

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

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

(With Independent Auditor's Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

Opinion

We have audited the consolidated financial statements of Lotte Shopping Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated statements of comprehensive 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Impairment of cash generating units

As described in Note 9, 13, and 15, as of December 31, 2018 the carrying amount of property, plant and equipment, goodwill, intangible assets and other non-financial assets in the consolidated statements of financial position of the Group are ₩14,404,971 million, ₩1,601,819 million, ₩451,657 million, and ₩771,859 million, respectively, and in aggregate constitute 65.6% of total assets. Also, the impairment loss (including impairment loss from discontinued operations) of ₩544,162 million was recognized during 2018.

The Group 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 by comparing the recoverable amount and the carrying amount of the respective cash generating unit. 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 judgments. Because the judgments have a significant impact on the consolidated financial statements of the Group, we identified the assessment of 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 Group and checked whether such basis is in compliance with the accounting policy of the Group.
- We tested the mathematical accuracy of valuation model used by the Group.
- We evaluated the competence, qualification and objectivity of external institution engaged by the Group in the assessment of recoverable amount.
- We evaluated the appropriateness of the assumptions including future cash flows and discount rates applied by the Group to estimate the value in use, by engaging our internal valuation specialists.

(2) Discontinued operation

As described in Note 43, the Group has decided to sell and to liquidate the discount store business in China and recognized ₩210,718 million as net loss from discontinued operation during 2018.

The discontinuance of discount store business in China is an unusual event and has been selected as a key audit matter because the management's judgment related to its recognition, measurement, presentation, and disclosure has significant impact on the consolidated financial statements of the Group.

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

- We reviewed the basis of judgment regarding the classification of discontinued operation by the Group in order to assess whether the presentation of discontinued operation is reasonable.
- We reviewed the minutes of meetings of board of directors regarding the discontinuance of discount store business in China and the disposal contract of applicable subsidiaries to assess whether the timing of classification of discontinued operation is appropriate.
- We assess the disclosures in the Group's consolidated financial statements as to whether the disclosure was adequate.

Other matters

The accompanying consolidated financial statements of the Group as of and for the year ended December 31, 2017, prior to the reflection of the discontinued operations, as described in Note 43, 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 consolidated financial statements may differ from those generally accepted and applied in other countries.

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

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

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

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



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



KPMG Samjong Accounting Corp.

Seoul, Korea
March 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 consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

(In Korean won)	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets			
Cash and cash equivalents	7,35,42	₩ 1,818,473,007,915	2,626,243,925,953
Trade and other receivables	5,7,41,42	1,119,397,467,063	870,455,686,564
Other financial assets	6,7,22,42	1,061,979,008,598	1,245,665,288,496
Inventories	8	1,267,488,684,051	1,354,039,250,052
Income tax refund receivables		6,508,527,017	2,105,153,010
Other non-financial assets	9	147,917,797,142	193,161,093,427
Assets held for sale	10	286,631,198,212	3,640,679,050
		<u>5,708,395,689,998</u>	<u>6,295,311,076,552</u>
Non-current assets			
Investments in associates and joint ventures	11,12	598,181,387,362	443,190,286,833
Other financial assets	6,7,22,42	1,670,847,015,265	1,702,498,327,264
Property, plant and equipment, net	13,41	14,404,970,701,402	14,918,310,394,824
Investment property, net	14	1,023,932,723,284	1,149,023,430,144
Goodwill	15	1,601,819,192,996	1,923,903,641,348
Intangible assets, net	15	451,657,409,610	502,252,395,726
Deferred tax assets	34	27,645,357,351	16,700,982,896
Other non-financial assets	9	771,859,380,938	997,297,513,495
		<u>20,550,913,168,208</u>	<u>21,653,176,972,530</u>
Total assets		<u>₩ 26,259,308,858,206</u>	<u>27,948,488,049,082</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
As of December 31, 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	7,17,39,41,42	₩ 1,980,154,167,081	3,078,792,356,946
Trade and other payables	7,16,41,42	2,910,394,337,674	3,494,433,704,804
Other financial liabilities	7,22,42	420,336,936,454	504,089,415,191
Income tax payables		52,653,918,289	122,745,920,601
Unearned revenues	18	147,450,075,517	132,564,117,803
Provisions	19	113,688,719,092	55,121,565,042
Other non-financial liabilities	20	962,604,510,286	1,156,782,508,850
Liabilities held for sale	10	16,460,180,108	-
		<u>6,603,742,844,501</u>	<u>8,544,529,589,237</u>
Non-current liabilities			
Borrowings and debentures, net of issuance costs	7,17,39,41,42	5,814,744,850,720	4,588,891,563,125
Other financial liabilities	7,22,42	76,958,297,105	151,868,082,611
Net of defined benefit liabilities and other long-term employee benefits	21	26,017,199,872	34,713,839,844
Deferred tax liabilities	34	1,173,077,398,673	1,133,944,793,579
Unearned revenues	18	32,960,664,424	7,519,852,356
Provisions	19	7,043,472,920	3,302,633,974
Other non-financial liabilities	20	97,391,264,588	132,365,102,084
		<u>7,228,193,148,302</u>	<u>6,052,605,867,573</u>
Total liabilities		<u>13,831,935,992,803</u>	<u>14,597,135,456,810</u>
Equity			
Share Capital	1,23	141,443,775,000	140,610,235,000
Capital Surplus	23	3,574,211,671,439	3,505,685,532,239
Hybrid securities	24	-	269,118,000,000
Capital adjustments	25	(2,909,828,356,943)	(2,904,413,361,094)
Retained earnings	26	10,991,567,194,372	11,730,312,514,167
Accumulated other comprehensive income	27	(91,980,176,302)	(82,728,299,496)
Stockholders' equity attributable to owners of the Company		11,705,414,107,566	12,658,584,620,816
Non-controlling interest		721,958,757,837	692,767,971,456
Total equity		<u>12,427,372,865,403</u>	<u>13,351,352,592,272</u>
Total equity and liabilities		₩ <u>26,259,308,858,206</u>	<u>27,948,488,049,082</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2018 and 2017

(In Korean won, except for per share information)	Notes	2018	2017 Note 43
Continuing operations			
Sales	29,36,38,39,41	₩ 17,820,781,434,515	17,926,062,645,541
Cost of sales	8,29,32,41	(10,313,111,398,016)	(10,299,185,383,296)
Gross profit		7,507,670,036,499	7,626,877,262,245
Selling, general and administrative expenses	30,32,41	(6,911,701,185,620)	(6,825,620,761,758)
Reversal of allowance for bad debts(expense)	30,32	1,034,747,693	(218,053,815)
Operating profit		597,003,598,572	801,038,446,672
Other income	31,41	60,480,214,456	104,821,417,257
Other expenses	31,41	(692,989,219,752)	(595,960,262,781)
Finance income - Interest income calculated using the effective interest method	33	90,369,352,782	86,032,881,758
Finance income - Others	33	188,546,099,017	275,770,029,867
Finance costs	33	(411,619,928,356)	(482,942,969,812)
Other bad debt expense	31,33,41	(14,235,233,558)	(3,098,677,144)
Equity method income on instruments in associates and joint ventures	11,12	88,583,487,325	68,365,883,297
Profit(loss) before income tax		(93,861,629,514)	254,026,749,114
Income tax expense	34	(160,416,752,873)	(273,402,112,875)
Loss from continuing operations		(254,278,382,387)	(19,375,363,761)
Discontinued operations			
Loss from discontinued operations, net of tax	43	(210,718,208,408)	(1,261,329,481)
Loss for the year		(464,996,590,795)	(20,636,693,242)
Other comprehensive income(loss)			
<i>Items that will never be reclassified to profit or loss</i>			
Net changes in equity of equity method investments at fair value through other comprehensive income		(5,220,494,135)	-
Remeasurements of net defined benefit liabilities	21	(40,146,695,128)	9,423,840,226
Net changes in equity of equity method investments		(587,463,005)	486,911,290
Income tax on items that will never be reclassified to profit or loss		6,339,646,951	(2,556,941,618)
Total items that will never be reclassified to profit or loss		(39,615,005,317)	7,353,809,898
<i>Items that may be subsequent reclassified to profit or loss</i>			
Gain on valuation of debt instrument at fair value through other comprehensive income		327,488,435	-
Net changes in unrealized fair value of available-for-sale financial assets		-	(22,886,356,631)
Exchange rate differences on translating foreign operations		(32,395,224,763)	(31,728,367,381)
Effective portion of unrealized changes in fair values of cash flow hedges	22	6,149,799,927	1,538,989,881
Net changes in equity of equity method investments		16,685,900,771	(28,575,417,631)
Income tax on items that may be reclassified to profit or loss		(2,996,212,436)	11,021,862,504
Total items that may be reclassified to profit or loss		(12,228,248,066)	(70,629,289,258)
Other comprehensive loss for the year, net of tax	27	(51,843,253,383)	(63,275,479,360)
Total comprehensive loss for the year		(516,839,844,178)	(83,912,172,602)
Profit(loss) attributable to:			
Owners of the Company			
Loss from continuing operations		(334,156,072,066)	(123,862,194,880)
Loss from discontinued operations		(210,718,208,408)	(12,532,978,000)
		(544,874,280,474)	(136,395,172,880)
Non-controlling interests			
Profit from continuing operations		79,877,689,679	104,486,831,119
Profit from discontinued operations		-	11,271,648,519
		79,877,689,679	115,758,479,638
Total comprehensive income(loss) attributable to:			
Owners of the Company		(589,275,241,389)	(182,926,701,489)
Non-controlling interests		72,435,397,211	99,014,528,887
		(516,839,844,178)	(83,912,172,602)
Loss per share			
28			
Basic loss per share (in Korean won)			
From continuing operations		(12,307)	(4,673)
From discontinued operations		(7,479)	(429)
Diluted loss per share (in Korean won)			
From continuing operations		(12,584)	(4,690)
From discontinued operations	₩	(7,479)	(436)

See accompanying notes to the consolidated financial statements.

