19 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, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets 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 Company'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 investments in subsidiaries, associates and joint ventures 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.

4.20 Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the year since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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4. Significant Accounting Policies, continued

4.20 Income Taxes, continued

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

4.21 Earnings per Share

The Company presents basic and diluted earnings per share (EPS) data for its common stocks. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise exchangeable bond.

4.22 Emission Rights

The Company 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 Company 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.

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4. Significant Accounting Policies, continued

4.22 Emission Rights, continued

(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.

4.23 New Standards and Interpretations Not yet Adopted

The following new standards and interpretations have been published but not mandatory for the Company for annual period beginning on January 1, 2018, and the Company has not early adopted them.

- K-IFRS No. 1116 “Lease”

(i) K-IFRS No. 1116 “Lease”

K-IFRS No. 1116 “Lease” issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace the current K-IFRS No. 1017 “Lease”, No. 2104 “Determining whether an Arrangement contains a Lease”, No. 2015 “Operating Leases—Incentives”, and No. 2027 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

At inception of a contract, the Company shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with standard. However, the Company has planned to adopt K-IFRS No. 1116 only the agreement being concluded (or revised) after the initial date of application by applying a practical expedient.

For a contract that is, or contains, a lease, the lessee and lessor shall account for each lease component within the contract as a lease separately from non-lease components (hereinafter referred to as “non-lease component”) of the contract.

A lessee is required to recognize a right-of-use asset representing its right to use the underlying lease assets and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date of lease) and leases for which the underlying asset is low value (ex. A value of assets of USD 5,000 or less at the beginning of period). Moreover, as a practical expedient, the lessee may elect, by class of underlying assets, not to separate non-lease components from lease components, and instead, account for each lease component and any associated non-lease components as a single lease component.

The accounting processing of lease provider is not significantly changed with the accounting processing of the current K-IFRS No. 1017.

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4. Significant Accounting Policies, continued

4.23 New Standards and Interpretations Not yet Adopted, continued

(ii) Lessee accounting

A lessee shall apply this standard to its leases either:

- retroactively to each prior reporting period presented applying K-IFRS No. 1008 “Accounting Policies, Changes in Accounting Estimates and Errors” (full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has planned to apply K-IFRS No. 1116 initially by adjusting the cumulative effect of initially applying the standard at the date of initial application as of January 1, 2019. Consequently, the cumulative effect of the application of K-IFRS No. 1116 is adjusted in retained earnings (or other accounts in equity, if appropriate) at the initial application date, and the financial statements for comparative period would not be restated.

The actual effect upon the adoption of K-IFRS No. 1116 to the financial statements would be determined based on the future economic environment upon the initial application such as borrowing rate as of January 1, 2019, components of lease portfolio at the relevant date, whether to exercise the lease renewal option, to what extent the practical expedient and exemption regulation of lease recognition would be applied, etc.

The Company has been performing the impact assessment to identify potential financial effects of applying K-IFRS No. 1116. The most significant effect based on the preliminary impact assessment on separate financial statements is that the Company shall recognize the right-of-use assets and lease liabilities on buildings, etc. to be used under the operation lease. As of December 31, 2018, the total of future minimum lease payments under non-cancellable operation lease, which are not discounted, is estimated to be ₩7,066 billion.

(iii) Lessor accounting

The Company expects that the impact of applying K-IFRS No. 1116 to current accounting for a lessor is not significant, resulting in no significant influence on the separate financial statements.

However, when the Company is an intermediate lessor, for the sublease that had been classified as an operating lease before the initial date of application and maintained at the initial date of application, the lease is reclassified as either operating lease or financial lease in accordance with K-IFRS No. 1116. If the relevant lease is classified as financial lease, it shall be accounted as new financial lease that the Company enters into at the initial date of application.

As of December 31, 2018, the Company is in progress of analyzing the effect on the separate financial statements such as judgment of classifying a lease as operation lease or finance lease.

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5. Trade and Other Receivables

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

<i>(in millions of Korean won)</i>		Trade receivables	Other receivables	Total
Total carrying amount	₩	415,343	183,438	598,781
Reduction: Allowance for bad debts		<u>(1,053)</u>	<u>(7,905)</u>	<u>(8,958)</u>
Net carrying amount	₩	<u>414,290</u>	<u>175,533</u>	<u>589,823</u>

(b) Trade and other receivables as of December 31, 2017 are as follows:

<i>(in millions of Korean won)</i>		Trade receivables	Other receivables	Total
Total carrying amount	₩	534,801	161,196	695,997
Reduction: Allowance for bad debts		<u>(1,663)</u>	<u>(3,903)</u>	<u>(5,566)</u>
Net carrying amount	₩	<u>533,138</u>	<u>157,293</u>	<u>690,431</u>

6. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>			2018	2017
Description	Depository			
Current:				
Short-term financial instruments	HSBC and others	₩	10	117,261
	Industrial Bank of Korea and others		109,000	109,000
Non-current:				
Long-term financial instruments	Busan Bank		-	2,000
	Shinhan Bank and others		15	16
Available-for-sale financial assets			-	17,824
Financial assets measured at fair value through other comprehensive income	Busan City Hall and others		<u>13,869</u>	<u>-</u>
		₩	<u>122,894</u>	<u>246,101</u>

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7. Fair Value of Financial Instrument

(a) Carrying amount of financial assets as of December 31, 2018 is summarized as follows:

<i>(in millions of Korean won)</i>		2018
		Carrying amount
Financial assets measured at fair value (*1):	Current assets:	
	Short-term financial instruments	₩ 109,000
Fair value through profit or loss	Non-current assets:	
	Non-current debt instruments	4,124
	Non-current derivative assets held for trading	30,896
	Subtotal	<u>144,020</u>
Fair value through other comprehensive income	Equity instruments (*2)	227,763
	Debt instruments	9,227
	Subtotal	<u>236,990</u>
Derivative assets held for the purpose of hedging	Current derivative assets held for hedging	318
	Non-current derivative assets held for hedging	7,177
	Subtotal	<u>7,495</u>
	Total financial assets measured at fair value	<u>388,505</u>
Financial assets not being measured at fair value:	Current :	
	Cash and cash equivalents	1,005,320
	Trade receivables and other receivables	589,823
	Short-term financial instruments	210,010
	Short-term loans	6,165
Financial assets at amortized cost (*3)	Accrued income	5,759
	Current portion of security deposits	147,688
	Non-current :	
	Long-term financial instruments	-
	Deposits for opening of checking account	15
	Long-term loans	24,658
	Deposits	940,998
	Subtotal	<u>2,930,436</u>
	Total financial assets not being measured at fair value:	<u>2,930,436</u>
	Total financial assets	<u>₩ 3,318,941</u>

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

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

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

LOTTE SHOPPING CO., LTD.
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7. Fair Value of Financial Instrument, continued

(b) Carrying amount and fair value of financial assets as of December 31, 2017 are as follows:

(in millions of Korean won)

		2017	
		Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,687,990	1,687,990
Financial assets at fair value through profit or loss	Non-current derivative assets held for trading	35,616	35,616
Loans and receivables (*1)	Current :		
	Trade receivables and other receivables	690,431	690,431
	Short-term financial instruments	389,000	389,000
	Short-term loans	11,500	11,500
	Accrued income	3,266	3,266
	Current portion of deposits	120,591	120,591
	Non-current :		
	Long-term financial instruments	2,000	2,000
	Security deposit for opening of checking account	16	16
	Long-term loans	32,500	32,500
	Deposits	969,225	969,225
	Subtotal	2,218,529	2,218,529
Available-for-sale financial assets	Marketable equity instrument (*2)	155,076	155,076
	Non-marketable equity instrument (*3)	6,672	6,672
	Equity security being evaluated with the acquisition cost (*4)	61,648	61,648
	Non-marketable debt security (*5)	8,686	8,686
	Subtotal	232,082	232,082
Derivative assets held for hedging	Current	237	237
	Non-current	1,134	1,134
	Subtotal	1,371	1,371
	Total	₩ 4,175,588	4,175,588

(*1) Carrying amount is considered as a reasonable approximation of fair value.

(*2) Marketable available-for-sale financial assets traded in the active market are measured at fair value based on the market prices.

(*3) Some of unlisted equity instruments that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies at the end of reporting period.

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7. Fair Value of Financial Instrument, continued

(*4) Equity securities are recorded based on the acquisition cost because the fair value for the equity securities cannot be measured reliably.

(*5) Non-marketable debt securities that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies.

(c) Other financial assets as of December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Current:			
Short-term financial instruments	₩	319,010	389,000
Short-term loans		6,165	11,500
Accrued income		5,759	3,266
Current portion of deposits		147,688	120,590
Derivative assets held for hedging		318	237
	₩	<u>478,940</u>	<u>524,593</u>
Non-current:			
Long-term financial instruments	₩	-	2,000
Deposits for opening of checking account		15	16
Available-for-sale financial assets		-	232,082
Long-term loans		24,658	32,500
Deposits		940,997	969,225
Non-current debt instruments		13,351	-
Non-current equity instruments		177,428	-
Derivative assets held for trading		30,896	35,616
Derivative assets held for hedging		7,177	1,134
	₩	<u>1,194,522</u>	<u>1,272,573</u>

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As of December 31, 2018 and 2017

7. Fair Value of Financial Instrument, continued

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

(i) Equity instruments

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

	2018			
	Number of shares (In shares)	Percentage of ownership	Acquisition cost	Carrying amount
Marketable equity instruments at fair value - through other comprehensive income :				
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	62,626
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	12,320
momo.com Inc. (*1)	7,319,420	5.15%	35,956	50,336
Others	-	-	2,736	1,991
			<u>97,118</u>	<u>127,273</u>
Non-marketable equity instruments at fair value - through other comprehensive income :				
Lotte Properties (Shenyang) Limited	47,858,756	17.93%	61,213	99,907
Others	-	-	1,580	583
			<u>62,793</u>	<u>100,490</u>
			₩ <u>159,911</u>	<u>227,763</u>

(*1) The amount reclassified to assets held for sale during the current period is included.

(ii) Debt instruments

(in millions of Korean won)

	2018	
	Acquisition cost	Carrying amount
National housing bond	₩ 9,376	9,227
Urban railway bond	-	-
	₩ <u>9,376</u>	<u>9,227</u>

LOTTE SHOPPING CO., LTD.
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7. Fair Value of Financial Instrument, continued

(e) Available-for-sale financial assets as of December 31, 2017 are summarized as follows:

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

	Number of shares (In shares)	Percentage of ownership	2017	
			Acquisition cost	Carrying amount
Marketable available-for-sale financial assets:				
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	80,483
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	15,369
momo.com Inc.	7,319,420	5.15%	35,956	57,184
Others	-	-	2,736	2,040
			<u>97,118</u>	<u>155,076</u>
Non-marketable available-for-sale financial assets:				
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	65,680	7.76%	22,012	6,672
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919
Investment in government bonds	-	-	9,020	8,686
Others	-	-	31,456	19,729
			<u>104,407</u>	<u>77,006</u>
			₩ <u>201,525</u>	<u>232,082</u>

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

7. Fair Value of Financial Instrument, continued

(f) Carrying amount of financial liabilities as of December 31, 2018 is summarized as follows:

(in millions of Korean won)

		2018
		Carrying amount
Financial liabilities measured at fair value:		
	Current derivatives liabilities held for trading	₩ 13,365
Financial liabilities at fair value through profit or loss	Non-current derivatives liabilities held for trading	32
	Subtotal	13,397
	Current derivatives liabilities held for hedging	22,315
Derivatives liabilities	Non-current derivatives liabilities held for hedging	10,810
	Subtotal	33,125
	Total financial liabilities measured at fair value:	46,522
Financial liabilities not being measured at fair value:		
	Current :	
	Trade payables and other payables	2,158,255
	Short-term borrowings	250,000
	Current portion of long-term borrowings	100,000
	Current debentures	1,107,243
Financial liabilities at amortized cost (*1)	Accrued expenses	93,063
	Current portion of guarantee deposits	181,212
	Non-current :	
	Long-term borrowings	590,059
	Long-term debentures	3,293,315
	Guarantee deposits	159,959
	Others	7,800
	Subtotal	7,940,906
Other financial liabilities	Financial guarantee liabilities	329,629
	Total financial liabilities not being measured at fair value:	8,270,535
	Total financial liabilities	₩ 8,317,057

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

LOTTE SHOPPING CO., LTD.
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7. Fair Value of Financial Instrument, continued

(g) Carrying amount and fair value of financial liabilities as of December 31, 2017 are summarized as follows:

(in millions of Korean won)

		2017	
		<u>Carrying amount</u>	<u>Fair value</u>
Financial liabilities at fair value through profit or loss	Non-current derivative liabilities held for trading	₩ 101	101
Financial liabilities at amortized cost (*1)	Current :		
	Trade and other payables	2,722,960	2,722,960
	Short-term borrowings	400,000	400,000
	Current portion of long-term borrowings	94,911	94,911
	Current portion of long-term debentures	973,625	973,625
	Accrued expenses	120,166	120,166
	Current portion of guarantee deposit	196,703	196,703
	Non-current :		
	Long-term borrowings	249,609	249,609
	Long-term debentures	2,847,276	2,847,276
	Guarantee deposits	37,238	37,238
	Others	10,400	10,400
	Subtotal	<u>7,652,888</u>	<u>7,652,888</u>
Other financial liabilities	Financial guarantee liabilities	<u>570,574</u>	<u>570,574</u>
Derivative liabilities held for hedging	Current	48,979	48,979
	Non-current	<u>38,489</u>	<u>38,489</u>
	Subtotal	<u>87,468</u>	<u>87,468</u>
Total		<u>₩ 8,311,031</u>	<u>8,311,031</u>

(*1) Carrying amount is considered as a reasonable approximation of fair value.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

7. Fair Value of Financial Instrument, continued

(h) Other financial liabilities as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>		2018	2017
Current:			
Derivative liabilities held for trading	₩	13,365	-
Derivative liabilities held for hedging		22,315	48,979
Financial guarantee deposit		329,629	570,574
Accrued expenses		93,063	120,166
Guarantee deposit		181,212	196,703
	₩	<u>639,584</u>	<u>936,422</u>
Non-current:			
Derivative liabilities held for trading	₩	32	101
Derivative liabilities held for hedging		10,810	38,489
Guarantee deposit		159,959	37,238
Others		7,800	10,401
	₩	<u>178,601</u>	<u>86,229</u>

(i) Fair value hierarchy

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

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

LOTTE SHOPPING CO., LTD.
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7. Fair Value of Financial Instrument, continued

(i) Fair value hierarchy, continued

The fair value measurements classified by fair value hierarchy as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		2018			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	144,020	144,020
Financial assets at fair value through other comprehensive income		127,273	9,227	100,490	236,990
Derivative assets held for hedging		-	7,495	-	7,495
Total	₩	<u>127,273</u>	<u>16,722</u>	<u>244,510</u>	<u>388,505</u>
Financial liabilities at fair value through profit or loss	₩	-	-	13,397	13,397
Derivatives liabilities held for hedging		-	33,125	-	33,125
Total	₩	<u>-</u>	<u>33,125</u>	<u>13,397</u>	<u>46,522</u>

<i>(in millions of Korean won)</i>		2017			
		Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩	155,076	8,686	6,671	170,433
Derivative assets		-	1,371	35,616	36,987
	₩	<u>155,076</u>	<u>10,057</u>	<u>42,287</u>	<u>207,420</u>
Derivative liabilities	₩	-	87,468	101	87,569
	₩	<u>-</u>	<u>87,468</u>	<u>101</u>	<u>87,569</u>

In measuring Level 2 fair values, the company used price, index, etc., such as exchange rate and interest rate.

In measuring Level 3 fair values, the company used discounted cash flows model, net asset value method, etc. It includes financial instruments whose carrying amounts are considered as reasonable approximation of fair values.

LOTTE SHOPPING CO., LTD.
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7. Fair Value of Financial Instrument, continued

(j) Level 3 Fair values

Changes in Level 3 fair values for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Beginning of the year	₩	42,187	50,006
Changes in accounting policy		170,648	-
Gain (loss) included in finance income and costs		24,173	20,104
Gain (loss) included in OCI		37,518	172
Purchases		22,164	1,112
Disposal		(12,869)	(11,541)
Changes due to merger		2,745	-
Changes due to spin-off		(20,435)	(17,666)
Exchange right		(35,018)	-
End of the year	₩	<u>231,113</u>	<u>42,187</u>

(k) Sensitivity analysis

For the fair values of Level 3 financial instruments, reasonably possible changes as of December 31, 2018 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values.