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

	Attributable to owners of the Company							Total equity	
	Share capital	Capital Surplus	Hybrid securities	Capital adjustment	Retained earnings	Accumulated other comprehensive income(loss)	Subtotal		Non-controlling interest
Balance at January 1, 2017	₩ 157,454,460,000	3,910,751,867,924	269,118,000,000	(116,353,277,534)	11,995,610,433,739	87,952,732,018	16,304,534,216,147	959,507,676,530	17,264,041,892,677
Adjustment on initial application of K-IFRS No.1115, net of tax	-	-	-	-	(61,646,191,077)	-	(61,646,191,077)	(3,703,217,169)	(65,349,408,246)
Restated balance at January 1, 2017	157,454,460,000	3,910,751,867,924	269,118,000,000	(116,353,277,534)	11,933,964,242,662	87,952,732,018	16,242,888,025,070	955,804,459,361	17,198,692,484,431
Comprehensive income(loss) for the year	-	-	-	-	(136,395,172,880)	-	(136,395,172,880)	115,758,479,638	(20,636,693,242)
Profit(loss) for the year	-	-	-	-	(136,395,172,880)	-	(136,395,172,880)	115,758,479,638	(20,636,693,242)
Other comprehensive income(loss)	-	-	-	-	-	-	-	-	-
Net changes in unrealized fair values of available-for-sale financial assets	-	-	-	-	-	(3,897,679,690)	(3,897,679,690)	(8,589,707,859)	(12,487,387,549)
Exchange rate differences on translating foreign operations	-	-	-	-	-	(18,857,184,754)	(18,857,184,754)	(11,376,721,182)	(30,233,905,936)
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(7,563,058,388)	(7,563,058,388)	446,575,330	(7,116,483,058)
Remeasurements of net defined benefit liabilities	-	-	-	-	4,448,926,222	-	4,448,926,222	2,822,594,759	7,271,520,981
Net changes in equity of equity method investments	-	-	-	-	-	(20,809,676,240)	(20,809,676,240)	(46,691,799)	(20,709,223,798)
Subtotal	-	-	-	-	147,144,241	(51,127,599,072)	(46,531,528,609)	(16,743,950,751)	(63,275,479,360)
Total comprehensive income(loss) for the year	-	-	-	-	4,448,926,222	(51,127,599,072)	(46,531,528,609)	(182,926,701,489)	(83,912,172,602)
Transactions with owners of the company recognized directly in equity	-	-	-	-	-	-	-	-	-
Interests paid for hybrid securities	-	-	-	-	(12,748,218,078)	-	(12,748,218,078)	-	(12,748,218,078)
Dividends	-	-	-	-	(59,104,408,000)	-	(59,104,408,000)	(21,990,777,300)	(81,095,185,300)
Spin-off	(16,844,225,000)	(405,066,335,685)	-	(2,799,190,016,582)	-	(119,553,432,442)	(3,340,654,009,709)	(321,231,606,801)	(3,661,885,616,510)
Others	-	-	-	11,129,933,022	-	-	11,129,933,022	(18,828,632,691)	(7,698,699,669)
Total transactions with owners of the Company	(16,844,225,000)	(405,066,335,685)	-	(2,788,060,083,560)	(71,852,626,078)	(119,553,432,442)	(3,401,376,702,765)	(362,051,016,792)	(3,763,427,719,557)
Balance at December 31, 2017	₩ 140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,730,312,514,167	(82,728,299,496)	12,658,584,620,816	692,767,971,456	13,351,352,592,272

See accompanying notes to the consolidated financial statements.

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

	Attributable to owners of the Company							Total equity	
	Share capital	Capital Surplus	Hybrid securities	Capital adjustment	Retained earnings	Accumulated other comprehensive income(loss)	Subtotal		Non-controlling interest
Balance at January 1, 2018	₩ 140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,730,312,514,167	(82,728,299,496)	12,658,584,620,816	692,767,971,456	13,351,352,592,272
Adjustment on initial application of K-IFRS No.1109, net of tax	-	-	-	-	12,674,138,566	(12,674,138,566)	-	-	-
Restated balance at January 1, 2018	140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,742,986,652,733	(95,402,438,062)	12,658,584,620,816	692,767,971,456	13,351,352,592,272
Comprehensive income(loss) for the year	-	-	-	-	(544,874,280,474)	-	(544,874,280,474)	79,877,689,679	(464,996,590,795)
Profit(loss) for the year	-	-	-	-	(18,546,466,814)	13,563,803,457	(4,982,663,357)	(4,114,884,020)	(9,097,547,377)
Other comprehensive income(loss)	-	-	-	-	-	(27,606,477,887)	(27,606,477,887)	(2,327,360,240)	(29,933,838,127)
Net changes in fair values of equity investments	-	-	-	-	-	4,908,598,143	4,908,598,143	1,236,255	4,909,834,398
Exchange rate differences on translating foreign operations	-	-	-	-	(28,711,692,436)	-	(28,711,692,436)	(1,001,284,463)	(29,712,976,899)
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	(565,063,425)	12,556,338,047	11,991,274,622	-	11,991,274,622
Remeasurements of net defined benefit liabilities	-	-	-	-	(47,823,222,675)	3,422,261,760	(44,400,960,915)	(7,442,292,468)	(51,843,253,383)
Net changes in equity of equity method investments	-	-	-	-	(592,697,503,149)	3,422,261,760	(589,275,241,389)	72,435,397,211	(516,839,844,178)
Subtotal	-	-	-	-	(12,581,295,612)	-	(12,581,295,612)	-	(12,581,295,612)
Total comprehensive income(loss) for the year	-	-	-	-	(146,140,659,600)	-	(146,140,659,600)	(42,661,946,120)	(188,802,605,720)
Interests paid for hybrid securities	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Issuance of exchangeable bond	-	35,017,831,200	-	-	-	-	35,017,831,200	-	35,017,831,200
Changes from merger	833,540,000	33,508,308,000	-	-	-	-	34,341,848,000	-	34,341,848,000
Acquisition of treasury stock	-	-	-	(7,602,224)	-	-	(7,602,224)	-	(7,602,224)
Repayment of hybrid securities	-	-	(269,118,000,000)	(882,000,000)	-	-	(270,000,000,000)	-	(270,000,000,000)
Others	-	-	-	(4,525,393,625)	-	-	(4,525,393,625)	(582,664,710)	(5,108,058,335)
Total transactions with owners of the Company	833,540,000	68,526,139,200	(269,118,000,000)	(5,414,995,849)	(158,721,955,212)	-	(363,895,271,861)	(43,244,610,830)	(407,139,882,691)
Balance at December 31, 2018	₩ 141,443,775,000	3,574,211,671,439	-	(2,909,828,356,943)	10,991,567,194,372	(91,980,176,302)	11,705,414,107,566	721,958,757,837	12,427,372,865,403

See accompanying notes to the consolidated financial statements.

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

(In Korean won)	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Loss for the year	₩ (464,996,590,795)	(20,636,693,242)
Adjustments	1,695,466,351,700	1,528,592,671,146
Changes in operating assets and liabilities	(879,525,184,579)	(77,904,119,302)
Income taxes paid	(177,669,584,552)	(251,396,088,590)
Interest received	-	520,722,917,339
Interest paid	-	(130,071,544,153)
Dividend received	-	4,823,600
Net cash provided by operating activities	<u>173,274,991,774</u>	<u>1,569,311,966,798</u>
Cash flows from investing activities		
Proceeds from sale of financial assets	1,202,795,814,025	1,126,336,282,920
Collection of short-term loans	22,691,596,746	48,254,919,442
Collection of long-term loans	1,470,751,566	7,165,683,299
Decrease of long-term financial instruments	2,000,000	-
Proceeds from sale of available-for-sale financial assets	-	13,601,788,696
Proceeds from sale of debt instruments at fair value through other comprehensive income	177,010,000	-
Proceeds from sale of equity instruments at fair value through other comprehensive income	51,195,518,860	-
Proceeds from sale of debt instruments at fair value through profit or loss	2,833,477,598	-
Proceeds from sale of investments in associates and joint ventures	9,472,059,771	4,929,669,782
Proceeds from disposal of assets held for sale	24,340,759,589	-
Proceeds from disposal of property, plant and equipment	26,175,105,089	35,960,172,183
Proceeds from disposal of intangible assets	1,552,986,413	222,777,276
Cash inflows from settlement of derivative instruments	6,981,786,735	2,567,293,802
Decrease in other assets	2,672,506,413	16,954,179
Cash inflows from disposal of subsidiaries	85,971,662,221	-
Increase of short-term financial instruments	(1,037,847,925,636)	(1,562,945,073,000)
Increase of long-term financial instruments	(4,004,000,000)	(85,000,000)
Increase in short-term loans	(15,370,052,900)	(22,468,222,066)
Increase in long-term loans	(2,998,309,965)	(3,991,603,127)
Purchase of available-for-sale financial assets	-	(13,925,354,217)
Purchase of debt instrument at fair value through profit or loss	(6,303,528,596)	-
Purchase of equity instruments at fair value through other comprehensive income	(20,709,697,595)	-
Purchase of debt instruments at fair value through other comprehensive income	(356,220,000)	-
Purchase of investments in associates and joint ventures	(102,744,284,667)	(16,792,156,900)
Acquisition of property, plant, and equipment	(597,125,018,348)	(883,863,398,961)
Acquisition of intangible assets	(64,360,040,159)	(69,638,461,406)
Acquisition of investment property	(29,289,401,700)	(27,956,683,570)
Increase in other assets	-	(3,202,330,600)
Cash outflows from settlement of derivative instruments	(1,981,999,845)	-
Interest received	87,631,712,048	38,569,395,726
Dividends received	70,515,837,103	64,004,182,244
Net cash used in investing activities	₩ <u>(286,609,895,234)</u>	<u>(1,263,239,164,298)</u>

See accompanying notes to the consolidated financial statements.