(i) Equity securities

(in millions of Korean won)

		<u>Discount rate</u>		<u>Terminal growth rate</u>	
		<u>1% Decrease</u>	<u>1% Increase</u>	<u>0.5% Increase</u>	<u>1% Increase</u>
Financial assets at fair value through other comprehensive income (*)	₩	2	(1)	-	1

(*) present relevant equity instruments based on the valuation method.

(ii) Settlement agreement

(in millions of Korean won)

		<u>Discount rate</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Settlement agreement	₩	(56)	56

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

7. Fair Value of Financial Instrument, continued

(k) Sensitivity analysis, continued

(iii) Stock options (liability-classified)

(in millions of Korean won)

		Discount rate		Stock price volatility	
		10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩	49	(24)	(2)	2

(iv) Exchange right

(in millions of Korean won)

		Stock price volatility	
		1% Decrease	1% Increase
Exchange right	₩	(369)	413

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

8. Inventories

(a) Inventories as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>	2018	2017
Merchandise (*1) ₩	478,882	514,287
Allowance for valuation	(8,610)	(20,931)
Finished goods	6,530	103
Allowance for valuation	-	-
Semi-finished goods	150	-
Raw materials	4,971	-
Ingredients	38	-
Supplies	277	252
Materials-in-transit	8,978	1,128
Packing materials	513	-
₩	<u>491,729</u>	<u>494,839</u>

(*1) As of December 31, 2018 and 2017, inventories expected to be returned of ₩441 million and ₩582 million, respectively, are included.

(b) For the years ended December 31, 2018 and 2017, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Cost of goods sold:		
- Amount of inventories recognized as cost of goods sold ₩	4,994,773	4,970,109
- Decrease in valuation allowance of inventories	(12,321)	(262)

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

9. Other Non-financial Assets

Other non-financial assets as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Current:		
Advance payments	₩ 15,798	6,740
Prepaid expenses	67,944	71,124
	<u>₩ 83,742</u>	<u>77,864</u>
Non-current:		
Long-term advance payments	₩ 9,141	96,111
Long-term prepaid expenses	350,873	492,062
	<u>₩ 360,014</u>	<u>588,173</u>

10. Assets and Liabilities Held for Sale

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

<i>(in millions of Korean won)</i>	<u>2018</u>
Equity instruments at fair value through other comprehensive income (*1)	₩ 50,336
Acquired assets through merger (*2)	1,310
Land, etc. (*3)	<u>225,763</u>
Total	<u>₩ 277,409</u>

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

(*2) Land and buildings being acquired to the Company, upon the merger of LOTTE.COM INC.

(*3) In 2018, the Company decided to dispose land, buildings and other assets of Incheon branch of department stores. As a result, these assets were reclassified to assets held for sale. The Company measured assets held for sale at the lower of their carrying amount and fair value less cost to sell. And the amount being recognized as impairment loss during the year ended December 31, 2018 is ₩61,866 million.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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11. Investments in Associates

The details of associates as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>		2018			
Company	Location	Major operation	Percentage of ownership (%)		Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00		16,106
Lotte Europe Holdings B.V. (*1)	Netherlands	Holding company	26.98		49,716
Coralis S.A. (*1)	Luxembourg	Holding company	45.00		54,595
Hubei XL Cinema Co., Ltd. (*1)	China	Cinema	49.00		5,279
Hemisphere Film Investors II LLC (*1, 2)	America	Film producing company	100.00		11,567
Shandong Longzhile Cinema Co., Ltd. (*1)	China	Cinema	49.00		5,167
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00		35,000
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00		79,488
Lotte start-up fund No. 1 (*4)	Korea	Investment on new technology	7.35		800
Prototype (*5)	Korea	Service	20.00		-
Lotte PS Net (*5)	Korea	Financial service provider	31.30		-
Total				₩	<u>286,045</u>

<i>(in millions of Korean won)</i>		2017			
Company	Location	Major operation	Percentage of ownership (%)		Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00		16,106
Lotte Europe Holdings B.V. (*1)	Netherlands	Holding company	26.98		72,380
Coralis S.A. (*1)	Luxembourg	Holding company	45.00		54,595
UNION INVESTMENT PARTNERS (*1,3)	Korea	Film producing company	26.67		2,347
Capital One Middle-Low Budget Cinema Fund1 (*1,3)	Korea	Film producing company	25.00		173
Hubei XL Cinema Co., Ltd. (*1)	China	Cinema	49.00		8,142
Hemisphere Film Investors II LLC (*1, 2)	America	Film producing company	100.00		15,629
TW No.14 Culture Contents Fund (*1,3)	Korea	Film producing company	30.00		3,782
Leading Asia Contents Fund (*1,3)	Korea	Cinema	21.01		2,249

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11. Investments in Associates, continued

<i>(in millions of Korean won)</i>		2017			
Company	Location	Major operation	Percentage of ownership (%)		Book value
Shandong Longzhile Cinema Co., Ltd. (*1)	China	Cinema	49.00	₩	6,289
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
LOTTE Town Dongtan Co.,LTD BUSAN-LOTTE CREATIVE FILM FUND (*3)	Korea	Real estate development	50.00		35,000
IBK-ISU Contents Fund (*3)	Korea	Film producing company	47.62		6,000
CapitalOne Lotte-iMBC Contents Fund (*3)	Korea	Film producing company	35.00		2,800
			49.98		3,000
Total				₩	<u>256,819</u>

(*1) The Company performed an impairment test for the investee companies using recoverable amount based on external valuation agency, as a result of the impairment test, the Company recognized impairment loss for the years ended December 31, 2018 and 2017 as follows:

<i>(in millions of Korean won)</i>	2018	2017
Lotte Station Building Co., Ltd. (*)	₩ -	76,061
Lotte Europe Holdings B.V.	22,663	1,254
Coralis S.A.	-	5,010
UNION INVESTMENT PARTNERS	-	1,652
Capital One Middle-Low Budget Cinema Fund	-	1,001
Hubei XL Cinema Co., Ltd.	2,862	1,282
Hemisphere Film Investors II LLC	2,806	-
TW No.14 Culture Contents Fund	-	2,218
Leading Asia Contents Fund	-	1,751
Shandong Longzhile Cinema Co., Ltd.	1,122	1,768
	₩ <u>29,453</u>	<u>91,997</u>

(*1) The investment was transferred to the newly-established entity due to the spin-off during the year ended December 31, 2017.

(*2) The Company is a non-managing partner of Hemisphere Film Investors II LLC and doesn't have power to govern its financial and operation policies, but has significant influence on the entity.

(*3) These investments were transferred to the newly-established entity due to the spin-off of cinema business division.

(*4) Each of Woori Home Shopping Co., Ltd. and Lotte Himart Co., Ltd., subsidiaries of the Company, possesses 7.35% of Lotte Start-up Fund No.1, so it has been classified as investments in associates.

(*5) These investments were acquired due to the merger of LOTTE. COM INC.

LOTTE SHOPPING CO., LTD.
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12. Investments in Joint venture

When the Company has rights to the net assets of the joint venture entity, the Company classifies the investment in entity as a joint venture. The details of joint ventures as of December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

Company	Location	Major operation	2018	
			Percentage of ownership (%)	Carrying amount
Shenyang SL Cinema Investment Management Co., Ltd. (*2)	China	Cinema	49.00	₩ 688
STL Co., Limited	Korea	Import and selling of clothing	50.00	1,784
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	Vietnam	Distribution	51.00	174
LOTTE JTB Co., Ltd. (*3)	Korea	Movie investment and Travel business	50.00	12,842
				₩ <u>15,488</u>

(in millions of Korean won)

Company	Location	Major operation	2017	
			Percentage of ownership (%)	Carrying amount
D-Cinema of Korea Co., Ltd. (*1)	Korea	Film equipment	50.00	₩ -
Shenyang SL Cinema Investment Management Co., Ltd. (*2)	China	Cinema	49.00	689
STL Co., Limited	Korea	Import and selling of clothing	50.00	4,000
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	Vietnam	Distribution	51.00	174
				₩ <u>4,863</u>

(*1) The investments were transferred to newly established entity due to the spin-off of cinema business division.

(*2) The Company performed an impairment test for the investee companies and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2018 and 2017 as follows. Valuation method and assumption used in the impairment test are an equivalent of what is applied to the impairment test for cash generating unit of the Company's subsidiary.

(in millions of Korean won)

	2018	2017
Shenyang SL Cinema Investment Management Co., Ltd.	₩ -	807
STL Co., Limited	4,216	-
	₩ <u>4,216</u>	<u>807</u>

LOTTE SHOPPING CO., LTD.
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12. Investments in Joint venture, continued

(*3) The investments were transferred to the Company due to the merger of LOTTE.COM INC.

13. Investments in Subsidiaries

(a) The details of subsidiaries as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>	2018				
	Name of entity	Location	Major operation	Percentage of ownership (%)(*1)	Book Value
	Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	₩ 393,213
	Lotte Gimhae Development Co., Ltd.	Korea	Service company	100.00	300
	Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	95.00	62,435
	Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	56.30	60,000
	Lotte GFR Co., Ltd. (Formerly, NCF) (*7)	Korea	Apparel manufacturing and selling	99.93	72,359
	CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95	164,643
	LOTTE Himart Co., Ltd. (*3)	Korea	Consumer electronics retail	65.25	1,248,068
	Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*2)	Hong Kong	Holding company	100.00	-
	LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00	424,548
	LOTTE CINEMA VIETNAM CO., LTD. (*2)	Vietnam	Cinema	90.00	27,947
	LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46	153,611
	Lotte (China) Management Co., Ltd. (*2)	China	Managing company	70.00	3,495
	LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	20.00	14,185
	LHSC Limited (*2)	Cayman Islands	Holding company	17.58	-
	LOTTE Ulsan Development	Korea	Real estate development	94.84	23,900
	LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00	127,421
	Lotte Cultureworks Co., Ltd. (*6)	Korea	Cinema	100.00	486,616
	Lotte corporate venture fund No. 1 (*8)	Korea	Investment on new technology	18.78	400
	PT. LOTTE CINEMA INDONESIA (*2)	Indonesia	Cinema	99.98	4,155
	Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	95.00	4,750
					₩ <u>3,272,046</u>

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13. Investments in Subsidiaries, continued

(in millions of Korean won)

Name of entity	Location	Major operation	2017		
			Percentage of ownership (%) (*1)		Book amount
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	₩	393,213
Lotte Gimhae Development Co., Ltd.	Korea	Service company	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	95.00		89,419
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	56.30		60,000
Lotte GFR Co., Ltd. (Formerly, NCF) (*7)	Korea	Apparel manufacturing and selling	99.80		20,059
CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95		212,741
LOTTE Himart Co., Ltd. (*3)	Korea	Consumer electronics retail	65.25		1,248,068
Lotte Department Store Masan Co., LTD. (*2,4)	Korea	Distribution	100.00		5,721
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*2)	Hong Kong	Holding company	100.00		9,002
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00		444,879
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	20.63		-
LOTTE CINEMA VIETNAM CO., LTD. (*2)	Vietnam	Cinema	90.00		29,596
LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46		160,391
Lotte (China) Management Co., Ltd. (*2)	China	Managing company	70.00		3,495
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	20.00		14,185
LHSC Limited (*2)	Cayman Islands	Holding company	17.58		-
LOTTE Ulsan Development	Korea	Real estate development	94.84		23,900
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00		127,421
Lotte Cinema Co., Ltd. (*5)	Korea	Cinema	100.00		500
PT. LOTTE CINEMA INDONESIA (*2)	Indonesia	Cinema	99.98		4,346
				₩	<u>2,847,236</u>

(*1) Percentage of ownership represents ownership of the Company. Percentage of ownership described in note 40 represents an ownership of the Company and its subsidiaries.

(*2) The Company shall determine each of subsidiaries as a separate cash generating unit during the years ended December 31, 2018 and 2017 and recognize impairment loss. This recognition of impairment loss is caused by worsened profit and loss, net assets reduction, etc. of subsidiaries.

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13. Investments in Subsidiaries, continued

- The Company calculated the value in use and net fair value based on external valuation agency for the impairment test.
- The calculation of value in use and net fair value uses estimation of cash flow before tax based on financial budget over a period of time in the future being approved by management.
- For the calculation of permanent cash flow beyond a particular period, terminal growth rate does not exceed long-term average growth rate of applicable industry of relevant cash generating unit, and estimates of certain growth rate like inflation rate are used.

Impairment losses during the years ended December 31, 2018 and 2017 are as follows.

<i>(in millions of Korean won)</i>	2018	2017
Lotte Suwon Station Shopping Town Co., Ltd.	₩ 26,984	5,391
CS Mart Co., Ltd.	48,098	43,085
Lotte Department Store Masan Co., LTD.	-	8,959
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*)	730,005	511,033
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	47,565	178,881
LOTTE PROPERTIES (CHENGDU) HK LIMITED	6,780	-
LOTTE CINEMA VIETNAM CO., LTD.	1,649	-
Lotte (China) Management Co., Ltd.	-	2,737
LHSC Limited	-	9,303
PT. LOTTE CINEMA INDONESIA	191	-
	₩ 861,272	759,389

(*) In case of capital increase during the year ended December 31, 2018, the recoverable amount of the investment is less than its carrying amount, and as a result, the difference is all recognized as an impairment loss.

(*3) During 2018, the Company issued exchangeable bond which are exchangeable for common stocks of Lotte Himart Co., Ltd.. The total number of shares to be exchanged is 3,536,812 shares, and if all exchangeable bonds are exchanged for the ordinary shares of Lotte Himart Co., Ltd., the Company's percentage of ownership in Lotte Himart Co., Ltd. would have decreased from 65.25% to 50.27%, but there would be no influence on the controlling ability of the Company on Lotte Himart Co., Ltd. Also, the Company concluded the transaction to lend the ordinary shares of Lotte Himart Co., Ltd. to the extent of 50% of the number of shares in subject of exchange, and the number of lent shares as of December 31, 2018 is 15,146 shares. The Company's right to vote and dispose the shares is restricted according to the agreement, however there is no influence on the controlling ability of the Company on Lotte Himart Co., Ltd.

(*4) The subsidiary merged into the Company on February 1, 2018..

(*5) Liquidation was completed during the year ended December 31, 2018.

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13. Investments in Subsidiaries, continued

(*6) This is a newly established subsidiary due to spin off of cinema business division of the Company on June 1, 2018 and is described in note 44.

(*7) The book value and the percentage of ownership were changed due to the capital increase during the year ended December 31, 2018.

(*8) Woori Home Shopping Co., Ltd., a subsidiary of the Company, owns 79.81% of common shares.

(b) The fair value of marketable shares in subsidiaries as of December 31, 2018 and 2017 are as follows :

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
LOTTE Himart Co., Ltd.	₩ 718,563	1,061,286

LOTTE SHOPPING CO., LTD.
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14. Property, Plant and Equipment

(a) Details of property, plant and equipment as of December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

		2018				2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	7,002,991	-	-	7,002,991	7,232,378	-	-	7,232,378
Buildings		6,140,100	(2,181,302)	(1,673)	3,957,125	6,363,309	(2,179,379)	(12)	4,183,918
Structures		331,910	(129,694)	(4,771)	197,445	328,209	(113,956)	(3,265)	210,988
Machinery		96,871	(37,347)	(769)	58,755	99,448	(58,022)	(1,109)	40,317
Vehicles		5,239	(4,409)	(187)	643	5,214	(4,166)	(198)	850
Display fixtures		67,313	(67,030)	-	283	262,304	(196,078)	(1,919)	64,307
Furniture and fixtures		3,454,855	(2,668,415)	(138,926)	647,514	3,307,413	(2,528,548)	(93,829)	685,036
Tools and equipment		484	(484)	-	-	484	(484)	-	-
Construction-in-progress		562,588	-	(51,796)	510,792	715,950	-	-	715,950
Total	₩	<u>17,662,351</u>	<u>(5,088,681)</u>	<u>(198,122)</u>	<u>12,375,548</u>	<u>18,314,709</u>	<u>(5,080,633)</u>	<u>(100,332)</u>	<u>13,133,744</u>

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

(in millions of Korean won)

		2018										
		Beginning balance	Acquisitions	Spin-off	Business transfer	Merger	Held for sale	Depreciation	Impairment	Disposals	Others(*1)	Ending balance
Land	₩	7,232,378	6,968	-	-	-	(176,058)	-	-	(1,355)	(58,942)	7,002,991
Buildings		4,183,918	16,274	-	-	-	(85,721)	(156,602)	(1,662)	(14,044)	14,962	3,957,125
Structures		210,988	-	-	-	-	(12,891)	(4,459)	(3)	3,810	197,445	
Machinery		40,317	3,799	-	-	-	(7,877)	(7)	(0)	22,523	58,755	
Vehicles		850	198	-	-	-	(417)	(7)	(0)	19	643	
Display fixtures		64,307	5,926	(103,224)	-	-	(11,056)	-	(690)	45,020	283	
Furniture and fixtures		685,036	159,733	-	(6,137)	9,840	(263,465)	(46,551)	(8,837)	117,896	647,515	
Tools and equipment		-	-	-	-	-	-	-	-	-	-	
Construction-in-progress		715,950	257,058	-	-	2,662	-	(51,796)	-	(413,082)	510,792	
	₩	<u>13,133,744</u>	<u>449,956</u>	<u>(103,224)</u>	<u>(6,137)</u>	<u>12,502</u>	<u>(261,779)</u>	<u>(452,308)</u>	<u>(104,482)</u>	<u>(24,929)</u>	<u>(267,794)</u>	<u>12,375,549</u>

(*1) Others include reclassifications of construction-in-progress to intangible assets, reclassification to investment property.

LOTTE SHOPPING CO., LTD.
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14. Property, Plant and Equipment, continued

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

(in thousands of
Korean won)

		2017							
		Beginning book amount	Acquisitions	Depreciation	Impairment	Disposals	Others(*1)	Ending book amount	
Land	₩	7,610,673		6,894	-	-	(14,883)	(370,306)	7,232,378
Buildings		4,157,048		7,508	(167,911)	(12)	(6,282)	193,567	4,183,918
Structures		222,888		161	(12,863)	(306)	-	1,108	210,988
Machinery		44,918		3,342	(8,335)	(347)	(9)	748	40,317
Vehicles		1,260		222	(540)	(89)	-	-	850
Display fixtures		74,921		14,062	(27,927)	(1,919)	(110)	5,280	64,307
Furniture and fixtures		760,990		122,468	(301,309)	(59,450)	(5,685)	168,022	685,036
Tools and equipment		-		-	-	-	-	-	-
Construction-in-progress		743,240		458,913	-	-	(3,511)	(482,692)	715,950
	₩	<u>13,615,938</u>		<u>613,570</u>	<u>(518,885)</u>	<u>(62,123)</u>	<u>(30,483)</u>	<u>(484,273)</u>	<u>13,133,744</u>

(*1) Others include reclassifications of construction-in-progress to intangible assets, reclassification to investment property.

(c) The Company performed impairment test for cash generating units of department stores, discount stores, and supermarkets, etc. that have indication of impairment, and the details of impairment losses are summarized as follows:

		2018				
		Department store	Discount store	Supermarket	Others	Total
Impairment loss on property, plant and equipment	₩	61,100	14,583	25,049	3,750	104,482
Impairment loss on intangible assets (excluding goodwill)		30,629	13,105	316	852	44,902
Impairment loss on goodwill		-	-	22,857	-	22,857
Impairment loss on other non-current assets		-	19,347	-	-	19,347
Total	₩	<u>91,729</u>	<u>47,035</u>	<u>48,222</u>	<u>4,602</u>	<u>191,588</u>

LOTTE SHOPPING CO., LTD.
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14. Property, Plant and Equipment, continued

(c) The Company performed impairment test for cash generating units of department stores, discount stores, consumer electronics retailers, and supermarkets, etc. that have indication of impairment, and the details of impairment losses are summarized as follows:, continued

<i>(in millions of Korean won)</i>	2017				
	Department store	Discount store	Supermarket	Others	Total
Impairment loss on property, plant and equipment	₩ 14,230	37,177	7,440	3,276	62,123
Impairment loss on intangible assets (excluding goodwill)	68,869	31	70	250	69,220
Impairment loss on goodwill	-	156,261	6,431	5,476	168,168
Impairment loss on other non-current assets	861	23,117	-	4,023	28,001
Total	₩ 83,960	216,586	13,941	13,025	327,512

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.

(d) Pledged property, plant and equipment provided by the Company as of December 31, 2018 are as follows:

<i>(in millions of Korean won)</i>		Book amount	Guaranteed amount	Type of borrowings	Guarantee recipient
Pledged assets					
Land	₩	71,774	51,639	Security for lease deposit	Shinhan Bank and others
Buildings		64,503	1,632	Provisional attachment of land	Korea Environmental Industry & Technology Institute and others

(e) The capitalized borrowing costs and capitalization interest rates for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Capitalized borrowing costs	₩ 5,916	4,227
Capitalization interest rates	2.49%	2.24%

LOTTE SHOPPING CO., LTD.
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15. Investment Property

(a) Investment property as of December 31, 2018 and 2017 are summarized as follows:

(in millions of
Korean won)

		2018			2017		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	531,082	-	531,082	430,386	-	430,386
Buildings		606,381	(145,675)	460,706	384,917	(56,630)	328,287
Total	₩	1,137,463	(145,675)	991,788	815,303	(56,630)	758,673

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

		2018			
		Beginning balance	Depreciation	Others (*1)	Ending balance
Land	₩	430,386	-	100,696	531,082
Buildings		328,287	(15,132)	147,551	460,706
Total	₩	758,673	(15,132)	248,247	991,788

(*1) Others include reclassification between property, plant and equipment and investment property .

(c) Changes in investment property for the years ended December 31, 2017 are as follows:

		2017			
		Beginning balance	Depreciation	Others (*1)	Ending balance
Land	₩	229,834	-	200,552	430,386
Buildings		67,318	(3,789)	264,758	328,287
Total	₩	297,152	(3,789)	465,310	758,673

(*1) Others include reclassification between property, plant and equipment and investment property.

(d) Income and expense from investment property

The details of income and expense from investment property for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018	2017
Rental income	₩	76,134	38,819
Direct operating expense (including maintenance and repair expenses)		53,717	13,886

LOTTE SHOPPING CO., LTD.
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As of December 31, 2018 and 2017

15. Investment Property, continued

(e) Fair value of investment property as of December 31, 2018 is as follows:

(in millions of Korean won)

		<u>Book value</u>	<u>Fair value</u>
Land and buildings	₩	991,787	1,559,351

16. Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

		<u>2018</u>				<u>2017</u>			
		<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>	<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment losses</u>	<u>Book value</u>
Goodwill	₩	649,087	-	(414,217)	234,870	635,721	-	(406,153)	229,568
Industrial property rights		7,190	(6,052)	(211)	927	6,864	(5,593)	(70)	1,201
Rights to use facility		525,875	(212,451)	(152,683)	160,741	525,848	(193,952)	(110,221)	221,675
Membership		16,543	-	(1,429)	15,114	17,800	-	-	17,800
Other intangible assets		87,410	(60,245)	(2,840)	24,325	279,845	(266,612)	(411)	12,822
Total	₩	<u>1,286,105</u>	<u>(278,748)</u>	<u>(571,380)</u>	<u>435,977</u>	<u>1,466,078</u>	<u>(466,157)</u>	<u>(516,855)</u>	<u>483,066</u>

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

(in millions of Korean won)

		<u>2018</u>									
		<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Spin-off</u>	<u>Business Transfer</u>	<u>Business combination</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Disposals</u>	<u>Others(*1)</u>	<u>Ending balance</u>
Goodwill	₩	229,568	83	-	(88)	28,265	-	(22,857)	(101)	-	234,870
Industrial Property rights		1,201	335	-	-	42	(480)	(133)	(1)	(37)	927
Rights to use facility		221,675	-	-	-	-	(18,472)	(42,488)	-	26	160,741
Membership		17,800	1	-	-	524	-	(1,429)	(421)	(1,361)	15,114
Other intangible assets		12,822	21,320	(3,946)	(2,109)	21,543	(30,604)	(852)	-	6,151	24,325
Total	₩	<u>483,066</u>	<u>21,739</u>	<u>(3,946)</u>	<u>(2,197)</u>	<u>50,374</u>	<u>(49,556)</u>	<u>(67,759)</u>	<u>(523)</u>	<u>4,779</u>	<u>435,977</u>

(*1) Others include reclassification of construction-in-progress to intangible assets.

LOTTE SHOPPING CO., LTD.
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16. Goodwill and Intangible Assets, continued

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

(in millions of Korean won)

		2017					Ending balance	
		Beginning balance	Acquisitions	Amortization	Impairment	Disposals		Others(*1)
Goodwill	₩	400,032	-	-	(168,168)	(251)	(2,045)	229,568
industrial property rights		1,446	389	(563)	(71)	-	-	1,201
Rights to use facility		312,803	-	(23,012)	(68,900)	-	784	221,675
Membership		16,260	1,540	-	-	-	-	17,800
Other intangible assets		5,800	44,238	(39,141)	(250)	-	2,175	12,822
Total	₩	736,341	46,167	(62,716)	(237,389)	(251)	914	483,066

(*1) Others include reclassification of construction-in-progress to intangible assets.

(c) 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 Company.

Details of the goodwill allocated to the Company of cash-generating units as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018	2017
Department stores	₩	192,828	192,828
Discount stores		2,293	2,293
Supermarket		11,484	34,359
Other		28,265	88
Total	₩	234,870	229,568

(d) The impairment losses and recoverable amounts of the impaired cash-generating units for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018	
		Impairment losses	Recoverable amounts
Supermarket	₩	22,857	-

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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16. Goodwill and Intangible Assets, continued

(d) The impairment losses and recoverable amounts of the impaired cash-generating units for the years ended December 31, 2018 and 2017 are as follows:, continued

(in millions of Korean won)

		2017	
		Impairment losses	Recoverable amounts
Discount stores	₩	156,261	353,669
Supermarket		6,431	-
Others		5,476	29,865
Total	₩	168,168	383,534

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The calculation of value in use was based on the following key assumptions:

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

- The annual revenue growth rate for the following five-year in the future was estimated based on an analysis of average revenue growth rates in the past and GDP growth rates estimated by external agencies. The revenue after the five-year period is assumed to grow constantly at 1% (2017: 1%).

- Weighted average cost of capital in 2018 was applied as the discount rate of 8.80% (2017: 7.17% ~ 7.31%) in determining recoverable amount of each cash-generating units.

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Company. As of December 31, 2018, as a result of impairment testing, recoverable amounts of the cash-generating units exceeded its book amount, except for some of supermarkets.

17. Trade and Other Payables

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

(in millions of Korean won)

		2018	2017
Trade payables	₩	1,111,654	1,649,516
Other payables		1,046,601	1,073,444
Total	₩	2,158,255	2,722,960

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

18. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018	2017
Current:			
Short-term borrowings	₩	250,000	400,000
Current portion of long-term borrowings		100,000	94,911
Current portion of long-term debentures		1,139,030	973,780
Current portion of discount on long-term debentures		(2,763)	(128)
Current portion of debentures redemption premium		7,681	-
Exchange rights adjustment		(36,705)	(27)
Subtotal		<u>1,457,243</u>	<u>1,468,536</u>
Non-current:			
Long-term borrowings		590,318	250,000
Discount on long-term borrowings		(259)	(391)
Long-term debentures		3,298,184	2,851,420
Discount on debentures		(4,869)	(4,144)
Subtotal		<u>3,883,374</u>	<u>3,096,885</u>
Total	₩	<u>5,340,617</u>	<u>4,565,421</u>

(b) Short-term borrowings as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

Lender	Annual interest rate (%)		2018	2017
Shinhan Bank	CD(91)+0.36	₩	50,000	200,000
KB Securities Co., Ltd.	-		-	50,000
KTB Investment & Securities Co., Ltd.	2.24~2.28		200,000	50,000
Samsung Securities Co., Ltd.	-		-	100,000
		₩	<u>250,000</u>	<u>400,000</u>

LOTTE SHOPPING CO., LTD.
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As of December 31, 2018 and 2017

18. Borrowings and Debentures, continued

(c) Long-term borrowings as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

Lender	Annual interest rate(%)	Maturity		2018	2017
Lotte Co., Ltd. (Japan)	3M Tibor+1.23	Sep. 09, 2021	₩	101,318	94,911
Mizuho Corporate Bank, Ltd.	1.98	Mar. 03, 2019		100,000	100,000
DB Financial Investment Co., Ltd.	2.46	Dec. 15, 2020		150,000	150,000
Mizuho Corporate Bank, Ltd.	2.35	May. 21, 2021		165,000	-
Mizuho Corporate Bank, Ltd.	2.44	Aug. 17, 2021		174,000	-
Subtotal				690,318	344,911
Less: Discount on borrowings				(259)	(391)
Subtotal				690,059	344,520
Less: Current portion of long-term borrowings, net of discount				(100,000)	(94,911)
Total			₩	590,059	249,609

(d) Debentures as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

Description	Maturity	Annual interest rate (%)		2018	2017
59-3rd placed	Aug. 07, 2019	3.33	₩	200,000	200,000
61st placed	-	-		-	100,000
62nd placed	-	-		-	110,000
63-2nd placed	Jul. 02, 2019	3.08		200,000	200,000
64-1st placed (foreign currency)	-	-		-	160,710
64-2nd placed (foreign currency)	-	-		-	107,140
64-3rd placed (foreign currency)	-	-		-	107,140
65-1st placed	Mar. 03, 2020	2.26		160,000	160,000
65-2nd placed	Mar. 03, 2022	2.45		240,000	240,000
66-1st placed	Jun. 23, 2020	2.40		130,000	130,000
66-2nd placed	Jun. 23, 2020	2.64		50,000	50,000
66-3rd placed	Jun. 23, 2020	2.98		140,000	140,000
67-1st placed (foreign currency)	-	-		-	160,710
67-2nd placed (foreign currency)	-	-		-	107,140
67-3rd placed (foreign currency)	-	-		-	107,140
68th placed	Jul. 31, 2020	2.40		110,000	110,000

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

18. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2018 and 2017 are as follows:, continued

(in millions of Korean won)

Description	Maturity	Annual interest rate (%)	2018	2017
69-1st placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.55 ₩	111,810	107,140
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02	111,810	107,140
70-1st placed	Apr. 04, 2019	1.77	100,000	100,000
70-2nd placed	Apr. 04, 2021	2.02	170,000	170,000
70-3rd placed	Apr. 04, 2026	2.48	70,000	70,000
71th placed	Nov. 29, 2019	1M USD Libor	111,810	107,140
72-1st placed	Jan. 23, 2020	1.94	240,000	240,000
72-2nd placed	Jan. 23, 2022	2.36	160,000	160,000
73-1st placed	Jun. 15, 2020	2.11	110,000	110,000
73-2nd placed	Jun. 15, 2022	2.5	150,000	150,000
73-3rd placed	Jun. 15, 2024	2.69	100,000	100,000
74th placed	Jun. 29, 2022	2.48	50,000	50,000
75th placed	Aug. 07, 2024	2.74	150,000	150,000
76-1st placed (foreign currency)	May. 21, 2021	3M USD Libor	111,810	-
76-2nd placed (foreign currency)	May. 21, 2021	3M USD Libor + 0.95	195,668	-
77-1st placed	May. 28, 2021	2.64	160,000	-
77-2nd placed	May. 30, 2023	2.96	310,000	-
77-3rd placed	May. 30, 2028	3.47	100,000	-
78-1st placed (foreign currency)	Aug. 17, 2021	3M USD Libor	178,896	-
78-2nd placed (foreign currency)	Aug. 28, 2021	3M USD Libor + 0.95	111,810	-
79th placed	Aug. 07, 2033	3.55	70,000	-
80th placed	Aug. 29, 2038	3.4	30,000	-
Exchangeable bonds	-	-	-	13,800
Exchangeable bonds (*1)	Apr. 04, 2023	-	303,600	-
Subtotal			4,437,214	3,825,200
Less: Discount on debentures			(7,632)	(4,272)
Debentures redemption premium			7,681	-
Less: Exchange rights adjustment			(36,705)	(27)
Total book value			4,400,558	3,820,901
Less: Current portion of debentures, net of discount			(1,107,243)	(973,625)
Total			₩ 3,293,315	2,847,276

LOTTE SHOPPING CO., LTD.
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18. Borrowings and Debentures, continued

(d) Debentures as of December 31, 2018 and 2017 are as follows:, continued

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

- | | |
|---|--|
| (a) Type of bonds: | Registered overseas unsecured exchangeable bonds |
| (b) Total face value of bonds(KRW): | 303,600,000,000 |
| (c) Bond interest rate | |
| Coupon rate (%): | - |
| Yield to maturity (%): | 0.50 |
| (d) Date of bond maturity: | April 04, 2023 |
| (e) 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. | |
| (f) Put option by bondholders: | |
| 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. | |
| (g) 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. | |
| (h) Matters relating to exchange: | |
| 1. Exchange ratio (%): | 100 |
| 2. Exchange price (KRW per share): | 85,840 |
| 3. Type of shares to be issued following exchange: | Ordinary shares of LOTTE Himart Co., Ltd. |
| 4. Period to apply for exchange: | |
| Start date: | May 13, 2018 |
| End date: | March 24, 2023 |
| 5. 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. | |

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18. Borrowings and Debentures, continued

(e) Annual repayment schedule of long-term borrowings and debentures as of December 31, 2018 are as follows:

(in millions of Korean won)

		2018		
		Borrowings	Debentures	Total
2019.01.01 ~ 2019.12.31	₩	100,000	1,139,030	1,239,030
2020.01.01 ~ 2020.12.31		150,000	750,000	900,000
2021.01.01 ~ 2021.12.31		440,318	928,184	1,368,502
2022.01.01 ~ 2022.12.31		-	650,000	650,000
After 2023.01.01		-	970,000	970,000
Total	₩	690,318	4,437,214	5,127,532

19. Unearned Revenues

The details of unearned revenues as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018	2017
Current:			
Membership points (*1)	₩	70	-
Other points		52,166	50,104
Unearned rental income		4,297	2,204
Others (*2)		69,661	71,962
Subtotal		126,194	124,270
Non-current:			
Unearned rental income		28,871	4,393
Subtotal		28,871	4,393
Total	₩	155,065	128,663

(*1) Membership points were transferred to the Company due to the merger of LOTTE.COM INC.