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

(In Korean won)	2018	2017
Cash flows from financing activities		
Proceeds from short-term borrowings	₩ 496,093,726,991	2,040,030,789,966
Proceeds from long-term borrowings	830,849,658,000	1,758,631,204,142
Proceeds from issuance of debentures	1,738,090,679,237	2,838,760,464,176
Proceeds from finance lease liabilities	-	5,044,618,730
Cash inflows from settlement of derivative instruments	1,242,799,890	50,680,000,000
Capital contribution from non-controlling interests	250,000,000	12,453,780
Repayment of short-term borrowings	(761,938,479,300)	(1,811,315,262,325)
Repayment of long-term borrowings	(812,309,222,549)	(853,159,680,432)
Redemption of debentures	(1,450,067,642,984)	(2,232,838,800,000)
Acquisition of additional ownership in subsidiaries	-	(16,799,813,535)
Payment of hybrid securities interests	(12,581,295,612)	(12,748,218,078)
Decrease of finance lease liabilities	(9,485,514,727)	(24,865,924,919)
Repayment of hybrid securities	(270,000,000,000)	-
Acquisition of treasury shares	(7,602,224)	(3,795,474,701)
Cash outflows from spin-off		(1,331,260,561,050)
Interest paid	(257,168,910,924)	(250,360,217,103)
Dividends paid	(185,603,815,700)	(81,095,185,300)
Net cash provided by(used in) financing activities	(692,635,619,902)	74,920,393,351
Net increase(decrease) in cash and cash equivalents	(805,970,523,362)	380,993,195,851
Cash and cash equivalents at the beginning of the year	2,626,243,925,953	2,269,177,234,171
Reclassification of assets group held for sale	(4,854,991,816)	-
Effect of exchange rate fluctuation on cash and cash equivalents	3,054,597,140	(23,926,504,069)
Cash and cash equivalents at the end of the year	₩ 1,818,473,007,915	2,626,243,925,953

See accompanying notes to the consolidated financial statements.

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

1. General Information of Reporting Entity

(a) Organization and Description of the Company

Lotte Shopping Co., Ltd. (the "Company" or the "Parent Company") was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, outlet stores, discount stores, supermarkets and H&B stores. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. The Company's stock was listed on the Korea Exchange through an initial public offering on February 9, 2006.

The shareholders of the Parent Company as of December 31, 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>

(b) Description of Subsidiaries

A summary of the subsidiaries of the Company as of December 31, 2018 and 2017 is as follows:

<u>Subsidiaries</u>	<u>Location</u>	<u>Main business</u>	<u>2018</u>	
			<u>Fiscal year end</u>	<u>Percentage of ownership (%)</u>
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home-shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home-shopping	Dec. 31	91.77
Lotte GFR Co., Ltd. (Formerly, NCF)	Korea	Apparel manufacturing and sales	Dec. 31	99.93
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
Lotte Himart Co., Ltd. (*1)	Korea	Consumer electronics	Dec. 31	65.25

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

1. General Information of Reporting Entity, continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Main business	2018	
			Fiscal year end	Percentage of ownership (%)
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	94.84
Lotte Cultureworks Co., Ltd.	Korea	Cinema	Dec. 31	100.00
Lotte corporate venture fund No. 1	Korea	Investment on new technology	Dec. 31	98.59
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	Dec. 31	95.00
Lotte (China) Management Co., Ltd.	China	Management company	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	100.00
LHSC Limited	Cayman Islands ¹	Holding company	Dec. 31	100.00
Lucky Pai Ltd. and its 2 subsidiaries	China	TV Home-shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00

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

1. General Information of Reporting Entity, continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Main business	2018	
			Fiscal year end	Percentage of ownership (%)
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Lotte Holdings Hong Kong Ltd. (Formerly, Kotobuki Holding (HK) Ltd.)	Hong Kong	Holding company	Dec. 31	100.00
HAI THAHN - LOTTE COMPANY LIMITED (Formerly, Hai Thanh - Kotobuki Joint Venture Company)	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00
LOTTE E-COMMERCE VIETNAM CO., LTD	Vietnam	Distribution	Dec. 31	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	80.00
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Distribution, real estate development	Dec. 31	100.00
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	Dec. 31	100.00

(*1) During 2018, the Company issued exchangeable bond which are exchangeable to common stocks of Lotte Himart Co., Ltd., see in Note 17. The total number of shares to be exchanged is 3,536,812 shares, and if all exchangeable bonds were exchanged to the ordinary shares of Lotte Himart Co., Ltd., the Company's percentage of ownership on 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.

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

1. General Information of Reporting Entity, continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Main business	2017	
			Fiscal year end	Percentage of ownership (%)
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	90.02
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*1)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte Cinema Co., Ltd.	Korea	Cinema	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd.	Cayman Islands	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00

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

1. General Information of Reporting Entity, continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Main business	2017	
			Fiscal year end	Percentage of ownership (%)
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	100.00
LHSC Limited	Cayman Islands	Holding company	Dec. 31	100.00
Lucky Pai Ltd. and its 7 subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Lotte Holdings Hong Kong Ltd. (Formerly, Kotobuki Holding (HK) Ltd.)	Hong Kong	Holding company	Dec. 31	100.00

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

1. General Information of Reporting Entity, continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Main business	2017	
			Fiscal year end	Percentage of ownership (%)
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00
LOTTE E-Commerce Vietnam Co., Ltd	Vietnam	Distribution	Dec. 31	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	80.00
LOTTE PROPERTIES HANOI CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	Dec. 31	100.00

(*1) During 2013, the Company issued exchangeable bonds which are exchangeable to ordinary shares of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company early redeemed ₩307,400 million of the issued bonds on January 25, 2016, and redeemed the remaining balance on January 24, 2018.

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

Subsidiaries(*1)	2018					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income(loss)(*2)
Woori Home Shopping & Television Co., Ltd.	₩ 916,307	256,659	659,648	902,373	76,387	59,837
Lotte Suwon Station Shopping Town Co., Ltd.	282,695	221,656	61,039	42,893	(7,038)	(7,035)
Lotte Songdo Shopping Town Co., Ltd.	321,664	199,091	122,573	169,456	20,184	20,189
CS Mart Co., Ltd.	160,132	44,643	115,489	374,618	841	827
Lotte Himart Co., Ltd.	3,117,064	1,055,205	2,061,859	4,112,678	85,463	79,755
Lotte Cultureworks Co., Ltd.	671,602	159,483	512,119	476,328	25,458	23,595
Lotte Shopping Holdings (Hong Kong) Co., Limited	306,853	510,477	(203,624)	-	(447,704)	(449,235)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	421,343	240,688	180,655	-	(8,053)	(296)
Lotte Properties (Chengdu) Limited	377,785	19,416	358,369	49,674	(40,253)	(41,548)
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	411,051	413,045	(1,994)	283,151	(10,967)	(10,871)

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

1. General Information of Reporting Entity, continued

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2018 and 2017 are summarized as follows:, continued

(in millions of Korean won)

Subsidiaries(*1)	2018					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income(loss)(*2)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. ₩	456,768	20	456,748	-	(41,878)	(22,857)
PT. LOTTE SHOPPING INDONESIA	302,801	163,586	139,215	849,978	10,566	7,349
PT. LOTTE MART INDONESIA	117,906	172,722	(54,816)	209,732	(23,883)	(22,413)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	152,010	5	152,005	-	(12)	6,337
LOTTE PROPERTIES HANOI CO., LTD.	153,336	6,524	146,812	-	465	3,505
LOTTE CINEMA VIETNAM CO., LTD.	101,520	104,581	(3,061)	38,208	(12,770)	(12,673)

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

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

(in millions of Korean won)

Subsidiaries(*1)	2017					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income(loss)(*2)
Woori Home Shopping & Television Co., Ltd. ₩	950,001	300,993	649,008	914,465	99,388	89,061
Lotte Suwon Station Shopping Town Co., Ltd.	300,873	232,799	68,074	44,179	(7,680)	(7,676)
Lotte Songdo Shopping Town Co., Ltd.	282,337	179,953	102,384	48,642	9,917	9,924
CS Mart Co., Ltd.	164,206	49,544	114,662	394,866	5,223	5,218
LOTTE Himart Co., Ltd.	3,204,628	1,178,850	2,025,778	4,099,341	148,435	141,921
LOTTE MART COMPANY LIMITED	91,697	209,852	(118,155)	75,073	(68,523)	(63,957)
Lotte Shopping Holdings (Hong Kong) Co., Limited	587,485	1,062,877	(475,392)	-	(1,136,025)	(1,164,081)
Swift Harvest Ltd. and its subsidiaries	393,240	816,976	(423,736)	129,657	(300,535)	(275,188)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	411,616	230,665	180,951	-	(7,769)	(31,457)

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

1. General Information of Reporting Entity, continued

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2018 and 2017 are summarized as follows:, continued

(in millions of Korean won)

Subsidiaries(*1)	2017						
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive income(loss)(*2)	
Lotte Properties (Chengdu) Limited	₩ 453,054	53,137	399,917	296,899	48,736	26,940	
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	407,952	399,076	8,876	262,375	(14,226)	(16,278)	
LOTTE SHOPPING HOLDINGS(SINGAPORE) PTE. LTD.	452,387	16	452,371	-	(53,588)	(114,341)	
PT. LOTTE SHOPPING INDONESIA	286,978	155,111	131,867	857,312	11,511	(6,210)	
PT. LOTTE MART INDONESIA	145,545	177,948	(32,403)	246,934	(21,217)	(18,087)	
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	145,707	39	145,668	-	(44)	(18,688)	
LOTTE PROPERTIES HANOI CO., LTD.	148,213	4,907	143,306	-	(1,554)	(19,570)	

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

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

(d) Entities newly included in subsidiaries in 2018 are as follows:

Description	Subsidiaries
Spin off	Lotte Cultureworks Co., Ltd.
Establishment	Lotte corporate venture fund No. 1 Lotte DMC Development Co., Ltd.