(*2) Others include contract liabilities described in note 30.

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20. Provisions

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

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	Ending balance
Provision for bonus points reward program (*1)	₩	-	1,838	(1,777)	61
Provision for sales return		1,593	1,626	(1,626)	1,593
Provision for bonus payable		-	57,734	(57,734)	-
Provisions for litigation		-	2,405	-	2,405
Other provisions		-	10,948	-	10,948
Total	₩	<u>1,593</u>	<u>74,551</u>	<u>(61,137)</u>	<u>15,007</u>

(*1) The provisions were succeeded to the Company as a result of the merger of LOTTE.COM INC.

(b) Changes in provisions for the year ended December 31, 2017 are as follows:

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	Ending balance
Provision for bonus payable	₩	1,286	1,593	(1,286)	1,593
Other provisions		-	55,853	(55,853)	-
Total	₩	<u>1,286</u>	<u>57,446</u>	<u>(57,139)</u>	<u>1,593</u>

21. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>		2018	2017
Current:			
Withholdings	₩	13,300	71,740
Withholdings of value added tax		59,998	87,667
Advances received		722,310	669,456
Subtotal		<u>795,608</u>	<u>828,863</u>
Non-Current:			
Other liabilities		51,194	34,108
Subtotal		<u>51,194</u>	<u>34,108</u>
Total	₩	<u>846,802</u>	<u>862,971</u>

LOTTE SHOPPING CO., LTD.
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22. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Present value of defined benefit obligations	₩	591,984	511,984
Fair value of plan assets		(638,969)	(547,049)
Net defined benefit liabilities (assets)	₩	<u>(46,985)</u>	<u>(35,065)</u>

(b) Details of present value of other long-term employee benefits as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Present value of other long-term employee benefits	₩	55,730	51,364

(c) Changes in the defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Beginning balance	₩	511,984	485,814
Current service cost		74,058	76,284
Interest costs		14,724	15,645
Remeasurements:			
Actuarial loss from change in demographic assumptions		2,250	696
Actuarial loss (gain) from change in financial assumptions		20,966	(12,421)
Actuarial loss from experience adjustments		9,258	5,111
Subtotal		<u>32,474</u>	<u>(6,614)</u>
Benefit payments		(43,096)	(46,677)
Others		9,168	9,362
Changes due to merger		14,987	-
Changes due to spin-off		(22,315)	(21,830)
Ending balance	₩	<u>591,984</u>	<u>511,984</u>

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

22. Employee Benefits, continued

(d) Changes in the plan assets for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Beginning balance	₩ 547,049	500,520
Return on plan assets	17,910	14,804
Remeasurements	(8,690)	(6,211)
Employer contribution	119,800	93,172
Benefit payments	(31,639)	(34,244)
Others	4,020	4,211
Changes due to merger	14,561	-
Changes due to spin-off	(24,041)	(25,203)
Ending balance	₩ 638,970	547,049

The estimated contributions to the plan for the next annual reporting period are ₩88,653 million.

(e) The components of plan assets as of December 31, 2018 and 2017 are summarized as follows:

<i>(in millions of Korean won)</i>	2018	2017
Principal guaranteed insurance policies	₩ 638,942	547,021
Contributions to the National Pension Fund	27	27
	₩ 638,969	547,048

(f) Expenses recognized for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Current service costs	₩ 74,058	76,284
Interest costs	14,724	15,644
Return on plan assets	(17,910)	(14,804)
Contributions to defined contribution plans	438	326
Long-term employee benefits	8,258	10,329
	₩ 79,568	87,779

(g) The principal actuarial assumptions used as of December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	2.50~3.80%	2.09~3.85%
Expected rate of promotion	1.43~2.94%	1.44~3.26%
Expected rate of increase in salaries	1.23~10.86%	1.83~7.50%

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22. Employee Benefits, continued

(h) 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% movement)	₩	(48,317)	55,924
Expected rate of promotion (1% movement)		46,968	(39,767)
Expected rate of increase in salaries (1% movement)		55,396	(48,739)

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.

(i) Information about the maturity profile of the defined benefit obligation as of December 31, 2018 is as follows:

<i>(in millions of Korean won)</i>		<u>Less than 1 year</u>	<u>Between 1-2 years</u>	<u>Between 2-5 years</u>	<u>Between 5-10 years</u>	<u>Over 10 years</u>
Pension benefits	₩	84,695	49,808	160,504	379,437	1,363,010

The weighted average duration of the defined benefit obligation is 9.15 years.

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23. Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2018 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	Pays fixed interest to receive floating rate
Trade	Embedded derivatives	The embedded option to exchange the bond for the ordinary shares of LOTTE Himart Co., Ltd.
	Total return swap (*1)	Exchanges beneficiary certificate of investor's total profit to constant flow of cash
	Stock options	Holds the right to buy preferred shares or grants the right to sell preferred shares of related companies

(*1) Total return swaps of the Company as of December 31, 2018 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
		Silver Investment No. 1 Co., Ltd.	2016-04-27	2021-04-29	₩ 120,000							
		Silver Investment No. 2 Co., Ltd.			50,000			1. Settlement of differences between the selling price of underlying assets and the principal of investment			KB Securities	
		J's C No. 1 Co., Ltd.			50,000							
		LOG No. 1 Co., Ltd.	2017-02-17	2022-02-17	40,000						KB Securities	
		LOG No. 3 Co., Ltd.			24,300							
		Portobello No. 1 Co., Ltd.	2017-03-24	2022-03-24	4,700							
		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)			Daiwa Securities	
TRS	Lotte Shopping Co., Ltd	LMC No. 1 Co., Ltd.	2017-06-14	2022-06-16	12,800				None	None	KB Securities	-
		LMC No. 3 Co., Ltd.			20,000							
		LOY No. 1 Co., Ltd.	2017-07-19	2022-07-20	57,000							
		LOY No. 2 Co., Ltd.			65,000						KB Securities and others	
		LOY No. 3 Co., Ltd.			41,000							
		Kimpo Hangang Park No. 1 Co., Ltd.	2017-09-08	2022-09-16	29,800						Mirae Asset Daewoo	
		Kimpo Hangang Park No. 2 Co., Ltd.			120							

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23. Derivative Instruments and Hedge Accounting, continued

(b) Hedge Accounting

As of December 31, 2018, the Company 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 Company 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, 2018 are as follows:

(in millions of Korean won)

Type	Description	Principal amount	Fixed exchange rate (in Korean won)	Variable rate	Swap rate	Maturity	Remark
Currency swap	69-1st placed (foreign currency)	USD 100,000,000	1,199.50	3M USD Libor+0.55	1.96%	2019.01.29	Mizuho Bank
	69-2nd placed (foreign currency)	USD 100,000,000	1,200.50	3M USD Libor+0.02	1.94%	2019.01.29	The Bank of Tokyo-Mitsubishi UFJ
	71st placed (foreign currency)	USD 100,000,000	1,165.00	1M USD Libor	2.15%	2019.11.29	The Bank of Tokyo-Mitsubishi UFJ
	76-1st placed (foreign currency)	USD 100,000,000	1,078.50	3M USD Libor	2.38%	2021.05.21	The Bank of Tokyo-Mitsubishi UFJ
	76-2nd placed (foreign currency)	USD 175,000,000	1,078.50	3M USD Libor+0.95	2.26%	2021.05.21	The Bank of Tokyo-Mitsubishi UFJ
	78-1st placed (foreign currency)	USD 160,000,000	1,136.00	3M USD Libor	2.46%	2021.08.17	Sumitomo Mitsui Banking
	78-2st placed (foreign currency)	USD 100,000,000	1,122.00	3M USD Libor+0.95	2.27%	2021.08.28	The Bank of Tokyo-Mitsubishi UFJ
	Interest rate swap	Short term borrowings	KRW 150,000,000	Not applicable	91 days CD rate +0.41%	1.99%	2019.05.29
		KRW 100,000,000		91 days CD rate +0.42%	1.93%	2019.04.19	KEB Hana Bank

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23. Derivative Instruments and Hedge Accounting, continued

(c) Changes in the fair value of derivative instruments for the year ended December 31, 2018 are as follows:

(in millions of Korean won)

<u>Purpose</u>	<u>Type</u>	<u>Amount</u>	<u>Note</u>
Cash flow hedge	Currency swaps	₩ 21,646	Profit or loss (*1)
		(6,468)	Other comprehensive income (*2)
	Interest swaps	(1,056)	Other comprehensive income (*2)
Trade	Embedded derivatives	21,652	Profit or loss
	Total return swap	2,468	Profit or loss
	Stock options	69	Profit or loss

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

(*2) The aggregate amounts of loss on valuation of derivative instruments incurred as of December 31, 2018 ₩12,196 million. The Company recognized accumulated other comprehensive loss of ₩8,842 million (less tax effects of ₩3,354 million).

24. Capital Stock and Capital Surplus

(a) The capital stock of the Company as of December 31, 2018 and 2017 are as follows:

*(in millions of Korean won,
except for number of shares and par value per share)*

	<u>2018</u>	<u>2017</u>
Authorized shares(shares)	60,000,000	60,000,000
Par value per share (in thousands of Korean won)	₩ 5	5
Number of shares issued (shares)	<u>28,288,755</u>	<u>28,122,047</u>
Share capital	₩ <u>141,444</u>	<u>140,610</u>

(b) Capital surplus as of December 31, 2018 and 2017 consists of the following:

(in millions of Korean won)

	<u>2018</u>	<u>2017</u>
Additional paid-in capital	₩ 3,414,873	3,381,365
Others	<u>175,663</u>	<u>175,662</u>
	₩ <u>3,590,536</u>	<u>3,557,027</u>

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25. Hybrid Securities Classified as Equity

Hybrid securities classified as equity as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	Date of Issue	Date of maturity	Interest rate (%)		2018 (*1)	2017
Hybrid security 1-1 (*2)	Nov.15, 2013	Nov.15, 2043	4.723	₩	-	240,000
Hybrid security 1-2 (*2)	Nov.15, 2013	Nov.15, 2043	4.723		-	30,000
Issuance cost					-	(882)
Total				₩	-	269,118

(*1) Hybrid securities classified as equity were fully repaid on November 15, 2018.

(*2) Details of hybrid securities are as follows:

	Hybrid security 1-1	Hybrid security 1-2
Issue price(in millions of Korean won)	240,000	30,000
Maturity date	30 years (The Company has the unconditional right to extend the maturity date)	
Interest rate	Issue date ~ November 15, 2018: 4.723%, reset every 5 years as follows: After 5 years: treasury rate (5 years) + 1.50% After 10 years: additionally +1.00% according to Step-up clauses	
Interest payments condition	February 15, May 15, August 15 and November 15 of each calendar year (Conditional deferral of interest payments is available to the Company)	March 30, June 30, September 30, December 30 of each calendar year (Conditional deferral of interest payments is available to the Company)
Others	The Company can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preferred shareholders; higher than the ordinary shareholders but lower than other creditors.	

The Company holds the right to extend the maturity dates of the hybrid securities and to defer interest payments for the hybrid securities. If interest payments for the hybrid securities are deferred, the Company cannot declare or pay dividends attributable to ordinary share. Since the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the hybrid securities have been classified as equity instruments.

26. Capital Adjustments

Capital adjustments as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		2018	2017
Treasury stocks (*1)	₩	3,803	3,795
Changes due to merger (*2)		14,423	-
Other capital adjustments		2,800,072	2,799,191
Total	₩	2,818,298	2,802,986

(*1) The Company acquired 41 shares of treasury shares for a total value of ₩7,602 thousand through acquisition of fractional shares after the merger with LOTTE.COM INC.

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26. Capital Adjustments, continued

(*2) Differences between the book value of investment and the identifiable net assets were recognized as capital adjustment upon the merger with Lotte Department Store Masan Co., Ltd.

27. Retained Earnings

(a) Details of retained earnings as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Legal reserves	₩ 216,441	201,827
Voluntary reserves	10,920,052	10,790,052
Unappropriated retained earnings	(518,182)	317,567
	<u>₩ 10,618,311</u>	<u>11,309,446</u>

(b) The appropriation of retained earnings for the year ended December 31, 2018 is expected to be appropriated at the shareholders' meeting on March 29, 2019. The appropriation date for the year ended December 31, 2017, was March 24, 2018.

The appropriation of retained earnings for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Unappropriated retained earnings carried over from prior year	₩ 26,812	14,360
Adjustment of beginning balance (changes in accounting policies)	12,190	(54,402)
Remeasurements of net defined benefit liabilities	(29,773)	719
Interests of hybrid securities	(12,581)	(12,748)
Loss from sale of equity instruments at fair value through other comprehensive income	(11,911)	-
Profit (loss) for the period	<u>(502,918)</u>	<u>369,638</u>
	<u>(518,181)</u>	<u>317,567</u>
Transfers such as voluntary reserves	<u>700,000</u>	<u>-</u>
Appropriation of retained earnings		
Legal reserve	14,700	14,614
Voluntary reserve	-	130,000
Dividends (Cash dividend %):		
Common stock : ₩5,200(104%) in both 2018 and 2017	147,007	146,141
	<u>161,707</u>	<u>290,755</u>
Unappropriated retained earnings to be carried forward	<u>₩ 20,110</u>	<u>26,812</u>

LOTTE SHOPPING CO., LTD.
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28. Accumulated Other Comprehensive Income (loss)

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

(in millions of Korean won)

		2018					
		Beginning balance	Changes in accounting policy	Changes for the year	Reclassification adjustments	Tax effects for the year	Ending balance
Gain(loss) on valuation of fair value through other comprehensive income (*1)	₩	42,158	(12,190)	9,899	16,429	(7,240)	49,056
Effective portion of unrealized changes in fair values of cash flow hedges		(3,388)	-	(9,921)	2,398	2,069	(8,842)
	₩	<u>38,770</u>	<u>(12,190)</u>	<u>(22)</u>	<u>18,827</u>	<u>(5,171)</u>	<u>40,214</u>

(*1) It was classified as gains (losses) on valuation of available-for-sale financial assets in previous year. The effects of changes in accounting policies by the adoption of K-IFRS No. 1109 "Financial Instrument" was not applied to the beginning balance.

(in millions of Korean won)

		2017					
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Changes due to spin-off	Ending balance
Net change in unrealized fair value of available for-sale financial assets	₩	72,429	9,033	721	(4,279)	(35,746)	42,158
Effective portion of unrealized changes in fair values of cash flow hedges		(18,879)	12,392	7,841	(4,742)	-	(3,388)
	₩	<u>53,550</u>	<u>21,425</u>	<u>8,562</u>	<u>(9,021)</u>	<u>(35,746)</u>	<u>38,770</u>

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29. Earnings (loss) per Share

(a) Basic earnings (loss) per share

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

<i>(in Korean won, except for number of shares)</i>	<u>2018</u>	<u>2017</u>
Profit (loss) for the year	₩ (502,918,275,384)	369,637,683,267
Interests paid for hybrid securities, net of tax	(12,581,295,612)	(12,748,218,078)
Weighted average number of common shares outstanding (shares)	28,173,381	29,231,757
Basic earnings (loss) per share	₩ <u>(18,297)</u>	<u>12,209</u>

(b) Diluted earnings (loss) per share

The Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

30. Sales

(a) Details of sales for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Sales of merchandise	₩ 15,425,232	15,997,874
Sales of products	306,939	5,953
Other sales	394,415	645,917
Total sales	<u>16,126,586</u>	<u>16,649,744</u>
Revenue from contracts with customers		
Sales discounts and sales returns	(833,097)	(789,361)
Reserve for sales return and deferred sales	(200,889)	(199,563)
Cost of specific sales	<u>(6,191,695)</u>	<u>(6,312,890)</u>
Total sales deduction	<u>(7,225,681)</u>	<u>(7,301,814)</u>
Revenue from other sources: rental revenue	<u>1,316,883</u>	<u>1,223,890</u>
Total	₩ <u>10,217,788</u>	<u>10,571,820</u>

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30. Sales, continued

(b) The contract assets and liabilities of the Company recognized related to the revenue from contracts with customers as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Contract assets			
Inventory expected for return	₩	441	582
	₩	<u>441</u>	<u>582</u>
Contract liabilities			
Customer loyalty program	₩	62,898	60,381
Gift vouchers		728,315	666,559
Other		41,590	55,993
	₩	<u>832,803</u>	<u>782,933</u>

(c) The amounts recognized as revenue and redemption of gift vouchers for the year ended December 31, 2018 in relation to contract liabilities carried forward from the year ended December 31, 2017 are as follows:

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Revenue			
Customer loyalty program	₩	56,253	64,836
Other		43,839	49,280
Total	₩	<u>100,092</u>	<u>114,116</u>
Collected			
Gift vouchers	₩	380,929	344,032
Total	₩	<u>380,929</u>	<u>344,032</u>

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

(in millions of Korean won)

	<u>Book value</u>	<u>1 year</u>	<u>Between 1-5 years</u>	<u>Over 5 years</u>
₩	728,315	416,222	309,506	2,587

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31. 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, 2018 and 2017 are as follows:

(in millions of Korean won)

	<u>2018</u>	<u>2017</u>
Salaries	₩ 945,178	954,215
Retirement benefits	70,865	77,451
Long-term employee benefits	8,257	10,329
Employee benefits	168,329	178,577
Training expenses	9,183	10,261
Travel expenses	16,364	18,934
Vehicles maintenance expenses	1,519	1,738
Insurance premium	11,048	10,761
Taxes and dues	154,521	145,544
Entertainment expenses	1,248	1,455
Supplies expenses	47,746	52,933
Publication expenses	813	1,036
Communication expenses	10,478	10,317
Utility expenses	244,044	250,542
Repairs and maintenance	22,965	24,749
Rental expenses	773,645	772,998
Depreciation	461,367	522,674
Amortization	23,201	25,002
Commission expenses	552,497	549,903
Service commission expenses	778,375	764,751
Advertising expenses	113,760	140,503
Samples expenses	236	146
Sales commissions	145,779	166,921
Sales promotion expenses	74,956	94,720
Decoration expenses	14,198	16,255
Bad debt expense	425	76
Transportation expenses	22,503	21,195
Research and development expenses	207	264
Compensation expenses	15,863	1,510
Provisions	65	-
Other	1,899	1,918
Total	₩ <u>4,691,534</u>	<u>4,827,678</u>

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32. Other Income and Expenses

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

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Other income:			
Gain on foreign currency transactions	₩	808	810
Gain on foreign currency translation		352	44
Gain on disposal of property, plant and equipment		2,582	5,267
Gain on disposal of intangible assets		589	-
Gain on disposal of assets and liabilities held for sale		11,422	-
Gain on settlement of spin-off		-	1,662,750
Reversal of impairment losses on other non-current assets		52	42
Others		38,203	93,337
Total	₩	<u>54,008</u>	<u>1,762,250</u>
Other expenses:			
Loss on foreign currency transactions	₩	1,285	716
Loss on foreign currency translation		42	1,151
Loss on disposal of property, plant and equipment		5,338	4,985
Impairment loss on property, plant and equipment		104,482	62,123
Loss on disposal of intangible assets		262	219
Impairment loss on intangible assets		67,759	237,388
Impairment loss of assets held for sale		61,866	-
Impairment loss on other non-current assets		19,347	28,001
Loss from business transfer		2,791	-
Donation		12,711	19,323
Other bad debt expenses		778	2,569
Taxes and dues		716	290
Others		45,772	44,414
Total	₩	<u>323,149</u>	<u>401,179</u>

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33. Nature of expenses

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

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Purchase of inventories	₩	4,972,554	4,990,861
Changes in inventories		10,985	19,135
Employee benefits		1,204,093	1,220,572
Rental expenses		776,060	772,998
Depreciation and amortization		516,996	585,390
Sales commissions		145,779	166,921
Sales promotion expenses		74,956	94,720
Commission expenses		552,632	549,903
Service expenses		792,325	764,751
Advertising expenses		123,123	163,767
Utility expenses		246,413	250,542
Taxes and dues		154,704	145,544
Others		244,028	356,565
Total	₩	<u>9,814,648</u>	<u>10,081,669</u>

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34. Finance Income and Finance Costs

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

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Finance income:			
Interest income	₩	64,897	57,002
Dividend income		116,114	98,989
Gain on foreign currency transactions		5,270	31,374
Gain on foreign currency translation		4,013	145,870
Gain on disposal of available-for-sale financial assets		-	2,165
Gain on valuation of debt instrument measured at fair value through profit or loss		1	-
Gain on disposal of debt instrument measured at fair value through profit or loss		229	-
Gain on valuation of derivative instruments held for hedging		24,900	-
Gain on valuation of derivative instruments held for trading		24,758	23,363
Gain on transaction of derivative instruments held for hedging		22,745	-
Gain on transaction of derivatives instrument held for trading		425	2,269
Gain on disposal of investments in subsidiaries, associates and joint ventures		472	0
Reversal of financial guarantee liabilities		232,436	11,790
Total	₩	<u>496,260</u>	<u>372,822</u>

Finance costs:

Interest expense	₩	127,528	115,887
Loss on foreign currency transactions		28,102	11
Loss on foreign currency translation		28,472	-
Loss on valuation of debt instrument measured at fair value through profit or loss		311	-
Impairment loss on available-for-sale financial assets		-	17,244
Loss on disposal of available-for-sale financial assets		-	3,377
Loss on valuation of derivative instruments held for hedging		3,254	137,100
Loss on valuation of derivative instruments held for trading		567	1,050
Loss on transaction of derivative instruments held for hedging		-	30,599
Loss on transaction of derivative instruments held for trading		361	914
Other bad debt expenses (finance)		5,110	-
Financial guarantee costs		-	555,714
Loss on disposal of investments in subsidiaries, associates and joint ventures		156	335
Impairment loss of investments in subsidiaries, associates and joint ventures		894,942	852,194
Total	₩	<u>1,088,803</u>	<u>1,714,425</u>

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34. Finance Income and Finance Costs, continued

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

	2018								
	Cash and cash equivalents	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Derivatives instrument assets and liabilities held for trading	Derivative assets and liabilities held for hedging	Financial liabilities measured at amortized cost	Other financial liabilities	Total
Recognized in profit or loss									
Interest income	₩ 30,263	34,511	123	-	-	-	-	-	64,897
Interest expense	-	-	-	-	-	-	(127,528)	-	(127,528)
Dividend income	-	-	-	4,552	-	-	-	-	4,552
Valuation/ Disposal	-	-	(82)	-	24,254	44,391	-	-	68,563
Impairment	-	(6,311)	-	-	-	-	-	-	(6,311)
Exchange differences	4,532	381	-	-	-	-	(52,372)	-	(47,459)
Others	-	-	-	-	-	-	-	232,437	232,437
Subtotal	34,795	28,581	41	4,552	24,254	44,391	(179,900)	232,437	189,151
Recognized in other comprehensive income (loss) (*1)									
Changes in the fair value of available-for-sale financial assets (*1)	-	-	-	9,900	-	-	-	-	9,900
Gain on valuation of derivative instruments (*1)	-	-	-	-	-	(7,524)	-	-	(7,524)
Subtotal	-	-	-	9,900	-	(7,524)	-	-	2,376
Total	₩ 34,795	28,581	41	14,452	24,254	36,867	(179,900)	232,437	191,527

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

(in millions of Korean won)

	2017							
	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for hedging	Financial liabilities measured at amortized cost	Other financial liabilities	Total
Recognized in profit or loss								
Interest income	₩ 20,687	36,197	118	-	-	-	-	57,002
Interest expense	-	-	-	-	-	(115,887)	-	(115,887)
Dividend income	-	-	4,922	-	-	-	-	4,922
Valuation/ Disposal	-	-	(1,212)	23,668	(167,699)	-	-	(145,243)
Impairment	-	(2,645)	(17,244)	-	-	-	-	(19,889)
Exchange differences	786	(1,053)	26	-	-	176,471	-	176,232
Others	-	-	-	-	-	-	(555,714)	(555,714)
Subtotal	21,473	32,499	(13,390)	23,668	(167,699)	60,584	(555,714)	(598,577)
Recognized in other comprehensive income (loss) (*1)								
Changes in the fair value of available-for-sale financial assets (*1)	-	-	9,754	-	-	-	-	9,754
Gain on valuation of derivative instruments (*1)	-	-	-	-	20,234	-	-	20,234
Subtotal	-	-	9,754	-	20,234	-	-	29,988
Total	₩ 21,473	32,499	(3,636)	23,668	(147,465)	60,584	(555,714)	(568,591)

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

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35. Income Taxes

(a) Income tax expense for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Current income taxes	₩ 12,309	107,837
Deferred tax due to temporary differences	21,426	23,482
Total income tax effect	33,735	131,319
Income tax charged directly to equity	10,640	8,663
Income tax expense	₩ <u>44,375</u>	<u>139,982</u>

(b) Details of income tax expense recognized directly to equity for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Gain(loss) on valuation of financial instruments measured at fair value through other comprehensive income	₩ (7,240)	-
Gain (loss) on valuation of available for sale	-	(4,279)
Gain (loss) on valuation of derivative instruments	2,069	(4,742)
Defined benefit liabilities actuarial gain (loss)	11,293	316
Effect of changes in accounting policy	4,518	17,368
Income tax charged directly to equity	₩ <u>10,640</u>	<u>8,663</u>

Income tax related to gain (loss) on valuation of financial instruments measured at fair value through other comprehensive income, gain (loss) on valuation of derivatives and remeasurement of defined benefit obligation are recognized in other comprehensive income.

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35. Income Taxes, continued

(c) During 2018 and 2017, statutory to actual effective tax rates are reconciled as follows::

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Profit (loss) before income tax expense	₩	(458,543)	509,620
Income tax using statutory tax rate		(110,967)	123,328
Adjustment:		155,342	16,654
Tax effects on non-taxable income		(14,078)	(413,561)
Tax effects on non-deductible expense		25,830	5,943
Tax credit		(361)	(1,022)
Adjustment for prior periods		(7,962)	(3,592)
Deferred tax expense due to changes in tax rate		-	109,705
Changes in temporary differences that are not realizable		148,533	318,276
Other		3,380	904
Income tax expense	₩	<u>44,375</u>	<u>139,982</u>
Effective tax rate (*1)		-	27.47%

(*1) The Company has not present effective tax rate due to loss incurred in 2018.

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

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35. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018				Ending balance
		Beginning balance	Merger	Profit or loss	Equity	
Impairment loss on available-for-sale financial assets	₩	7,588	(4,624)	(2,964)	-	-
Investments in subsidiaries and associates		(3,954)	-	-	-	(3,954)
Depreciation		56,987	4	(1,098)	-	55,893
Allowance for bad debt expense		434	21	(851)	-	(396)
Accrued income		(892)	(23)	40	-	(875)
Losses on valuation of inventories		5,788	-	(3,425)	-	2,363
Provision for sales return		278	43	1	-	322
Property, plant and equipment (capitalization of borrowing costs)		(11,333)	-	(1,324)	-	(12,656)
Land		36,987	-	-	-	36,987
Land (asset revaluation)		(1,123,170)	-	91	-	(1,123,079)
Accrued expense		31,747	-	4,018	-	35,765
Gain (loss) on foreign currency translation		1,767	-	-	-	1,767
Construction-in-progress		1,787	-	(77)	-	1,710
Impairment loss on intangible assets		29,830	-	9,826	-	39,656
Rental guarantee deposits		17,559	-	(2,380)	-	15,179
Goodwill		(14,806)	-	(19,136)	-	(33,941)
Exchangeable bonds		(7)	-	(10,086)	-	(10,094)
Gain (loss) on valuation of equity instrument measured at fair value through other comprehensive income		-	(11,347)	-	(7,240)	(18,587)
Gain(loss) on valuation of available-for-sale financial instrument		(15,991)	15,991	-	-	-
Loss (gain) on valuation of derivatives		(8,482)	-	5,090	2,069	(1,323)
Salaries and retirement benefits		13,198	884	(13,611)	11,293	11,765
Others		50,602	(2,996)	3,820	4,518	55,943
Total	₩	(924,083)	(2,047)	(32,066)	10,640	(947,555)

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35. Income Taxes, continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2018 and 2017 are as follows:
 continued

(in millions of Korean won)

	Beginning balance	2017			Ending balance
		Spin-off	Profit or loss	Equity	
Impairment loss on available-for-sale financial assets	₩ 2,504	-	5,084	-	7,588
Investments in subsidiaries and associates	(180,434)	158,548	17,932	-	(3,954)
Depreciation	38,938	-	18,049	-	56,987
Allowance for bad debt expense	(147)	-	581	-	434
Accrued income	(613)	6	(285)	-	(892)
Losses on valuation of inventories	5,129	-	659	-	5,788
Provision for sales return	311	-	(33)	-	278
Property, plant and equipment (capitalization of borrowing costs)	(9,362)	-	(1,971)	-	(11,333)
Land	32,549	-	4,438	-	36,987
Land (asset revaluation)	(988,474)	-	(134,696)	-	(1,123,170)
Accrued expense	21,512	-	10,235	-	31,747
Gain (loss) on foreign currency translation	1,555	-	212	-	1,767
Construction-in-progress	1,640	-	147	-	1,787
Other intangible assets	9,307	-	(1,053)	-	8,254
Impairment loss on intangible assets	9,999	-	19,831	-	29,830
Rental guarantee deposits	10,270	-	7,289	-	17,559
Goodwill	(39,828)	-	25,022	-	(14,806)
Exchangeable bonds	(105)	-	98	-	(7)
Changes in the fair value of available-for-sale financial assets	(23,124)	11,412	-	(4,279)	(15,991)
Loss (gain) on valuation of derivatives	9,121	(6,590)	(6,271)	(4,742)	(8,482)
Salaries and retirement benefits	17,482	1,070	(5,670)	316	13,198
Other capital surplus	62,286	(62,286)	-	-	-
Others	16,723	-	8,257	17,368	42,348
Total	₩ (1,002,761)	102,160	(32,145)	8,663	(924,083)

(f) Temporary differences not recognized as deferred tax assets related to investments in associates, joint ventures and subsidiaries as of December 31, 2018 and 2017 are ₩3,421,746 million and ₩2,590,207 million, respectively.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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35. Income Taxes, continued

(g) The aggregate amount of deferred tax liabilities, deferred tax assets, current tax liabilities and tax assets are as follows:

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Deferred tax assets	₩	544,207	495,403
Deferred tax liabilities		1,491,762	1,419,486
Current tax assets		30,409	57,355
Current tax liabilities		26,366	121,594

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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36. Separate Statements of Cash Flows

(a) As of December 31, 2018 and 2017, the details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Cash	₩	12,101	25,557
Deposits		27,410	27,172
Other cash equivalents		965,809	1,635,261
Total	₩	<u>1,005,320</u>	<u>1,687,990</u>