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

1. General Information of Reporting Entity, continued

(e) Entities excluded from subsidiaries in 2018 are as follows:

Description	Subsidiaries
Merge into the Company	Lotte Department Store Masan Co., Ltd.
Liquidation	Lotte Cinema Co., Ltd. Qingdao LOTTE Mart Commercial Co., Ltd. Lotte Mart China Co., Ltd. Lucky Pai (Shanghai) Information Technology Co., Ltd. (*1) Shanghai Jirong Commercial Trading Co., Ltd. (*1) Shanghai Wenxuan Co.,Ltd. (*1) Lucky Pai (Shanghai) Network Technology Co.,Ltd. (*1) Lucky Pai (Shanghai) Commercial Co., Ltd. (*1)
Disposal	LOTTE MART COMPANY LIMITED Swift Harvest Ltd. and 8 companies Hong Fung Ltd. and 2 companies Nantong Meili Properties Limited Zhuji Decheng Properties Limited Nantong Yaodong Properties Limited Nantong Fuhua Properties Limited and one company Nantong Jinyou Properties Limited and one company Nantong Branda Properties Limited and one company Nantong Fortune Trade Properties Limited Nantong Fine Spring Properties Limited Nantong Fine Port Properties Limited and one company Huai An Full Faith Properties Limited

(*1) This is an entity included in the 'Lucky Pai Ltd. and 7 subsidiaries', and since the liquidation is completed during 2018, the "Lucky Pai Ltd. and 7 subsidiaries" is changed to "Lucky Pai Ltd. and 2 subsidiaries"

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

(f) Non-controlling interests

Financial information of significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2018 and 2017, are as follows:

Description	2018	
	Woori Home Shopping & Television Co., Ltd. (*1,2)	LOTTE Himart Co., Ltd. (*2)
Ownership interests held by NCI	46.97%	34.75%
Current assets	₩ 660,912	915,423
Non-current assets	318,730	756,052
Current liabilities	249,637	538,119
Non-current liabilities	8,109	561,936
Net assets	721,896	571,420
Net assets attributable to non-controlling interests	339,286	203,150
Dividends paid to non-controlling interests during the year	22,919	15,178
Revenue	908,789	4,112,678
Profit for the year	81,535	133,800
Total comprehensive income	64,986	141,221
Profit attributable to non-controlling interests	38,121	46,500
Total comprehensive income attributable to non-controlling interests	30,350	49,079
Cash flows from operating activities	4,743	71,510
Cash flows from investing activities	(13,374)	(20,986)
Cash flows from financing activities	(48,800)	(80,163)
Effect of currency in exchange rate	(30)	-
Net decrease in cash and cash equivalents	₩ (57,461)	(29,639)

(*1) The financial information above is based on the consolidated financial statements.

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

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

(f) Non-controlling interests, continued

(in millions of Korean won)

Description	2017	
	Woori Home Shopping & Television Co., Ltd. (*1,2)	LOTTE Himart Co., Ltd.(*2)
Ownership interests held by NCI	46.97%	34.75%
Current assets	₩ 688,044	930,001
Non-current assets	320,066	782,005
Current liabilities	290,716	846,913
Non-current liabilities	11,684	378,090
Net assets	705,710	487,003
Net assets attributable to non-controlling interests	331,528	169,249
Dividends paid to non-controlling interests during the year	14,090	4,102
Sales	924,795	4,099,341
Profit for the year	83,521	144,358
Total comprehensive income	72,767	137,844
Profit attributable to non-controlling interests	39,079	50,169
Total comprehensive income attributable to non-controlling interests	34,006	47,905
Cash flows from operating activities	118,547	251,737
Cash flows from investing activities	(79,311)	(52,820)
Cash flows from financing activities	(30,000)	(27,497)
Effect of changes in exchange rate	(332)	-
Net increase in cash and cash equivalents	₩ 8,904	171,420

(*1) The financial information above is based on the consolidated financial statements.

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

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

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

Details of the Company's additional investments in subsidiaries for the year ended December 31, 2018 are summarized as follows:

(in millions of Korean won)

Subsidiaries	Amount	2018			
		The Parent Company's Percentage of ownership		The Parent Company's portion in net assets	
		Before	After	Before	After
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	₩ 33,616	100.00%	100.00%	(475,392)	(441,776)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	37,664	100.00%	100.00%	(700,234)	(662,570)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	218,423	100.00%	100.00%	(662,570)	(444,147)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	73,131	100.00%	100.00%	(444,147)	(371,017)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	11,728	100.00%	100.00%	(371,017)	(359,289)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	45,001	100.00%	100.00%	(359,289)	(314,288)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	10,370	100.00%	100.00%	(314,288)	(303,918)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	24,566	100.00%	100.00%	(270,212)	(245,646)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	34,097	100.00%	100.00%	(245,646)	(211,550)
Lotte Shopping Holdings (Hong Kong) Co., Ltd.	41,340	100.00%	100.00%	(244,964)	(203,624)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	3,575	100.00%	100.00%	479,939	483,515
Lotte GFR (Formerly, NCF)	52,300	99.80%	99.93%	21,100	73,391
Lotte Business Management (Tianjin) Co., Ltd.	28,885	100.00%	100.00%	(75,169)	(46,284)
Lotte Business Management (Tianjin) Co., Ltd.	8,941	100.00%	100.00%	(48,394)	(39,453)
Lotte Department Store (Shenyang) Co., Ltd.	8,558	100.00%	100.00%	(33,516)	(24,957)
Lotte Department Store (Shenyang) Co., Ltd.	6,706	100.00%	100.00%	(28,858)	(22,153)
Liaoning LOTTE Mart Co., Ltd.	30,829	100.00%	100.00%	(51,356)	(20,527)
Liaoning LOTTE Mart Co., Ltd.	41,906	100.00%	100.00%	(20,527)	21,379
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	7,250	100.00%	100.00%	(12,839)	(5,589)

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

1. General Information of Reporting Entity, continued

(g) Changes in the Company's ownership interest in subsidiaries that did not result in loss in control, continued

(in millions of Korean won)

Subsidiaries	Amount	2018			
		The Parent Company's Percentage of ownership		The Parent Company's portion in net assets	
		Before	After	Before	After
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	₩ 6,219	100.00%	100.00%	(5,589)	630
Lotte Mart (Chongqing) Commercial Co., Ltd.	23,525	100.00%	100.00%	(49,047)	(25,522)
Jilin LOTTE Mart Co., Ltd.	43,897	100.00%	100.00%	(32,263)	11,634
Lotte International Department Store (Weihai) Co., Ltd.	3,353	100.00%	100.00%	(19,498)	(16,145)
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	6,706	100.00%	100.00%	(60,636)	(53,931)
Lotte Department Store (Chengdu) Co., Ltd.	7,823	100.00%	100.00%	(50,660)	(42,837)
Lotte Cultureworks Co., Ltd.	55,000	100.00%	100.00%	455,211	510,211
PT. LOTTE Shopping Avenue Indonesia	23,658	100.00%	100.00%	(38,530)	(14,872)

2. Basis of Preparation

(a) Statement of compliance

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

The K-IFRS allows the use of accounting estimates in the preparation of the consolidated financial statement, and it requires use of judgment by management in the application of accounting policy. Areas needed for more complex and higher level of judgment or significant assumptions and estimation have been described in K-IFRS Note 2.

The consolidated 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.

(b) Basis of measurement

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

2. Basis of Accounting, continued

(b) Basis of measurement, continued

- 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

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

(d) Use of estimates and judgments

The preparation of the consolidated 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 consolidated financial statements, and related significant judgment of management, are included in following notes.

Note 1: Scope of consolidation, scope of associates and joint ventures

Note 10: Assets and liabilities held for sale

Note 11: Investment in associates

Note 12: Investment in joint venture

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 13 – Property, plant and equipment

Note 15 – Goodwill and intangible assets

Note 19 – Provisions

Note 21 – Employee benefits

Note 34 – Tax expense

Note 39 – Contingencies and commitments

Note 42 – Risk management

(iii) Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group 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 Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

2. Basis of Accounting, continued

(d) Use of estimates and judgments, continued

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 Group 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

(a) Enacted / amended standards adopted by the Group.

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

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

When investment in associates or joint venture held by such groups 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 groups as venture capital organization or mutual funds, so there is no significant influence on the consolidated 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 consolidated 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. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
As of December 31, 2018 and 2017

3. Changes in Accounting Policies, continued

(a) Enacted / amended standards adopted by the Group, continued

- 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.

- K-IFRS No. 1109 “Financial Instrument”

The Group 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, ₩454,480 million out of ₩474,147 million of equity instrument that is not held for the purpose of short-term sales at the beginning of 2018 has been reclassified to “Fair value through other comprehensive income equity instrument” from available-for-sale financial assets, and ₩19,667 million has been reclassified from available-for-sale financial assets to “Fair value through profit or loss financial assets”. Government and public bonds of ₩10,821 million has been reclassified to “Fair value through other comprehensive income fair value debt instrument” 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 Jan. 1, 2018, the initial date of adoption, are as follows.

(in millions of Korean won)	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	₩ 870,456	870,456
Other financial assets	Loans and account receivables	Financial assets measured at amortized cost	2,172,356	2,172,356
Other financial assets	Loans and account receivables	Financial assets measured at fair value through profit or loss	231,000	231,000
Other financial assets	Financial assets at fair value through profit or loss	Financial assets measured at fair value through profit or loss	46,726	46,726
Other financial assets	Derivative assets held for risk hedging	Derivative assets held for risk hedging	13,113	13,113
Other financial assets	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	484,968	19,667
Other financial assets	Available-for-sale financial Assets	Financial assets measured at fair value through other comprehensive income		465,301

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

(a) Enacted / amended standards adopted by the Group, continued

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 ₩12,674 million previously recognized as impairment have been adjusted in the beginning balance of retained earnings.

(in millions of Korean won)

		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	₩	11,730,313	52,680	-
Adjustment:				
Reclassification from "available-for-sale financial assets" to "Fair value through other comprehensive income in securities"		12,674	(52,680)	40,006
Total adjustment		12,674	(52,680)	40,006
Carrying amount under K-IFRS No. 1109	₩	11,742,987	-	40,006

As a result of adoption of K-IFRS No. 1109, the Group has applied the amendments to K-IFRS No. 1001 "Presentation of Financial Statements", which requires the Group 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.

(b) New standards and interpretations not yet adopted

The following new standards and interpretations have been published but not mandatory for the Group for annual period beginning on January 1, 2018, and the Group 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".

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

3. Changes in Accounting Policies, continued

(b) New standards and interpretations not yet adopted, continued

At inception of a contract, the Group 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 Group 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.

(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 Group 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

3. Changes in Accounting Policies, continued

(b) New standards and interpretations not yet adopted, continued

The Group 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 consolidated financial statements is that the Group 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 ₩8,671 billion.

(iii) Lessor accounting

The Group 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 consolidated financial statements.

However, when the Group 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 Group enters into at the initial date of application.

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

4. Significant Accounting Policies

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

4.1 Operating Segment

All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has five reportable segments which consist of department stores, discount stores, finance business, consumer electronics retail and other, as described in Note 38.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

4. Significant Accounting Policies, continued

4.2 Basis of Consolidation

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

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Group accounts for business combinations using the acquisition method. The consideration transferred is measured at fair value of acquisition date, and in case of identifiable assets / liabilities / contingent liability being acquired from business combination, it is initially measured at the fair value of acquisition date. The Group judges non-controlling interests, which provide a proportional share of net assets upon the liquidation, on each business combination, and measures with fair value or proportionate share among net assets of acquiree. If there is no requirement of other standard, other non-controlling interests are measured at fair value. Transform costs are expensed as incurred.