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

i) Adjustments

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Income tax expense	₩	44,376	139,982
Post-employment		70,872	77,125
Long-term employee benefits		8,319	10,771
Depreciation		467,439	522,674
Amortization		49,556	62,716
Impairment loss on property, plant and equipment		104,482	62,123
Impairment loss on intangible assets		67,759	237,388
Impairment loss on asset held for sale		61,866	-
Loss on foreign currency translation		28,514	1,151
Loss on foreign currency transactions		28,102	11
Loss on disposal of property, plant and equipment		5,338	4,985
Loss on business transfer		2,791	-
Loss on disposal of intangible assets		262	219
Loss on valuation of debt instrument measured at fair value through profit or loss		311	-
Bad debt expenses		425	76
Other bad debt expenses		778	2,569
Impairment loss on other non-current assets		19,347	28,001
Loss on available-for-sale financial assets		-	3,377
Loss on valuation of derivative instruments		3,822	138,150
Loss on transactions of derivative instruments		361	31,513
Rental expenses (amortization of discount on deposit, etc.)		59,848	65,298
Loss on disposal of investments in subsidiaries, associates and joint ventures		156	335
Impairment loss on investments in subsidiaries, associates and joint ventures		894,942	852,194
Impairment loss on available-for-sale financial assets		-	17,244
Interest expense		127,528	115,887
Financial guarantee costs		-	555,714
Other bad debt expenses		5,108	-
Miscellaneous losses		1,311	0

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36. Separate 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, 2018 and 2017 are as follows:, continued

(in millions of Korean won)

	2018	2017
Other expenses	₩ 9,361	797
Gain on foreign currency translation	(4,365)	(145,914)
Gain on foreign currency transactions	(5,270)	(31,374)
Gain on disposal of property, plant and equipment	(2,582)	(5,267)
Gain on valuation of debt instrument measured at fair value through profit or loss	(229)	-
Gain on valuation of derivative instruments	(49,658)	(23,363)
Gain on transactions of derivative instruments	(23,170)	(2,269)
Reversal of impairment loss on other non-current assets	(52)	(42)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(472)	(0)
Gain on disposal of debt instrument measured at fair value through profit or loss	(1)	-
Gain on disposal of available-for-sale financial assets	-	(2,165)
Reversal of financial guarantee costs	(232,437)	(11,791)
Gain on settlement of spin-off	-	(1,662,750)
Gain on disposal of intangible assets	(589)	-
Gain on disposal of asset held for sale	(11,422)	-
Rental income	(4,635)	(3,228)
Interest income	(64,897)	(57,002)
Dividends income	(116,114)	(98,989)
Other income	(17)	(2)
Total	₩ 1,547,064	886,144

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36. Separate 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, 2018 and 2017 are as follows:, continued

ii) Changes in operating assets and liabilities

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Decrease (increase) of trade receivables	₩	96,390	(83,483)
Decrease of other receivables		28,732	35,825
Decrease (increase) in other financial assets		4,884	(28,351)
Decrease (increase) of inventories		(15,078)	21,373
Decrease (increase) in other non-financial assets		(35,926)	111,680
Increase (decrease) of trade payables		(531,100)	440,334
Increase (decrease) of other payables		(95,650)	87,998
Increase of other financial liabilities		96,715	2,161
Increase (decrease) in other non-financial liabilities		(4,439)	46,156
Increase (decrease) of deferred income		8,853	(4,424)
Increase of provisions		231	307
Payment of post-employment benefits and other long-term employee benefits		(43,089)	(45,868)
Increase in plan assets		(91,450)	(62,820)
Total	₩	<u>(580,927)</u>	<u>520,888</u>

(c) Non-cash transactions for the years ended December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Other payables for acquisition of property, plant and equipment	₩	(3,611)	40,072
Reclassification of borrowings and debentures to current portion		(921,189)	1,057,750
Reclassification of equity related to spin-off		-	2,249,499

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36. Separate Statements of Cash Flows, continued

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

(in millions of Korean won)

		2018			
		Other assets	Liabilities from financing activities		
		Current derivative liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	Total
Beginning balance	₩	(237)	1,468,536	3,096,886	4,565,185
Net cash flow from financing activities		-	(975,530)	1,695,150	719,620
Non-cash flows					
Transfer to current portion		(81)	915,771	(899,409)	16,281
Foreign currency translation		-	41,787	(10,943)	30,844
Others		-	6,679	1,690	8,369
Ending balance	₩	(318)	1,457,243	3,883,374	5,340,299

(in millions of Korean won)

		2017			
		Other assets	Liabilities from financing activities		
		Current derivative liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	Total
Beginning balance	₩	(29,735)	1,226,182	3,089,076	4,285,523
Net cash flow from financing activities		6,741	(105,081)	1,107,047	1,008,707
Non-cash flows					
Transfer to current portion		(48,471)	1,057,750	(1,057,750)	(48,471)
Foreign currency translation		-	(133,661)	(42,769)	(176,430)
Spin-off		-	(577,759)	-	(577,759)
Others		71,228	1,106	1,281	73,615
Ending balance	₩	(237)	1,468,537	3,096,885	4,565,185

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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37. Operating Leases

(a) Lessee

i) The Company has entered into operating leases for buildings, furniture and fixtures and vehicles. Future non-cancellable lease payments under operating leases of land and buildings as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		2018	2017
Within 1 year	₩	622,284	599,956
1 ~ 5 years		2,064,772	1,990,575
Over 5 years		4,379,253	4,643,919
Total	₩	7,066,309	7,234,450

ii) Lease payments for fixed rental and contingent rental recognized as expenses for the year ended December 31, 2018 were ₩661,672 million and ₩72,398 million, respectively.

iii) The Company sold 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 leased back the assets from the buyer. The Company has a purchase option to purchase the assets at a fair value at the end of the lease.

The Company sold of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩594.9 billion in 2010 and 2011, and leased back the assets. The Company has a purchase option to purchase the assets at a fair value at the end of the lease.

The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and has a right of first negotiation to purchase the building.

In 2014, the Company sold 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 for ₩601.7 billion and leased back the assets. The Company sold land and buildings of 2 Lotte department stores including Dongnae store and 3 Lotte mart stores including Sungjung store to Capstone Private Real Estate Investment Trust for ₩500.1 billion and leased back the assets. The Company has a right of first negotiation to purchase the assets at the end of the lease.

In 2015, the Company sold of buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩146.9 billion and leased back the assets. And the Company sold of land and buildings of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust for ₩55.1 billion and leased back the assets. The Company has a right of first negotiation to purchase the assets at the end of the lease.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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37. Operating Leases, continued

(b) Lessor

i) The Company has entered into operating leases of certain of its properties and equipment. Future minimum lease payments receivable under operating leases as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Within 1 year	₩	71,289	75,984
1 ~ 5 years		138,967	21,103
Over 5 years		<u>110,552</u>	<u>928</u>
Total	₩	<u>320,808</u>	<u>98,015</u>

ii) Lease collection from fixed and contingent rental recognized as income for the year ended December 31, 2018 were ₩94,360 million and ₩1,062,942 million, respectively.

38. Greenhouse Gases Emission Rights

(a) Emission Right

The Company participates in the allocation and trading system of emissions. The 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	809,186
2019	772,774
2020	772,773

The Company has carried forward emission right of 112,674 tCO₂-eq from the previous compliance period. There is no pledged emission and the Company has 2,444,767 tCO₂-eq as of December 31, 2018.

(b) Emission liabilities

The Company disposed of 22,640 tCO₂-eq of emission and estimated to emit 791,162 tCO₂-eq of CO₂ in 2018.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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39. Contingencies and Commitments

(a) As of December 31, 2018, the Company has the following credit facility commitments with financial institutions:

<i>(in millions of Korean won except for foreign currency)</i>	<u>Credit line</u>	<u>Amount used under credit facility</u>
General loan	KRW 439,000	KRW 439,000
Discount of bill	KRW 700,000	KRW 400,000
Buyer's credit	KRW 240,000	KRW 7,367
Bank overdraft	KRW 50,000	KRW -
Letter of credit (in thousands)	USD 18,000	USD 8,969

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

<u>Contractor</u>	<u>Description of contract</u>
Lotte Station Building Co., Ltd.	Providing management services

(c) As of December 31, 2018, the Company is involved in 28 lawsuits as a plaintiff with damage claims totaling ₩47,989 million and is involved in 23 lawsuits as a defendant with damage claims totaling ₩47,463 million. The management believes that the ultimate resolutions of other legal actions will not have a material impact on the financial position or results of operations of the Company.

Also, the Company is involved in 6 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩23,141 million and the Company recognized other liabilities of ₩2,340 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2018.

(d) As of December 31, 2018, the Company has entered into loan agreements securing trade receivables with Industrial Bank of Korea and others amounting to ₩404,000 million.

(e) As of December 31, 2018, the Company is provided performance guarantees totaling ₩71,567 million (172 cases) from Seoul Guarantee Insurance and others for its business.

(f) Brand usage contract, etc.

The Company has entered into contracts with Lotte Corporation for the use of brand, management consulting, and management support service as of December 31, 2018. The cost of use of brand is 0.15% of sales less advertising expenses. The Company pays for management consulting and management support service the amount allocated by Lotte Corporation, based on objective and reasonable allocation criteria, from the costs that have incurred in the course of performing such relevant business plus 5% of such allocated amount.

(g) Discount store business division of the Company is under investigation of Fair Trade Commission in connection with the logistics expenses, however, the Company cannot reliably estimate the impacts from the result of investigation.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

40. Related Party Transactions

(a) Details of the Company's major shareholders and subsidiaries as of December 31, 2018 are as follows:

<u>Related company</u>	<u>Percentage of ownership (%)</u>
Lotte Corporation (*1)	38.80
Hotel Lotte Co., Ltd.	8.86
Hotel Lotte Pusan Co., Ltd.	0.78

(*1) It has a significant influence over the Company.

<u>Subsidiaries</u>	<u>Percentage of ownership (%)</u>		
	<u>Company</u>	<u>Subsidiaries</u>	<u>Total</u>
Woori Home Shopping & Television Co., Ltd.	53.03	-	53.03
Lotte DatViet Homeshopping Co., Ltd.	-	90.02	90.02
Lotte corporate venture fund No. 1	18.78	79.81	98.59
Lotte GFR (Formerly, NCF)	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	95.00	-	95.00
Lotte Songdo Shopping Town Co., Ltd.	56.30	-	56.30
CS Mart Co., Ltd.	99.95	-	99.95
Lotte Himart Co., Ltd.	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	94.84	-	94.84
Lotte Cultureworks Co., Ltd.	100.00	-	100.00
Lotte Cinema Hong Kong Co., Limited	-	100.00	100.00
Lotte DMC Development Co., Ltd.	95.00	-	95.00
Lotte (China) Management Co., Ltd.	70.00	-	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	100.00	-	100.00
Liaoning LOTTE Mart Co., Ltd.	-	100.00	100.00
Jilin LOTTE Mart Co., Ltd.	-	100.00	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	-	100.00	100.00
Lotte Business Management (Tianjin) Co., Ltd.	-	100.00	100.00
Lotte Department Store (Shenyang) Co., Ltd.	-	100.00	100.00
Lotte International Department Store (Weihai) Co., Ltd.	-	100.00	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	-	100.00	100.00
Lotte Department Store (Chengdu) Co., Ltd.	-	100.00	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	-	100.00	100.00
Lotte Shopping Business Management (Hong Kong) Limited	-	100.00	100.00
LHSC Limited	17.58	82.42	100.00
Lucky Pai Ltd. and 2 other companies	-	100.00	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	73.46	-	73.46
Lotte Properties (Chengdu) Limited	-	100.00	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	100.00	-	100.00

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

40. Related Party Transactions, continued

(a) Details of the Company's major shareholders and subsidiaries as of December 31, 2018 are as follows:,
continued

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	-	80.00	80.00
PT. LOTTE MART INDONESIA	-	100.00	100.00
PT. LOTTE Shopping Avenue Indonesia	-	100.00	100.00
Lotte Shopping India Private Limited	-	100.00	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	-	100.00	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	-	100.00	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	20.00	40.00	60.00
Lotte Holdings Hong Kong Ltd. (Formerly, Kotobuki Holding (HK) Ltd.)	-	100.00	100.00
HAI THAHN - LOTTE COMPANY LIMITED	-	70.00	70.00
LOTTE E-COMMERCE VIETNAM CO., LTD	-	100.00	100.00
LOTTE CINEMA VIETNAM CO., LTD.	90.00	-	90.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	80.00	-	80.00
LOTTE PROPERTIES HANOI CO., LTD.	-	100.00	100.00
PT. LOTTE CINEMA INDONESIA	99.98	0.02	100.00

LOTTE SHOPPING CO., LTD.
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40. Related Party Transactions, continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

Name of related parties	2018				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*1)	Other expenses
Shareholders:					
Lotte Corporation ₩	2,136	-	-	741	24,299
Hotel Lotte Co., Ltd.	62,965	-	-	118	114,663
Hotel Lotte Pusan Co., Ltd.	6,442	-	573	13,351	28,120
Subtotal	71,543	-	573	14,210	167,082
Subsidiaries:					
Woori Home Shopping & Television Co., Ltd.	4,595	-	77	28	31,716
Lotte Himart Co., Ltd. (*2)	52,331	103	30	75	45
Lotte Cultureworks Co., Ltd.	26,979	-	-	46	339
Others (*3)	25,621	15,365	-	7,789	47,641
Sub total	109,526	15,468	107	7,938	79,741
Associates:					
FRL Korea Co., Ltd.	39,707	75,383	-	-	4
Zara Retail Korea	12,476	-	-	-	-
Others	157	-	-	15	3,112
Subtotal	52,340	75,383	-	15	3,116
Others (*4):					
Lotte Confectionery Co., Ltd. (divided newly established)	3,839	110,628	6,715	-	6,325
Lotte Chilsung Beverage Co., Ltd.	6,112	57,043	3,256	125	619
Lotte Data Communication Company	1,433	-	61,580	154	107,027
Lotte Card Co., Ltd.	4,159	-	-	696	142,424
Korea Seven Co., Ltd.	4,105	-	-	66	142
LOTTE.COM INC. (*6)	410	-	169	-	45,492
Daehong Communications Co., Ltd. (divided newly established) (*5)	626	-	217	16	20,920
Daehong Communications Co., Ltd. (before division) (*5)	304	-	19	-	9,559
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	13,645	3,722	4,274	1	253
Lotte Station Building Co., Ltd.	6,776	-	-	646	2,001
Lotte Trading Co., Ltd.	767	152,602	758	106	-
Lotte Engineering & Construction Co., Ltd.	1,874	-	78,061	10	2,493
LOTTE FOOD CO., LTD.	4,906	118,010	3,867	-	7,096
LOTTE ALUMINIUM CO., LTD.	616	5,638	12,047	2	11,269
Others	93,859	9,398	5,427	1,801	336,190
Subtotal	143,431	457,041	176,390	3,623	691,810
Total(*7) ₩	376,840	547,892	177,070	25,786	941,749

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

(*2) Aside from transactions listed above, the Company sold the LOTTE Himart Co., Ltd. gift card for a total of ₩27,005,800 thousand for the year ended December 31, 2018 (2017 : ₩28,134,900 thousand).

(*3) Aside from transactions listed above, the Company transferred GF Business division to Lotte GFR Co., Ltd. (Formerly, NCF) on June 1, 2018. The related transaction is explained in note 43.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

40. Related Party Transactions, continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2018 and 2017 are as follows:, continued

(*4) Although the entities are not related parties under Korean IFRS 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.

(*5) The entities were newly established during 2018. Former entities which existed with each entity name are merged into Lotte Corporation.