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

4. Significant Accounting Policies, continued

4.2 Basis of Consolidation, continued

(ii) Investments in Associates

Associates are entities over which the Group has significant influence, and the investment associates is recognized at initial acquisition cost using equity method. Unrealized gain occurred from the inter-company transactions between the Group and its associates would be removed to the extent of proportionate share of the Group in associates. Furthermore, if there is any objective indicators of impairment on the investment in associates, the difference between the recoverable amount of the investment and the carrying amount is recognized as impairment loss.

(iii) Joint agreement

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

4.3 Cash and cash equivalents

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

4.4 Inventories

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

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

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

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4. Significant Accounting Policies, continued

4.5 Financial assets

The Group 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 Group's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

(b) Measurement

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

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

(i) Debt instrument

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

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4. Significant Accounting Policies, continued

4.5 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 Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. 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.

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4. Significant Accounting Policies, continued

4.5 Financial assets, continued

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Group 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 Group 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 Group 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 Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as "borrowings" in the statement of financial position.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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4. Significant Accounting Policies, continued

4.5 Financial assets, continued

(e) Offsetting of financial instruments

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

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

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

(i) Fair value hedge

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

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4. Significant Accounting Policies, continued

4.6 Derivative financial instruments, continued

(ii) Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the 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.

(b) 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.

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4. Significant Accounting Policies, continued

4.7 Property, Plant and Equipment

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

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

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

	<u>Useful lives(years)</u>
Buildings	5 - 50
Structures	2 - 45
Machinery	3 - 30
Tools and equipment	2 - 15
Vehicles	5 - 10
Display fixtures	2 - 20
Furniture and fixtures	2 - 8
Other property, plant and equipment ("Other PP&E")	3 - 40

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

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

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

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4. Significant Accounting Policies, continued

4.8 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 - 10
Rights to use facility	5 - 20
	Actual revenue as a percentage of total estimated revenue
Film copyrights	
Other intangible assets	2 - 10

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.

4.9 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

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

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

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4. Significant Accounting Policies, continued

4.10 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 Group 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).

4.11 Impairment of Non-financial Assets

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

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

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

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

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4. Significant Accounting Policies, continued

4.12 Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group 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 Group recognizes as finance assets and finance liabilities in its consolidated 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 Group 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.

4.13 Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production 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. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group 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

4.13 Borrowing Costs, continued

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group 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 Group 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 Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

4.14 Financial Liabilities

(i) Classification and measurement

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

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

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

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

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4. Significant Accounting Policies, continued

4.15 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 Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group 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 Group 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 Group'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 Group, 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 Group 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 Group 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

4.16 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made 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.

4.17 Foreign Currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

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4. Significant Accounting Policies, continued

4.17 Foreign Currencies, continued

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(iii) Translation of net investment in the foreign operation

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

4.18 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 Group 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 Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

4.19 Revenue

(i) Sales of goods and rendering of services

The Group operates department stores, outlet stores, discount stores, consumer electronic retails, supermarkets, H&B stores and movie theaters. Sales of goods from contracts with customers are generally recognized when the goods are delivered to the customers. Under K-IFRS 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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4. Significant Accounting Policies, continued

4.19 Revenue, continued

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

(ii) Customer loyalty program

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

(iii) Commissions

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

(iv) 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.

4.20 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 Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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

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4. Significant Accounting Policies, continued

4.21 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group 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 Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group 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 Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If an additional income tax expense is recognized as a result of dividend payments, it is recognized when the liability for the payment of dividends is recognized.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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4. Significant Accounting Policies, continued

4.22 Earnings per Share

The Group 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.

4.23 Discontinued Operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

4.24 Emission Rights

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

(i) Greenhouse Gases Emission Right

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

Emission rights held for the purpose of performing the obligation is classified as an intangible asset and is initially measured at cost and are carried at cost less accumulated impairment losses after initial recognition. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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4.24 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.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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5. Trade and Other Receivables

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

<i>(in millions of Korean won)</i>		<u>Trade receivables</u>	<u>Other receivables</u>	<u>Total</u>
Total carrying amount	₩	666,677	593,225	1,259,902
Reduction: Allowance for bad debts		<u>(5,252)</u>	<u>(135,253)</u>	<u>(140,505)</u>
Net carrying amount	₩	<u>661,425</u>	<u>457,972</u>	<u>1,119,397</u>

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

<i>(in millions of Korean won)</i>		<u>Trade receivables</u>	<u>Other receivables</u>	<u>Total</u>
Total carrying amount	₩	732,581	154,933	887,514
Reduction: Allowance for bad debts		<u>(3,967)</u>	<u>(13,091)</u>	<u>(17,058)</u>
Net carrying amount	₩	<u>728,614</u>	<u>141,842</u>	<u>870,456</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>	<u>Description</u>	<u>Depository</u>	<u>2018</u>	<u>2017</u>
Current:				
Short-term financial instruments		HSBC and others	₩ 12,043	143,113
		Industrial Bank of Korea and others	231,000	275,718
Non-current:				
Long-term financial instrument		Busan Bank and others	2,032	2,033
Other comprehensive income - Fair value		Busan city hall and others	13,869	-
Available-for-sale financial assets		Busan City Hall and others	-	17,824
			₩ <u>258,944</u>	<u>438,688</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
		<u>Carrying amount</u>
Financial assets measured at fair value (*1):	Current assets:	
	Short-term financial instruments	₩ 231,000
Fair value through profit or loss	Current derivative assets held for trading	6,457
	Non-current assets:	-
	Non-current debt instruments	19,432
	Non-current derivative assets held for trading	33,546
	Subtotal	<u>290,435</u>
Fair value through other comprehensive income	Equity instruments (*2)	422,609
	Debt instruments	11,210
	Subtotal	433,819
Derivative assets held for the purpose of hedging	Current derivative assets held for hedging	483
	Non-current derivative assets held for hedging	7,536
	Subtotal	<u>8,019</u>
	Total financial assets measured at fair value	<u>732,273</u>
Financial assets not being measured at fair value:	Current :	
	Cash and cash equivalents	1,818,473
	Trade receivables and other receivables	1,119,397
	Short-term financial instruments	656,531
	Short-term loans	1,496
Financial assets at amortized cost (*3)	Accrued income	10,652
	Current portion of security deposits	155,359
	Non-current :	-
	Long-term financial instruments	4,032
	Long-term loans	43,353
	Security deposit	1,179,426
	Long-term account receivables	40
	Subtotal	<u>4,988,759</u>
	Total financial assets not being measured at fair value:	<u>4,988,759</u>
		₩ <u>5,721,032</u>

(*1) Marketable financial assets traded in the active market are measured at fair value based on the market prices. 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. AND SUBSIDIARIES
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7. Fair Value of Financial Instrument, continued

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

(in millions of Korean won)

		2017	
		Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 2,626,244	2,626,244
Financial assets at fair value through profit or loss	Short-term financial instruments	11,110	11,110
	Non-current derivative assets held for trading	35,616	35,616
	Subtotal	46,726	46,726
Loans and receivables(*1)	Current :	-	-
	Trade receivables and other receivables	870,456	870,456
	Short-term financial instruments	1,073,213	1,073,213
	Short-term loans	24,089	24,089
	Accrued income	11,826	11,826
	Current portion of deposits	124,995	124,995
	Non-current :	-	-
	Long-term financial instruments	2,033	2,033
	Long-term loans	30,581	30,581
	Deposits	1,136,619	1,136,619
	Subtotal	3,273,812	3,273,812
Available-for-sale financial assets	Marketable (*2)	270,712	270,712
	Non-marketable (*3)	214,256	214,256
		484,968	484,968
Derivative assets held for hedging	Current	237	237
	Non-current	12,876	12,876
	Subtotal	13,113	13,113
	Total	₩ 6,444,863	6,444,863

(*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 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. Others are recorded based on acquisition cost because either the fair value cannot be reliably measured or the difference between fair value and acquisition cost is immaterial.

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

(c) Other financial assets as at 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	₩	887,532	1,084,323
Short-term loans		1,496	24,089
Available-for-sale financial assets		-	195
Accrued income		10,652	11,826
Deposits		155,359	124,995
Derivative assets held for trading		6,457	-
Derivative assets held for hedging		483	237
		<u>1,061,979</u>	<u>1,245,665</u>
Non-current:			
Long-term financial instruments		4,032	2,033
Available-for-sale financial assets		-	484,773
Long-term loans		43,353	30,581
Deposits		1,179,426	1,136,619
Long-term account receivables		40	-
Non-current debt instruments		30,641	-
Non-current equity instruments		372,273	-
Derivative assets held for trading		33,546	35,616
Derivative assets held for hedging		7,536	12,876
	₩	<u>1,670,847</u>	<u>1,702,498</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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	Percentage of ownership	Acquisition cost	Carrying amount
Marketable other comprehensive income - fair value equity instrument :				
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)	21,333,420	15.02%	37,684	146,711
Others	-	-	8,843	7,389
			<u>104,953</u>	<u>229,046</u>
Non-marketable other comprehensive income - fair value equity instrument :				
LOTTE rental co., ltd.	1,015,382	8.63%	108,479	78,265
Lotte Properties (Shenyang) Limited	47,858,756	17.93%	61,213	99,907
LOTTE MART COMPANY LIMITED	-	0.05	12,744	12,778
Others	-	-	4,332	2,613
			<u>186,768</u>	<u>193,563</u>
			₩ <u>291,721</u>	<u>422,609</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	₩ 11,395	11,210
Urban railway bond	-	-
	₩ <u>11,395</u>	<u>11,210</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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)*

	2017			
	Number of shares	Percentage of ownership	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.	21,333,420	15.02%	37,684	166,669
Others	-	-	5,621	8,191
			<u>101,731</u>	<u>270,712</u>
Non-marketable available-for-sale financial assets:				
LOTTE rental co., ltd.	1,592,072	13.53%	168,884	132,583
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	-	-	11,216	10,821
Others	-	-	34,164	22,261
			<u>278,195</u>	<u>214,256</u>
			₩ <u>379,926</u>	<u>484,968</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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:		
Profits and losses for the current period - Fair value	Non-current derivatives liabilities held for trading	₩ 1,692
	Current derivatives liabilities held for hedging	22,315
Derivatives liabilities	Non-current derivatives liabilities held for hedging	10,810
	Subtotal	33,125
	Total of financial liabilities measured at fair value:	34,817
Financial liabilities not being measured at fair value:		
	Current :	
	Trade payables and other payables	2,910,394
	Short-term borrowings	690,008
	Current portion of long-term borrowings	324,824
	Current debentures	965,322
	Accrued expenses	200,390
Financial liabilities at amortized cost(*1)	Current portion of guarantee deposits	196,163
	Financial lease liabilities	699
	Others	770
	Non-current :	-
	Long-term borrowings	1,546,700
	Long-term debentures	4,268,044
	Deposit received	51,759
	Others	12,697
	Subtotal	11,167,770
	Total of financial liabilities not being measured at fair value:	11,167,770
	Total financial liabilities	₩ 11,202,587

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

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

7. Fair Value of Financial Instrument, continued

(g) Carrying amount and fair value of financial liabilities as of December 31, 2017 is 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
	Subtotal	<u>101</u>	<u>101</u>
Financial liabilities at amortized cost(*1)	Current :		
	Trade and other payables	3,494,434	3,494,434
	Short-term borrowings	923,395	923,395
	Current portion of long-term borrowings	851,921	851,921
	Current portion of long-term debentures	1,303,476	1,303,476
	Accrued expenses	228,431	228,431
	Current portion of guarantee deposit	223,020	223,020
	Finance lease liabilities	1,643	1,643
	Others	1,547	1,547
	Non-current :		
	Long-term borrowings	1,099,236	1,099,236
	Long-term debentures	3,489,655	3,489,655
	Guarantee deposits	49,308	49,308
	Finance lease liabilities	8,443	8,443
Others	<u>37,072</u>	<u>37,072</u>	
Subtotal	<u>11,711,581</u>	<u>11,711,581</u>	
Derivative liabilities held for hedging	Current	49,448	49,448
	Non-current	<u>56,944</u>	<u>56,944</u>
	Subtotal	<u>106,392</u>	<u>106,392</u>
Total	₩ <u><u>11,818,074</u></u>	<u><u>11,818,074</u></u>	

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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:		
Accrued expenses	₩ 200,390	228,431
Guarantee deposit	196,163	223,020
Derivative liabilities held for hedging	22,315	49,448
Finance lease liabilities	699	1,643
Other	770	1,547
	<u>420,337</u>	<u>504,089</u>
Non-current:		
Guarantee deposit	51,759	49,308
Derivative liabilities held for hedging	10,810	56,944
Derivative liabilities held for trading	1,692	101
Finance lease liabilities	-	8,443
Other	12,697	37,072
	<u>₩ 76,958</u>	<u>151,868</u>

(i) Fair value hierarchy

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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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 at 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	₩	-	-	290,434	290,434
Financial assets at fair value through other comprehensive income		229,046	11,210	193,563	433,819
Derivative assets held for hedging		-	8,019	-	8,019
Total		<u>229,046</u>	<u>19,229</u>	<u>483,997</u>	<u>732,272</u>
Financial liabilities at fair value through profit or loss		-	-	1,692	1,692
Derivatives liabilities held for hedging		-	33,125	-	33,125
Total	₩	<u>-</u>	<u>33,125</u>	<u>1,692</u>	<u>34,817</u>

<i>(in millions of Korean won)</i>		2017			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	11,110	-	11,110
Available-for-sale financial assets		270,712	10,821	139,255	420,788
Derivative assets		-	13,113	35,616	48,729
		<u>270,712</u>	<u>35,044</u>	<u>174,871</u>	<u>480,627</u>
Derivative liabilities		-	106,392	101	106,493
	₩	<u>-</u>	<u>106,392</u>	<u>101</u>	<u>106,493</u>

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

In measuring Level 3 fair values, the Group used discounted cash flows model, etc. and the Group used the significant unobservable inputs such as forecasted annual revenue growth rate and risk-adjusted discount rate, etc.

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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:

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Beginning of the year	₩	174,770	239,104
Changes in accounting policy		295,181	-
Gain(loss) included in finance income and costs		(3,272)	8,849
Gain(loss) included in OCI		27,239	(36,647)
Purchases		35,481	8,542
Disposal		(59,838)	(12,709)
Reclassification		12,744	-
Changes due to spin-off		-	(32,369)
End of the year	₩	<u>482,305</u>	<u>174,770</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

<i>(in millions of Korean won)</i>		<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 (*)	₩	8,393	(6,809)	2,481	5,241

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

(ii) Stock options (liability-classified)

<i>(in millions of Korean won)</i>		<u>Discount rate</u>		<u>Stock price volatility</u>	
		<u>10% Decrease</u>	<u>10% Increase</u>	<u>1% Decrease</u>	<u>1% Increase</u>
Stock options	₩	49	(24)	(2)	2

(iii) Settlement agreement

<i>(in millions of Korean won)</i>		<u>Discount rate</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Settlement agreement	₩	(56)	56

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8. Inventories

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

(in millions of Korean won)

		2018			2017		
		Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value
Merchandise(*1)	₩	1,203,550	(37,815)	1,165,735	1,226,022	(44,929)	1,181,093
Finished goods		25,570	(6,507)	19,063	18,216	(4,592)	13,624
Semi-finished goods		150	-	150	-	-	-
Work in process		933	-	933	901	-	901
Raw materials		6,022	(139)	5,883	964	(53)	911
Ingredients		551	-	551	-	-	-
Supplies		651	-	651	826	-	826
Materials-in-transit		9,121	-	9,121	1,592	-	1,592
Unsold apartment units		79,413	(22,531)	56,882	3,864	-	3,864
Unfinished apartment units		8,520	-	8,520	151,228	-	151,228
	₩	<u>1,334,481</u>	<u>(66,992)</u>	<u>1,267,489</u>	<u>1,403,613</u>	<u>(49,574)</u>	<u>1,354,039</u>

(*1) As of December 31, 2018 and 2017, inventories expected to be returned of ₩3,201 million and ₩3,341 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:

(in millions of Korean won)

		2018	2017
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	9,819,986	9,960,025
- Increase in valuation allowance of inventories		17,418	18,368

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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	₩ 28,238	18,331
Prepaid expenses(*1)	108,585	110,647
Prepaid value added tax	11,000	64,183
Other assets	95	-
	<u>147,918</u>	<u>193,161</u>
Non-current:		
Long-term advance payments	65,819	96,111
Long-term prepaid expenses(*1)	706,040	901,187
	<u>₩ 771,859</u>	<u>997,298</u>

(*1) Prepaid expenses mainly consist of lease prepayments.

10. Assets and Liabilities Held for Sale

The Group decided to sell the shares of subsidiary, Lotte International Department Store (Weihai) Co., Ltd. And related assets and liabilities are presented as assets and liabilities held for sale, and details are as follows:

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

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

Details of other assets held for sale are as follows.

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Equity instruments at fair value through other comprehensive income (*1)	₩	50,336	-
Investments in associates and joint ventures (*2)		-	3,641
Acquired assets through merger (*3)		1,310	-
Land, etc. (*4)		<u>225,763</u>	<u>-</u>
	₩	<u>277,409</u>	<u>3,641</u>

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

(*2) In 2018, Lucky Pai Ltd. and two other subsidiaries, which are the company's subsidiaries, decided to dispose of their investment in Shandong Luckypai TV Shopping, the assets was reclassified to non-current assets held for sale. The investment was sold in 2018.

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

(*4) In 2018, the Group 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 Group measured assets held for sale at the lower of their carrying amount and fair value less cost to sell.

11. Investments in associates

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

<i>(in millions of Korean won)</i>		<u>2018</u>			
<u>Company</u>	<u>Location</u>	<u>Major operation</u>	<u>Percentage of ownership (%)</u>		<u>Book value</u>
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩	305,257
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98		-
Coralis S.A.	Luxembourg	Holding company	45.00		-
Zara Retail Korea	Korea	Import and selling of clothing	20.00		28,878
Lotte Town Dongtan	Korea	Real estate development	50.00		37,279
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00		80,604
Others	-	-	-		<u>60,283</u>
Total				₩	<u>512,302</u>

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

11. Investments in associates, continued

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

(in millions of Korean won)

Company	Location	Major operation	2017	
			Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 249,711
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	7,396
Coralis S.A.	Luxembourg	Holding company	45.00	-
Zara Retail Korea	Korea	Import and selling of clothing	20.00	25,924
Lotte Town Dongtan	Korea	Real estate development	50.00	33,753
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	-	-
Others	-	-	-	53,532
Total				₩ 370,316

(b) Changes in investments in associates for the years ended December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

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

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

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

11. Investments in associates, continued

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

(in millions of
Korean won)

	Beginning balance	Acquisition	Dividends	2017		Disposal	Others (*1)	Changes due to spin-off	Ending balance
				Share of profit(loss) of associates	Share of other comprehensive income of associate				
Lotte Station Building Co., Ltd. ₩	123,880	-	(6,095)	(52,396)	2,729	-	12	(68,130)	-
Daehong Communications Co., Ltd.	131,289	-	(816)	2,600	10,163	-	173	(143,409)	-
Lotte Capital Co., Ltd.	214,361	-	(2,234)	21,224	(23,168)	-	-	(210,183)	-
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	227,004	-	-	1,569	(1,289)	-	480	(227,764)	-
FRL Korea Co., Ltd.	234,139	-	(41,503)	82,362	(25,287)	-	-	-	249,711
Lotte Asset Development Co., Ltd.	36,717	-	-	5,974	5,636	-	76	(48,403)	-
Lotte Trading Co., Ltd.	121,282	-	-	1,902	6,151	-	(38)	(129,297)	-
Lotte Europe Holdings B.V.	3,063	-	-	5,893	(1,560)	-	-	-	7,396
Coralis S.A.	1,242	-	-	(3,183)	1,941	-	-	-	-
Others	143,905	5,550	-	5,267	(2,107)	(1,225)	(131)	(38,050)	113,209
₩	<u>1,236,882</u>	<u>5,550</u>	<u>(50,648)</u>	<u>71,212</u>	<u>(26,791)</u>	<u>(1,225)</u>	<u>572</u>	<u>(865,236)</u>	<u>370,316</u>

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

(c) Financial information of significant associates as of and for the years ended December 31, 2018 and 2017, are summarized as follows:

(in millions of
Korean won)

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

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

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

(c) Financial information of significant associates as of and for the years ended December 31, 2018 and 2017, are summarized as follows:, continued

(in millions of Korean won)

	2018							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income	Other comprehensive income(loss)	Total comprehensive income (loss) (*1)
Lotte Station Building Co., Ltd. ₩	201,289	284,592	203,672	9,687	379,906	16,999	10,963	(198,620)
Daehong Communications Co., Ltd.	277,242	448,548	259,724	51,388	299,802	11,852	30,624	38,281
Lotte Capital Co., Ltd>(*2)	7,071,235	-	5,977,611	-	683,163	135,269	(2,845)	96,532
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	263,469	953,678	432,512	232,502	831,288	1,026	(1,632)	2,438
FRL Korea Co., Ltd.	615,598	138,495	237,979	6,500	1,329,771	224,078	(51,605)	116,480
Lotte Asset Development Co., Ltd.	182,181	314,780	263,220	104,375	174,280	31,705	14,591	29,853
Lotte Trading Co.,Ltd.	313,426	987,803	373,342	199,557	556,488	404	22,082	28,952
Lotte Europe Holdings B.V.	74,527	454,047	309,891	185,548	127,896	13,536	(5,784)	12,258
Coralis S.A.	47,367	329,371	379,747	38,123	39,013	467	4,312	(9,436)

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

(*2) Since Lotte Capital Co., Ltd. is a financial institution, it does not present current and non-current assets or liabilities.