(*6) The Company merged with LOTTE.COM INC. on August 1, 2018.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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40. Related Party Transactions, continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2018 and 2017 are as follows:, continued

(in millions of Korean won)

Name of related parties (*1)	2017				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*2)	Other expenses
Shareholders:					
Lotte Corporation (*4) ₩	837	-	-	-	6,522
Lotte Confectionery Co., Ltd. (*4)	7,220	104,551	-	-	6,094
Hotel Lotte Co., Ltd.	72,858	-	-	40	119,630
Hotel Lotte Pusan Co., Ltd.	7,672	-	827	-	25,393
Lotte IT Tech Co., Ltd. (*5)	2,168	-	29,648	-	92,552
Korea Fuji Film Co., Ltd.	1,517	-	-	-	2
Subtotal	92,272	104,551	30,475	40	250,193
Subsidiaries:					
Woori Home Shopping & Television Co., Ltd.	1,282	-	-	-	30,283
Lotte Himart Co., Ltd. (*2)	51,803	-	48	24	195
Others	24,471	7	-	8,158	51,425
Subtotal	77,556	7	48	8,182	81,903
Associates:					
FRL Korea Co., Ltd.	31,347	80,691	-	18	-
Others	12,451	-	-	9	1,005
Subtotal	43,798	80,691	-	27	1,005
Others (*3):					
Lotte Confectionery Co., Ltd. (divided newly-established) (*4)	1,290	29,702	-	68	1,958
Lotte Chilsung Beverage Co., Ltd.	9,036	60,704	-	107	506
Lotte Data Communication Company (*5)	295	-	6,799	-	13,678
Lotte Card Co., Ltd.	7,319	-	-	703	143,979
Korea Seven Co., Ltd.	8,786	-	-	-	150
LOTTE.COM INC.	951	-	99	-	83,270
Daehong Communications Co., Ltd.	7,978	-	464	-	52,986
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	17,283	6,469	287	-	186
Lotte Station Building Co., Ltd.	8,557	-	-	1	4,028
Lotte Trading Co., Ltd.	1,467	160,106	-	-	220
Lotte Engineering & Construction Co., Ltd.	9,491	-	238,193	22	1,432
LOTTE FOOD CO., LTD.	7,233	142,287	-	-	7,554
LOTTE ALUMINIUM CO., LTD.	2,029	6,172	14,387	-	13,528
Others	141,161	12,840	1,720	27,681	323,924
Subtotal	222,876	418,280	261,949	28,582	647,399
Total (*6) ₩	436,502	603,529	292,472	36,831	980,500

(*1) The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

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

(*3) Although the entities are not related parties under K-IFRS 1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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40. Related Party Transactions, continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2018 and 2017 are as follows:, continued

(*4) On October 1, 2017, Lotte Confectionery Co., Ltd. spun off Lotte Confectionery's investment division to be an existing corporation and its confectionery division to be a newly established corporation (the name is Lotte Confectionery Co., Ltd.). The existing corporation changed its name to Lotte Corporation after the spin-off and merger. Also, other expenses include costs like brand usage.

(*5) On November 1, 2017, Lotte Data Communication Company established Lotte Data Communication Company (newly established corporation) by spinning off its information and communication business division and changed its name to Lotte IT Tech Co., Ltd.

(*6) Adjustment with early adoption of IFRS is reflected and thus, some transactions may be different from what the counterparty recognizes for the transactions.

LOTTE SHOPPING CO., LTD.
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40. Related Party Transactions, continued

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

<i>(in millions of Korean won)</i>	Name of related parties	2018		2017	
		Capital increase	Capital deduction	Capital increase	Capital deduction
Subsidiaries					
	Lotte Shopping Holdings (Hong Kong) Co., Limited ₩	721,003	-	278,227	-
	Lotte GFR (Formerly, NCF)	52,300	-	-	-
	Lotte Shopping Holdings (Singapore) Co., Ltd.	27,234	-	27,350	-
	Lotte Cultureworks Co., Ltd.	55,000	-	-	-
	Lotte DMC Development Co., Ltd.	4,750	-	-	-
	Lotte corporate venture fund No. 1	400	-	-	-
	Lotte Cinema Co., Ltd.	-	(500)	500	-
	LHSC Limited	-	-	7,167	-
	PT. LOTTE CINEMA INDONESIA	-	-	4,346	-
	Subtotal	860,687	(500)	317,590	-
Associates:					
	LOTTE PROPERTIES HCMC CO.,LTD.	79,488	-	-	-
	Lotte start-up fund No. 1	800	-	-	-
	Hemisphere Film Investors II LLC	-	(1,256)	-	(733)
	Union Investment Partners	-	(2,348)	-	-
	Lotte-IMBC Contents Fund	-	-	1,500	-
	IBK-ISU Contents Fund	-	-	1,050	-
	Capital one mid-to-low budget	-	-	-	(475)
	Subtotal	80,288	(3,604)	2,550	(1,208)
Joint ventures:					
	Korea STL	2,000	-	-	-
	LOTTE ENTERTAINMENT VIETNAM CO., LTD.	-	-	174	-
	Subtotal	2,000	-	174	-
Others(*1):					
	Lotte Properties (Shenyang) Limited	19,294	-	-	-
	Lotte Global Logistics Co., LTD.	-	-	978	-
	S.M.CONTENTES INVESTMENT	-	-	-	(15)
	Capital One Diversity Cinema Fund	-	-	-	(284)
	Subtotal	19,294	-	978	(299)
	Total	₩ 962,269	(4,104)	321,292	(1,507)

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

40. Related Party Transactions, continued

(d) Account balances with related parties as of December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

Name of related parties		2018			
		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables
Shareholders:					
Lotte Corporation	₩	40	171	-	5,214
Hotel Lotte Co., Ltd.		1,165	49,004	-	37,673
Hotel Lotte Pusan Co., Ltd.		-	20,049	-	1,945
Subtotal		<u>1,205</u>	<u>69,224</u>	<u>-</u>	<u>44,832</u>
Subsidiaries:					
Woori Home Shopping & Television Co., Ltd.		28,973	164	1	4,912
Lotte Himart Co., Ltd.		1,936	8,793	702	6,785
Lotte Cultureworks Co., Ltd.		1,528	497	230	118,587
Others		2,768	11,207	-	5,765
Sub total		<u>35,205</u>	<u>20,661</u>	<u>933</u>	<u>136,049</u>
Associates:					
FRL Korea Co., Ltd.		1,526	159	12,858	23,831
Zara Retail Korea		-	-	-	5,787
Others		6	26	-	276
Subtotal		<u>1,532</u>	<u>185</u>	<u>12,858</u>	<u>29,894</u>
Others (*1):					
Lotte Confectionery Co., Ltd.		8	383	9,384	629
Lotte Chilsung Beverage Co., Ltd.		660	4,194	4,863	6,232
Lotte Data Communication Company		-	58,959	34	22,672
Lotte Card Co., Ltd.		69,174	450	-	17,271
Korea Seven Co., Ltd.		2	919	-	1,968
Daehong Communications Co., Ltd. (divided newly established) (*2)		2,891	4	-	4,718
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)		-	322	283	8,750
Lotte Station Building Co., Ltd		4,094	8,837	-	5,417
Lotte Trading Co., Ltd.		-	501	5,951	69
Lotte Engineering & Construction Co., Ltd.		-	4,070	-	60,747
LOTTE FOOD CO., LTD.		446	732	8,375	10,564
LOTTE ALUMINIUM CO., LTD.		7	90	386	3,178
Others		170	19,366	438	161,752
Subtotal		<u>77,452</u>	<u>98,827</u>	<u>29,714</u>	<u>303,967</u>
Total	₩	<u>115,394</u>	<u>188,897</u>	<u>43,505</u>	<u>514,742</u>

(*1) Although the entities are not related parties under K-IFRS 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 entities are newly established during 2018. Former entities which existed with each entity name are merged into Lotte Corporation.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

40. Related Party Transactions, continued

(d) Account balances with related parties as of December 31, 2018 and 2017 are summarized as follows:
continued

(in millions of Korean won)

Name of related parties (*1)	2017				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Other payables	
Shareholders:					
Lotte Corporation (*3)	₩	270	482	-	2,941
Hotel Lotte Co., Ltd.		80	51,504	-	60,197
Hotel Lotte Pusan Co., Ltd.		-	17,869	-	2,969
Korea Fuji Film Co., Ltd.		5	-	54	1,501
Subtotal		355	69,855	54	67,608
Subsidiaries:					
Woori Home Shopping & Television Co., Ltd.		24,717	-	1	4,825
Lotte Himart Co., Ltd. (*2)		46	8,681	404	6,076
Others		552	16,577	2,569	7,194
Subtotal		25,315	25,258	2,974	18,095
Associates:					
FRL Korea Co., Ltd.		-	1	10,982	19,117
Others		-	-	-	5,579
Subtotal		-	1	10,982	24,696
Others (*2):					
Lotte Engineering & Construction Co., Ltd.		407	411	12,698	2,041
Lotte Confectionery Co., Ltd. (divided newly established)		211	4,088	5,379	6,188
Lotte Chilsung Beverage Co., Ltd.		-	47,569	-	15,235
Lotte Data Communication Company (*4)		49,837	1,607	-	108,322
Lotte Card Co., Ltd.		2	194	-	2,123
Korea Seven Co., Ltd.		60,272	664	-	1,349
Daehong Communications Co., Ltd.		6,473	287	-	10,972
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)		47	479	389	9,620
Lotte Station Building Co., Ltd.		5,739	11,870	-	5,931
Lotte Trading Co., Ltd.		69	711	9,423	18
Lotte Engineering & Construction Co., Ltd		101	5,072	-	79,863
LOTTE FOOD CO., LTD.		247	1,578	12,924	8,339
LOTTE ALUMINIUM CO., LTD.		-	39	533	2,816
Others		5,952	15,413	1,349	148,823
Subtotal		129,357	89,982	42,695	401,640
Total (*5)	₩	155,027	185,096	56,705	512,039

(*1) The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

(*2) Although the entities are not defined as related parties under K-IFRS 1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

LOTTE SHOPPING CO., LTD.
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40. Related Party Transactions, continued

(d) Account balances with related parties as of December 31, 2018 and 2017 are summarized as follows:
 continued

(*3) On October 1, 2017, Lotte Confectionery Co., Ltd. spun off Lotte Confectionery's investment division to be an existing corporation and its confectionery division to be a newly established corporation (the name is Lotte Confectionery Co., Ltd.). The existing corporation changed its name to Lotte Corporation after the spin-off and merger.

(*4) On November 1, 2017, Lotte Data Communication Company established Lotte Data Communication Company (newly established corporation) by spinning off its information and communication business division and changed its name to Lotte IT Tech Co., Ltd.

(*5) Adjustments from early adoption of K-IFRS 1115 are reflected, and accordingly, there may be some differences from what the counterparty recognized for certain transactions. Related Party Transactions, continued

(e) The contents of compensation of major management during the years ended December 31, 2018 and 2017 are as follows.

(in millions of Korean won)

Classification		2018		2017
Short-term salary	₩	36,065		34,725
Post-employment benefits		4,520		6,822
Other long-term benefits		1,745		202
Total	₩	42,330		41,749

LOTTE SHOPPING CO., LTD.
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40. Related Party Transactions, continued

(f) Details of payment guarantees and collateral provided by the Company for the financial supports to the related parties as of December 31, 2018 are as follows, and no collateral and payment guarantees are provided by the related parties:

Name of company	Guaranteed by	Guaranteed amount	Guarantee period	Remarks
Subsidiaries				
Lotte Department Store (Tianjin) Co., Ltd.	KEB Hana Bank	CNY 170,000,000	June 15, 2018~ June 14, 2019	Working capital
PT. Lotte Shopping Avenue Indonesia	JP Morgan	USD 20,000,000	September 22, 2017~ September 22, 2020	Working capital
	JP Morgan	IDR 100,000,000,000	July 6, 2018~ July 6, 2021	Working capital
PT. Lotte Mart Indonesia	BNP Paribas	IDR 400,000,000,000	April 14, 2018~ April 14, 2019	Working capital
	SC Bank	IDR 300,000,000,000	April 13, 2018~ April 13, 2019	Working capital
	HSBC	IDR 250,000,000,000	April 14, 2018~ April 14, 2019	Working capital
	JP Morgan	USD 30,000,000	May 23, 2018~ May 23, 2019	Working capital
Lotte Cinema Vietnam Co., Ltd.	DBS	USD 8,000,000	October 5, 2016~ October 5, 2019	Working capital
	DBS	USD 8,000,000	October 5, 2016~ October 5, 2019	Working capital
	SC Bank	VND 112,000,000,000	December 26, 2016~ December 25, 2019	Working capital
	SC Bank	USD 10,000,000	April 13, 2018~ April 13, 2021	Working capital
	SC Bank	USD 40,000,000	July 3, 2018~ July 3, 2019	Working capital
	Woori Bank	USD 10,000,000	February 9, 2018~ February 8, 2019	Working capital
	Shinhan Bank	USD 10,000,000	February 21, 2018~ February 21, 2019	Working capital
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	BNP Paribas	USD 104,818,169	May 16, 2016~ May 16, 2019	Working capital
	Shinhan Bank	USD 49,818,783	June 1, 2017~ June 1, 2020	Working capital
Lotte Shopping Business Management (Hong Kong) Limited	The Export- Import Bank of Korea	USD 300,000,000	September 5, 2017~ September 5, 2020	Working capital
LOTTE PROPERTIES (CHENGDU) HK LIMITED	The Export- Import Bank of Korea	USD 190,000,000	March 15, 2017~ March 16, 2020	Working capital
	KEB Hana Bank	USD 25,000,000	March 15, 2017~ March 15, 2020	Working capital
Joint ventures				
International Business Center Company Limited	The Export-Import Bank of Korea	USD 15,000,000	April 6, 2016 ~ April 6, 2019	Working capital
Associates				
Shandong Longzhile Cinema Co., Ltd.	IBK bank	CNY 13,000,000	January 11, 2017 ~ January 11, 2020	Working capital

LOTTE SHOPPING CO., LTD.
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40. Related Party Transactions, continued

- (f) Details of payment guarantees and collateral provided by the Company for the financial supports to the related parties as of December 31, 2018 are as follows, and no collateral and payment guarantees are provided by the related parties:

Name of company	Guaranteed by	Guaranteed amount	Guarantee period	Remarks
Others				
Lotte Properties(Shenyang) Limited	The Export-Import Bank of Korea	USD 30,500,000	March 30, 2016 ~ March 30, 2019	Working capital
	Woori Bank	USD 31,500,000	April 25, 2016 ~ April 25, 2019	Working capital
	Korea Development Bank	USD 57,500,000	May 4, 2016 ~ May 4, 2019	Working capital

The Company guarantees fulfillment of the contracts on behalf of Burger King Japan Co., Ltd. and Korea Seven Co., Ltd. and Buy the Way Inc. The contracts are as follows: royalty contract (3% of net sales, USD 25,000 per every new store open) between Burger King Japan Co., Ltd. and BK Asiapac, Pte. Ltd. and royalty contract (0.6% of net sales) among Korea Seven Co., Ltd., Buy the Way Inc., and 7-Eleven, Inc. (USA).

- (g) The Company entered into an agreement to jointly provide financial support for Suwon Landmark 3rd Co., Ltd., Invest Farmland 2nd Co., Ltd., Invest Farmland 3rd Co., Ltd., KS 1st Co., Ltd., and Mars L D 1st, LLC. in default of the principal and interest on the asset backed commercial paper (₩220,000,000 thousand of par value in maturing on May 28, 2021) of LOTTE Suwon Station Shopping Town CO., LTD., the asset backed loan (₩144,000,000 thousand of par value in maturing on May 31, 2019) issued by Lotte Incheon Town Co., Ltd., the asset backed commercial paper (₩60,000,000 thousand of par value in maturing on Aug. 23, 2019) by Lotte Ulsan Development Co., Ltd., and the asset backed loan (₩620,000,000 thousand of par value in maturing on Oct. 27, 2021) by LOTTE Town Dongtan Co., LTD. When the Company fails to satisfy with the credit ranking maintenance clause in accordance with funds supplementation agreement regarding LOTTE Town Dongtan Co., LTD., the forfeiture of benefit of time may be lost. The forfeiture of benefit of time clause in the funds supplementation agreement regarding Lotte Ulsan Development Co., Ltd. was deleted due to the revision of agreement.
- (h) The Company has provided guarantees for Lotte Suwon Station Shopping Town Co., Ltd. to pay the rent during the term of the lease (20 years) from the beginning of the lease contract in 2014.
- (i) Dividends recognized from related parties during the year ended December 31, 2018 are as follows.

(in millions of Korean won)

Name of related parties	Contractual amount
Subsidiaries :	
Woori Home Shopping & Television Co., Ltd.	₩ 25,881
Lotte Himart Co., Ltd.	28,496
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	652
Sub total	55,029
Associates :	
FRL Korea Co., Ltd.	54,390
Eunpyeong PFV	2,142
Sub total	56,532
Total	₩ 111,561

- (j) Details of purchasing card transactions with Lotte Card Co., Ltd as of December 31, 2018 are as follows:

(in millions of Korean won)

Classification	Contractual amount	Used amount	Repayment	Unsettled amount
Perspective of user	₩ 240,000	2,951,697	3,042,399	7,367

LOTTE SHOPPING CO., LTD.
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41. Risk Management

(a) Management of financial risks

1) Objectives and Policies of the Company

Risk management activities of the Company 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 Company'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 Company 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.