(d) The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

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

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

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

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

(d) The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as of December 31, 2018 and 2017 are as follows:, continued

(in millions of Korean won)

	2017						
	Net assets (a)(*1)	Ownership % (b)	Group's share of net asset (a*b)	Goodwill	Others(*2)	Changes due to spin-off	Carrying amount
Lotte Station Building Co., Ltd.(*3)	₩ 272,521	25.00	68,130	-	-	(68,130)	-
Daehong Communications Co., Ltd.(*3)	415,195	34.00	141,166	2,243	-	(143,409)	-
Lotte Capital Co., Ltd.(*3)	939,819	22.36	210,136	-	47	(210,183)	-
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)(*3)	552,085	38.68	213,549	14,215	-	(227,764)	-
FRL Korea Co., Ltd.	509,614	49.00	249,711	-	-	-	249,711
Lotte Asset Development Co., Ltd.(*3)	122,781	39.14	48,060	343	-	(48,403)	-
Lotte Trading Co.,Ltd.(*3)	467,031	27.68	129,297	-	-	(129,297)	-
Lotte Europe Holdings B.V.	33,135	26.98	8,941	9,676	(11,221)	-	7,396
Coralis S.A.	(41,132)	45.00	(18,509)	15,162	3,347	-	-

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

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

(*3) In 2017, the investments were transferred to newly established entity due to spin-off.

(e) Current and accumulated unrecognized equity method losses of associates as of December 31, 2018 are as follows:

	2018	
	Unrecognized losses for the year	Unrecognized accumulated losses
Lotte Europe Holdings B.V.	₩ (7,629)	(7,629)
Coralis S.A.	(14,408)	(17,420)
Prototype	(14)	(14)
PS NET	(6,364)	(6,364)
Total	₩ (28,415)	(31,427)

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

(a) When the Group has rights to the net assets of the joint venture entity, the Group 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
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,784
International Business Center Company Limited	Vietnam	Distribution	50.00	58,103
PT. INDO LOTTE MAKMUR	Indonesia	Distribution	50.00	12,442
LOTTE JTB Co., Ltd.	Korea	Movie investment and Travel business	50.00	11,259
Others				2,291
				₩ 85,879

(in millions of Korean won)

Company	Location	Major operation	2017	
			Percentage of ownership (%)	Carrying amount
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 245
International Business Center Company Limited	Vietnam	Distribution	50.00	55,240
PT. INDO LOTTE MAKMUR	Indonesia	Distribution	50.00	14,705
LOTTE JTB Co., Ltd.	Korea	Movie investment and Travel business	50.00	1,228
Others				1,456
				₩ 72,874

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

12. Investments in joint venture, continued

(b) Changes in joint ventures for the years ended December 31, 2018 and 2017, are summarized as follows:

(in millions of
Korean won)

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

(*1) Changes in foreign currency translation and others are included.

(in millions of
Korean won)

		2017									
		Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of other comprehensive income(loss) of associate	Disposal	Others (*1)	Change due to spin-off(*2)	Ending balance	
STL Co., Limited	₩	511	-	-	(266)	-	-	-	-	-	245
LOTTE JTB Co., Ltd.		7,373	-	-	745	-	-	(127)	(7,991)	-	-
Shandong Lucky pai TV Shopping		9,684	-	-	-	-	-	(9,684)	-	-	-
Yunnan Maile TV Shopping Media Co., Ltd.		3,868	-	(16)	68	-	(3,704)	(216)	-	-	-
International Business Center Company Limited		63,895	-	(4,151)	4,862	(2,000)	-	(7,366)	-	-	55,240
PT. INDO LOTTE											
MAKMUR		12,721	9,410	-	(5,573)	324	-	(2,177)	-	-	14,705
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		-	1,658	-	(254)	(49)	-	(127)	-	-	1,228
Others		1,766	174	-	(426)	(58)	-	-	-	-	1,456
	₩	<u>99,818</u>	<u>11,242</u>	<u>(4,167)</u>	<u>(844)</u>	<u>(1,783)</u>	<u>(3,704)</u>	<u>(19,697)</u>	<u>(7,991)</u>		<u>72,874</u>

(*1) Changes in foreign currency translation and others are included.

(*2) In 2018, the joint venture was transferred to newly established entity due to spin-off.

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

(c) Financial information of joint ventures as at and for the years ended December 31, 2018 and 2017 are summarized as follows:

(in thousands of Korean won)

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

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

(in thousands of Korean won)

		2017							
		Current assets	Non-current assets	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income(loss)	Total comprehensive income (loss)(*1)
STL Co., Limited	₩	4,037	707	3,504	751	18,334	(342)	-	(532)
LOTTE JTB Co., Ltd.		59,937	4,573	44,724	3,803	19,928	1,421	(204)	1,571
International Business Center Company Limited		14,670	44,346	8,930	17,449	22,891	12,425	(4,002)	5,723
PT. INDO LOTTE MAKMUR		21,698	18,167	7,212	235	47	(11,941)	(3,819)	(14,965)
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		2,854	6	95	-	512	(545)	(99)	(619)

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

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

(d) The reconciliation of the net assets of the joint ventures to the carrying amount of the equity interest in the joint ventures as of December 31, 2018 and 2017 are summarized as follows:

(in millions of
Korean won)

		2018					
		Net assets	Ownership	Group's share	Goodwill	Others(*2)	Carrying
		(a)(*1)	% (b)	of net asset			amount
				(a*b)			
STL Co., Limited	₩	4,282	50.00	2,141	-	(357)	1,784
International Business Center Company Limited		33,344	50.00	16,672	40,415	1,016	58,103
PT. INDO LOTTE MAKMUR		25,706	50.00	12,853	-	(411)	12,442
LOTTE JTB Co., Ltd.		20,146	50.00	10,073	1,185	-	11,258

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

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

(in millions of
Korean won)

		2017						
		Net assets	Ownership	Group's	Goodwill	Others(*2)	Changes	Carrying
		(a)(*1)	% (b)	share of net			due to	amount
				asset (a*b)			spin-off	
STL Co., Limited	₩	490	50.00	245	-	-	-	245
LOTTE JTB Co., Ltd. (*3)		15,983	50.00	7,991	-	-	(7,991)	-
International Business Center Company Limited		32,637	50.00	16,318	40,415	(1,493)	-	55,240
PT. INDO LOTTE MAKMUR		32,418	50.00	16,209	-	(1,504)	-	14,705
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		2,765	49.00	1,355	-	(127)	-	1,228

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

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

(*3) In 2017, the investments were transferred to newly established entity due to spin-off.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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13. 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	₩	7,578,828	-	-	7,578,828	7,652,278	-	-	7,652,278
Buildings		7,416,864	(2,566,160)	(4,041)	4,846,663	7,545,007	(2,520,298)	(199)	5,024,510
Structures		343,118	(132,763)	(4,771)	205,584	344,125	(118,498)	(3,265)	222,362
Machinery		231,335	(129,787)	(2,563)	98,985	190,573	(124,678)	(2,381)	63,514
Vehicles		7,739	(5,663)	(187)	1,889	7,971	(5,988)	(203)	1,780
Display fixtures		538,911	(407,388)	(8,623)	122,900	596,250	(418,905)	(21,347)	155,998
Furniture and fixtures		4,023,838	(3,105,217)	(141,065)	777,556	3,780,382	(2,882,906)	(95,097)	802,379
Tools and equipment		77,423	(44,848)	(1,344)	31,231	202,609	(122,415)	(31,393)	48,801
Other PP&E		62,975	(19,651)	(4,744)	38,580	233,891	(93,403)	(82,404)	58,084
Construction-in-progress		757,267	-	(56,191)	701,076	880,618	-	-	880,618
Finance lease assets		5,232	(2,964)	(589)	1,679	16,554	(8,306)	(262)	7,986
Total	₩	<u>21,043,530</u>	<u>(6,414,441)</u>	<u>(224,118)</u>	<u>14,404,971</u>	<u>21,450,258</u>	<u>(6,295,397)</u>	<u>(236,551)</u>	<u>14,918,310</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							Ending balance	
		Beginning balance	Acquisitions	Business combination	Depreciation	Impairment	Disposals	Others(*1)		Changes in subsidiaries
Land	₩	7,652,278	6,968	-	-	-	(1,355) †	(79,063)	-	7,578,828
Buildings		5,024,510	37,943	-	(196,352)	(3,860)	(15,236)	139,814	(140,156)	4,846,663
Structures		222,362	-	-	(13,332)	(4,460)	(50)	3,582	(2,518)	205,584
Machinery		63,514	14,030	-	(15,752)	(355)	(25)	37,573	-	98,985
Vehicles		1,780	879	-	(734)	(8)	(43)	56	(41)	1,889
Display fixtures		155,997	27,778	6,104	(60,280)	(6,814)	(1,753)	115,450	(113,582)	122,900
Furniture and fixtures		802,379	205,128	33	(319,237)	(48,149)	(10,916)	144,639	3,679	777,556
Tools and equipment		48,801	4,556	-	(11,529)	(784)	(1,026)	2,193	(10,980)	31,231
Other PP&E		58,084	43	-	(4,406)	(3,643)	(4,519)	3,931	(10,910)	38,580
Construction-in-progress		880,618	304,343	-	-	(59,690)	(1,722)	(424,352)	1,879	701,076
Finance lease assets		7,987	-	-	(1,079)	(594)	(128)	(3,039)	(1,468)	1,679
	₩	<u>14,918,310</u>	<u>601,668</u>	<u>6,137</u>	<u>(622,701)</u>	<u>(128,357)</u>	<u>(36,773)</u>	<u>(59,216)</u>	<u>(274,097)</u>	<u>14,404,971</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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13. 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 millions of
Korean won)