2) Credit risk

Credit risk is the risk of financial loss to the Company 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 Company's profit is generated from individual clients and carries low credit risk. Also, the Company 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.

i) 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 the end of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Cash equivalent (*1)	₩ 993,219	1,662,434
Trade and other receivables	589,823	690,431
Other financial assets (current)	478,940	524,593
Other financial assets (non-current) (*2)	1,017,095	1,049,177
	₩ 3,079,077	3,926,635

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

(*2) Equity instruments at fair value through other comprehensive income (previous period: available-for-sale financial assets) are excluded as there is no exposure to credit risk.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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41. Risk Management, continued

2) Credit risk, continued

ii) Impairment loss

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

(in millions of Korean won)

		2018		
		Total carrying amount	Weighted-average loss rate	Allowance for doubtful accounts
Not past due	₩	581,886	0.00~1.56%	49
0 ~ 3 months past due		1,187	0.00~17.43%	31
3 ~ 6 months past due		4,074	0.00~36.24%	119
6 ~ 9 months past due		1,540	0.00~51.09%	57
9 ~ 12 months past due		411	0.00~80.01%	255
12 ~ 15 months past due		103	0.00~100.00%	23
15 months past due		9,580	0.00~100.00%	8,425
Total	₩	<u>598,781</u>		<u>8,959</u>

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

(in millions of Korean won)

		2018		
		Total carrying amount	Weighted-average loss rate	Allowance for doubtful accounts
Not past due	₩	484,048	0.00~100.00%	5,108

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

(in millions of Korean won)

		2018		
		Total carrying amount	Weighted-average loss rate	Allowance for doubtful accounts
Not past due	₩	1,018,120	0.00~100.00%	1,025

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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41. Risk Management, continued

2) Credit risk, continued

ii) Impairment loss

Trade and other receivables, other financial assets (current) and other financial assets (non-current) before deducting the allowance for doubtful accounts as of December 31, 2017 are as follows:

(in millions of Korean won)

	2017			
	Receivables that are neither past due nor impaired	Receivables that are past due but not impaired	Receivables impaired(*1)	Total
Trade and other receivables ₩	682,339	8,092	5,566	695,997
Other financial assets (current)	524,593	-	34	524,627
Other financial assets (non-current)	1,049,178	-	2,950	1,052,128
Total	₩ 2,256,110	8,092	8,550	2,272,752

(*1) Financial assets that are individually anticipated to be uncollectible, including defaulted notes, are determined to be impaired and 100% of the impaired amounts are recorded as allowance for bad debts.

Movements in the allowance for doubtful trade and other receivables for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

	2018	2017
Beginning balance	₩ 5,566	3,531
Provision	1,236	2,268
Reversal of impairment loss	(33)	(20)
Write-offs	(1,861)	(213)
Spin-off	(2,714)	-
Merger	6,765	-
Ending balance	₩ 8,959	5,566

Movements in the allowance for doubtful other financial assets (current) for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

	2018	2017
Beginning balance	₩ 34	34
Provision	5,108	-
Spin-off	(34)	-
Ending balance	₩ 5,108	34

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

41. Risk Management, continued

2) Credit risk, continued

ii) Impairment loss, continued

Movements in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		<u>2018</u>	<u>2017</u>
Beginning balance	₩	2,950	3,950
Merger		25	-
Write-offs		-	(1,000)
Spin-off		(1,950)	-
Ending balance	₩	<u>1,025</u>	<u>2,950</u>

iii) Financial assets that are past due but not impaired

An analysis of the age of financial assets that are past due but not impaired as of December 31, 2018 are as follows:

(in millions of Korean won)

		<u>2018</u>				
		<u>Carrying amount</u>	<u>3 months or less</u>	<u>3 ~ 6 months</u>	<u>6 months ~ 1 year</u>	<u>More than 1 year</u>
Trade and other receivables	₩	8,092	4,794	1,450	1,739	109

iv) Payment guarantees

As of December 31, 2018, the Company has provided financial guarantees to associates and joint ventures. Should the Company be liable for payment upon defaults of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩1,166,991 million.

3) Liquidity risks

Liquidity risk is the risk that the Company 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 Company 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 Company currently deposits a considerable amount with financial institutions with high credit ratings to make proper provisions for potential liquidity risks. The Company 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 Company believes that it is possible to redeem liabilities using cash flows from operating activities and cash in-flow from financial assets.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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41. Risk Management, continued

3) Liquidity risks, continued

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2018 are as follows:

(in millions of Korean won)

		2018			
		3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year
Current portion of borrowings and debentures (*1),(*2)	₩	783,654	154,369	566,235	-
Trade payables and other payables		2,158,255	-	-	-
Other financial liabilities (current)		206,200	70,485	18,260	-
Borrowings and debentures (non-current) (*1),(*2)		24,383	24,413	49,378	4,169,084
Other financial liabilities (non-current)		-	-	-	199,497
Acceptances and guarantees		1,166,991	-	-	-
Total	₩	4,339,483	249,267	633,873	4,368,581

(*1) Interest expenses are included.

(*2) It is possible to be forfeited the benefit of time when the Company fails to meet the clause in agreement regarding borrowings and debentures (maintenance of financial ratio and credit rating, etc.)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

4) 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 Company'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 Company's return.

The Company 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 Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

i) Currency risk

The Company is exposed to currency risk on assets and liabilities that are denominated in currencies other than Korean won, the respective functional currency of the Company. 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.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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41. Risk Management, continued

4) Market risk, continued

i) Currency risk, continued

The Company enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Company needs foreign currencies, the Company enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations. As of December 31, 2018, the exchange rate risks of the Company's foreign currency denominated borrowings and debentures excluding JPY 10billion borrowed from Lotte Co., Ltd. (Japan) are being hedged.

Assets and liabilities denominated in foreign currencies other than the Company's functional currency as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018		2017	
		Assets	Liabilities	Assets	Liabilities
USD	₩	119,698	933,148	13,800	1,071,278
EUR		-	-	228	1,620
JPY		-	101,318	-	94,911
IDR		778	-	441	-
HKD		-	-	1	-
CNY		153	-	1,762	26
VND		267	-	322	-
Total	₩	120,896	1,034,466	16,554	1,167,835

The average rates for the years ended December 31, 2018 and 2017, and the closing rates as of December 31, 2018 and 2017 are as follows:

(in Korean won)

		Average rate		Closing rate	
		2018	2017	December 31, 2018	December 31, 2017
USD	₩	1,100.30	1,130.84	1,118.10	1,071.40
EUR		1,298.63	1,276.39	1,279.16	1,279.25
JPY		9.96	10.09	10.13	9.49
IDR		0.0774	0.0845	0.0768	0.079
HKD		140.38	145.13	142.77	137.07
CNY		166.40	167.46	162.76	163.65
VND		0.0478	0.0498	0.0482	0.0472

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

41. Risk Management, continued

(a) Management of financial risks, continued

4) Market risk, continued

i) Currency risk, continued

The Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period with all other variables held constant. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate are as follows. Borrowings and debentures with currency swaps and overseas convertible notes designated as financial liabilities at fair value through profit or loss are not included.

<i>(in millions of Korean won)</i>		2018		2017	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	11,970	(11,970)	1,380	(1,380)
EUR		-	-	(139)	139
JPY		(10,132)	10,132	(9,491)	9,491
IDR		78	(78)	44	(44)
HKD		-	-	-	-
CNY		15	(15)	174	(174)
VND		27	(27)	32	(32)
Total	₩	1,958	(1,958)	(8,000)	8,000

The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Company's functional currency, as of December 31, 2018 and 2017.

ii) 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 Company 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 Company makes interest swap transactions with financial institutions for hedging interest rate risk of variable borrowings and debentures.

The book value of the Company's variable interest-bearing financial instruments as of December 31, 2018 and 2017 are as follows.

<i>(in millions of Korean won)</i>		2018	2017
Financial assets	₩	35,823	39,000
Financial liabilities		1,084,465	1,366,189

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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41. Risk Management, continued

(a) Management of financial risks, continued

4) Market risk, continued

ii) Interest rate risk, continued

The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Company's interest income and expense that would incur in relation to the deposits and borrowings for the years ended December 31, 2018 and 2017. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant. Borrowings and debentures for which the Company has entered into interest rate swap transactions are not included.

		2018		2017	
		100bps increase	100bps decrease	100bps increase	100bps decrease
<i>(in millions of Korean won)</i>					
Interest income	₩	358	(358)	390	(390)
Interest expenses		1,013	(1,013)	949	(949)

iii) Price risk

The Company 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, 2018 and 2017 are ₩ 127,273 million and ₩155,076 million, respectively. The Company assumes that prices of the equity instrument fluctuate 10% at the end of reporting period with all other variables held constant. Sensitivity analysis of other comprehensive income from changes of prices as of December 31, 2018 and 2017 are as follows:

		2018		2017	
		10% increase	10% decrease	10% increase	10% decrease
<i>(in millions of Korean won)</i>					
Other comprehensive income	₩	12,727	(12,727)	15,508	(15,508)

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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41. Risk Management, continued

(b) Capital Management

The objective of the Company's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Company 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, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Liabilities (A)	₩ 10,290,230	10,308,880
Equity (B)	11,572,207	12,511,986
Financial instruments (C)	1,312,229	2,053,433
Borrowings (D)	5,340,617	4,565,421
Liabilities to equity ratio (A/B)	88.92%	82.39%
Net borrowings to equity ratio ((D-C)/B)	34.81%	20.08%

LOTTE SHOPPING CO., LTD.
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42. Merger

(a) Merger of Lotte Department Store Masan Co., Ltd.

(i) The Company merged with Lotte Department Store Masan Co., Ltd. on February. 1 2018 based on the resolution of board of directors dated on November 9, 2017 for the improvement of the Company's value and maximization of share value by the establishment of framework for continuous growth and improvement of profit structure through the improvement of management efficiency. As this merger was proceeded in small scale merger, the shareholders of Lotte shopping Co., Ltd. are not entitled to a share purchase. And the general meeting of shareholders for approval of merger shall be replaced with the resolution of board of directors.

(ii) As the Company owns 100% share of Lotte Department Store Masan Co., Ltd., each entity resolved to merge without capital increase under the merger ratio of 1:0. There was no new share to be issued by Lotte Shopping Co., Ltd. due to the merger, and no change in equity such as majority shareholder, etc.

(iii) Accounting for merger

The merger is a transaction between the Company and its subsidiary under the common control, and acquired assets / liabilities from the subsidiary are recognized as book value of the Company's consolidated financial statements. The difference between the book value of investments in subsidiaries prior to the merger and the amount recognized as identifiable assets and liabilities is accounted for as capital adjustment.

(in millions of Korean won)

	<u>Amount</u>
I. Transfer consideration	
(Book value of investments in subsidiaries prior to the merger)	₩ 5,721
II. Acquired identifiable assets and liabilities	
Cash and cash equivalents	1,365
Trade receivables and other receivables	1,321
Inventories	127
Tangible and intangible assets	6,548
Other financial assets	4,250
Other non-financial liabilities	1,673
Trade payables and other payables	(9,787)
Borrowings	(6,000)
Other financial liabilities	(6,198)
Other non-financial liabilities	(2,000)
Total identifiable net assets	<u>(8,701)</u>
III. Capital adjustment	<u>₩ (14,422)</u>

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2018 and 2017

42. Merger, continued

(b) Merger of LOTTE.COM INC.

(i) The Company merged with LOTTE.COM INC. on August 1, 2018 based on the resolution of board of directors on May 11, 2018. The Company intended to extend and stabilize the Company's revenue channel with strategic alliance using LOTTE.COM's know-how and capability of developing new revenue channel, and prepare the momentum for the future growth. The merger ratio was determined to be 1: 0.0285254 in common shares. Due to this merger, 166,708 shares of common shares to be issued by the Company to on 1 common share of LOTTE.COM INC. were issued to shareholders on the shareholders' registry of LOTTE.COM INC. is issued.

(ii) The fair value of identifiable assets and liabilities being acquired from the merger are as follows:

<i>(in millions of Korean won)</i>		<u>Amount</u>
Current Assets		
Cash and cash equivalents	₩	14,106
Trade receivables and other receivables		53,711
Other financial assets		12,131
Inventories		2,381
Other non-financial assets		467
Assets held for sale		1,310
Subtotal		<u>84,106</u>
Non-current Assets		
Investment in associates and subsidiaries	₩	12,842
Other financial assets		4,088
Tangible assets		6,106
Other intangible assets		21,958
Other non-financial assets		68
Subtotal		<u>45,062</u>
Total assets	₩	<u><u>129,168</u></u>
Current liabilities		
Trade payables and other payables	₩	115,524
Other financial liabilities		230
Unearned revenues		56
Provisions		214
Other non-financial liabilities		5,172
Subtotal		<u>121,196</u>
Non-current liabilities		
Defined benefit liability and other long-term employee liabilities	₩	749
Deferred tax liabilities		1,146
Subtotal		<u>1,895</u>
Total liabilities	₩	<u><u>123,091</u></u>

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42. Merger, continued

(c) Transfer consideration and goodwill are determined as follows.

<i>(in millions of Korean won)</i>		2018
Fair value of acquired assets and liabilities	₩	6,077
Transfer consideration		
- Equity instrument issued (*1)		34,342
Goodwill	₩	<u>28,265</u>

(*1) The fair value of common share issued as consideration transferred is based on the Company's stock price of ₩206,000 on August 1, 2018.

43. Business transfer

(a) Details of business transfer incurred in 2018 are as follows:

<u>Category</u>	<u>Details</u>
Transferred business	GF business division of Lotte Shopping Co., Ltd.
Transferred date	June 1, 2018
Transfer method	Business transfer
Transferee	Lotte GFR (Formerly, NCF)
Transfer consideration	₩27,300 million

(b) Details of loss from business transfer are as follows:

<i>(in millions of Korean won)</i>					
<u>Classification</u>	<u>Transfer consideration</u>	<u>Transferred assets</u>	<u>Transferred liabilities</u>	<u>Transferred net assets</u>	<u>Loss from business transfer</u>
GF business division	₩ 27,300	30,760	669	30,091	2,791

As the transferred business accounted for insignificant portion of the Company's operating profit, the loss from the business transfer in the year ended December 31, 2018 was not classified as discontinued operation.

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44. Spin-off

(a) Summary of spin-off

The Company's Board of Directors approved the spin-off of the cinema segments on April 6, 2018. In accordance with the approval, the Company established a new entity, and the Company acquired the total outstanding shares of the new entity.

Spin-off was approved at the extraordinary meeting of shareholders dated on May 14, 2018, and major descriptions are as follows:

Category	Details
Corporate reorganization method	Spin-off
Companies subject to spin-off	Lotte Shopping Co., Ltd. (existing entity) Lotte Cultureworks Co., Ltd. (newly established entity)
Completion of spin-off	June 1, 2018

In this regard, a new established entity or the Company has a joint responsibility to repay debts of the Company prior to this spin-off in accordance with paragraph 1, Article 530-9 of the Commercial Act.

As a result of spin-off, the Company acquired investments in subsidiaries and the acquisition cost was determined based on the book value of assets and liabilities transferred.

(b) Details of assets and liabilities transferred to new established entity are as follows:

<i>(in millions of Korean won)</i>	<u>Amount</u>
Current assets	
Cash and cash equivalents	₩ 180,636
Trade and other receivables	32,997
Other financial assets	1,468
Inventories	1,309
Other non-financial assets	12,763
Subtotal	<u>229,173</u>
Non-current assets	
Investments in associates and subsidiaries	18,004
Other financial assets	97,242
Property, plant and equipment, net	103,223
Intangible assets, net	3,946
Other non-financial assets	111,734
Deferred tax assets	900
Subtotal	<u>335,049</u>
Total assets	<u>₩ 564,222</u>

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44. Spin-off, continued

(b) Details of assets and liabilities transferred to new established entity are as follows,: continued :

(in millions of Korean won)

Current liabilities

Trade and other payables		₩	58,816
Other financial liabilities			28,143
Unearned revenues			9,473
Other non-financial liabilities			36,797
	Subtotal		<u>133,229</u>
Non-current liabilities			
Other financial liabilities			815
Unearned revenues			26
Provisions			(1,726)
Other non-financial liabilities			262
	Subtotal		<u>(623)</u>
	Total liabilities	₩	<u><u>132,606</u></u>