		2017							
		Beginning balance	Acquisitions	Depreciation	Impairment	Disposals	Others(*1)	Changes in subsidiaries	Ending balance
Land	₩	8,043,146	6,932	-	-	(15,190)	(371,134)	(11,476)	7,652,278
Buildings		5,071,332	23,293	(212,264)	(137)	(6,316)	150,623	(2,021)	5,024,510
Structures		235,587	265	(13,380)	(306)	(28)	224	-	222,362
Machinery		137,501	11,261	(23,937)	(1,673)	(241)	41,651	(101,048)	63,514
Vehicles		2,096	820	(840)	(93)	(33)	(43)	(127)	1,780
Display fixtures		270,355	51,225	(86,660)	(8,448)	(1,407)	249	(69,316)	155,998
Furniture and fixtures		1,042,098	191,628	(396,243)	(59,999)	(6,755)	173,080	(141,430)	802,379
Tools and equipment		76,537	6,268	(16,512)	(23,645)	(424)	6,889	(312)	48,801
Other PP&E		119,110	4,264	(12,728)	(41,922)	(445)	(6,818)	(3,377)	58,084
Construction-in-progress		887,620	550,483	-	-	(3,642)	(549,445)	(4,398)	880,618
Finance lease assets		46,860	-	(5,068)	(248)	(13)	(14,110)	(19,435)	7,986
	₩	<u>15,932,242</u>	<u>846,439</u>	<u>(767,632)</u>	<u>(136,471)</u>	<u>(34,494)</u>	<u>(568,834)</u>	<u>(352,940)</u>	<u>14,918,310</u>

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

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

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

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13. Property, Plant and Equipment, continued

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

<i>(in millions of Korean won)</i>	2017					
	Department Store	Discount store	Consumer electronics retail	Supermarket	Others	Total
Impairment loss on property, plant and equipment	₩ 14,230	37,177	138	7,515	77,411	136,471
Impairment loss on intangible assets (excluding goodwill)	68,869	31	-	70	307	69,277
Impairment loss on goodwill	5,863	156,261	-	6,534	202,300	370,958
Impairment loss on other non-current assets	861	23,177	-	-	4,023	28,061
Total	₩ 89,823	216,646	138	14,119	284,041	604,767

The impairment losses of ₩277 million and ₩109,844 million incurred for the years ended December 31, 2018 and 2017, respectively are presented in profit (loss) from discontinued operations.

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

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

<i>(in millions of Korean won)</i>	2018					
	Offered assets(*1)	Book amount	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings	₩	263,134	560,432	Secured Loan and others	170,000	Kookmin Bank and others

- (*1) Provided as collateral for borrowings, security for lease deposit, and provisional attachment of land.

- (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	₩ 12,361	7,614
Capitalization interest rates	2.49%~5.22%	2.24%~5.22%

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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14. 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	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	518,636	-	-	518,636	574,579	-	574,579
Buildings		615,645	(110,347)	(1)	505,297	673,764	(99,320)	574,444
Total	₩	<u>1,134,281</u>	<u>(110,347)</u>	<u>(1)</u>	<u>1,023,933</u>	<u>1,248,343</u>	<u>(99,320)</u>	<u>1,149,023</u>

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

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

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

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

		2017				
		Beginning balance	Acquisitions	Depreciation	Others(*1)	Ending balance
Land	₩	380,715	61	-	193,803	574,579
Buildings		311,131	28,057	(11,578)	246,834	574,444
Total	₩	<u>691,846</u>	<u>28,118</u>	<u>(11,578)</u>	<u>440,637</u>	<u>1,149,023</u>

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

(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:

		2018	2017
Rental income	₩	122,450	106,761
Direct operating expense (including maintenance and repair expenses)		91,578	52,755

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14. Investment Property, continued

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

<i>(in millions of Korean won)</i>		<u>Book value</u>	<u>Fair value</u>
Land and buildings	₩	1,023,933	1,416,667

15. Goodwill and Intangible Assets

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

		2018				2017			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	2,660,298	-	(1,058,479)	1,601,819	3,223,325	-	(1,299,421)	1,923,904
Industrial property rights		147,686	(8,657)	(211)	138,818	144,933	(7,273)	(70)	137,590
Rights to use facility		525,939	(212,482)	(152,682)	160,775	525,910	(193,979)	(110,221)	221,710
Membership		30,833	-	(3,259)	27,574	31,429	-	(2,349)	29,080
Other intangible assets		299,295	(170,638)	(4,166)	124,491	477,028	(362,746)	(410)	113,872
Total	₩	<u>3,664,051</u>	<u>(391,777)</u>	<u>(1,218,797)</u>	<u>2,053,477</u>	<u>4,402,625</u>	<u>(563,998)</u>	<u>(1,412,471)</u>	<u>2,426,156</u>

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

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

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

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

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

		2017							
		Beginning balance	Acquisitions	Amortization	Impairment	Disposals	Others(*1)	Changes due to spin-off	Ending balance
<i>(in millions of Korean won)</i>									
Goodwill	₩	2,591,950	-	-	(370,958)	(356)	(9,735)	(286,997)	1,923,904
Industrial property rights		138,201	440	(838)	(70)	-	(28)	(115)	137,590
Rights to use facility		312,846	-	(23,015)	(68,900)	-	779	-	221,710
Membership		33,690	2,557	-	108	(155)	-	(7,120)	29,080
Other intangible assets		280,010	69,868	(101,709)	(307)	(74)	4,519	(138,435)	113,872
Total	₩	3,356,697	72,865	(125,562)	(440,127)	(585)	(4,465)	(432,667)	2,426,156

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

(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 Group.

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

		2018	2017
		<i>(in millions of Korean won)</i>	
Department stores	₩	192,828	192,601
Discount stores		79,433	81,637
Consumer electronics retail		971,798	1,242,973
Supermarket		44,780	114,545
Other		312,980	292,148
Total	₩	1,601,819	1,923,904

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The approach used to determine value in use as of December 31, 2018 was consistent with those used in 2017. The calculation of value in use was based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.
- The annual revenue growth rate for the following five years was estimated based on an analysis of past revenue growth rates. The revenues after the five-year are assumed to grow constantly from zero to two percent (2017: from zero to two percent).
- The Group's weighted average cost of capital was applied as the discount rate in determining recoverable amount of cash-generating units. The weighted average costs of capital for each cash-generating unit are as follows:

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15. Goodwill and intangible assets, continued

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

	<u>2018</u>	<u>2017</u>
Department stores	6.59% ~ 7.82%	7.17% ~ 8.43%
Discount stores	7.82% ~ 9.70%	7.17% ~ 11.96%
Consumer electronics retail	8.50%	7.80%
Supermarket	7.40% ~ 7.82%	7.31% ~ 9.94%
Others	8.30% ~ 12.28%	7.17% ~ 16.97%

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 Group. As a result of impairment testing as of December 31, 2018, recoverable amounts of the cash-generating units in supermarket, consumer electronic retail and others were less than its book value, including goodwill, therefore impairment losses were recognized. As a result of impairment testing, value in use of the other cash-generating units is higher than their respective carrying amount as of December 31, 2018.

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)

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

(in millions of Korean won)

		<u>2017</u>	
		<u>Impairment losses</u>	<u>Recoverable amounts</u>
Department stores	₩	5,863	-
Discount stores		239,163	610,601
Finance business		38,617	1,749,439
Supermarket		74,789	91,261
Others		12,526	145,137
Total	₩	<u>370,958</u>	<u>2,596,438</u>

The impairment loss of ₩38,909 million incurred in 2017 is presented in profit (loss) from discontinued operation.

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15. Goodwill and intangible assets, continued

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

Details of intangible assets with indefinite estimated useful lives as of December 31, 2018 and 2017 are as follows:

<i>(in thousands of Korean won)</i>		<u>2018</u>	<u>2017</u>
Department stores	₩	11,300	12,545
Discount stores		1,556	1,976
Consumer electronics retail		138,978	139,034
Supermarket		1,765	1,949
Others		10,072	9,673
Total	₩	<u>163,671</u>	<u>165,177</u>

₩2,064 million is recognized as impairment loss during the current period, and as a result of the Group's impairment test on indefinite intangible assets, there is no indefinite intangible asset whose book value exceeds its recoverable amount.

16. Trade and Other Payables

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

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Trade payables	₩	1,543,283	2,175,464
Other payables		1,367,111	1,318,970
Total	₩	<u>2,910,394</u>	<u>3,494,434</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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17. 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	₩ 690,008	923,395
Current portion of long-term borrowings	324,954	851,926
Current portion of discount on long-term borrowings	(130)	(5)
Current portion of long-term debentures	965,430	1,303,780
Current portion of discount on debentures	(108)	(277)
Exchange rights adjustment	-	(27)
Subtotal	<u>1,980,154</u>	<u>3,078,792</u>
Non-current:		
Long-term borrowings	1,549,093	1,105,274
Discount on long-term borrowings	(2,393)	(6,038)
Long-term debentures	4,307,214	3,497,264
Discount on debentures	(8,118)	(7,608)
Debentures redemption premium	7,681	-
Exchange rights adjustment	(38,732)	-
Subtotal	<u>5,814,745</u>	<u>4,588,892</u>
Total	<u>₩ 7,794,899</u>	<u>7,667,684</u>

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

(in millions of Korean won)

Lender	Details	Annual interest rate (%)	2018	2017
Development Bank and others	General	2.3% ~ 1M JIBOR+1.55%	₩ 436,008	520,395
Shinhan Bank and others	Financial notes	1.73% ~ 2.56%	254,000	403,000
Total			<u>₩ 690,008</u>	<u>923,395</u>

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

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

(in millions of Korean won)

Lender	Details	Annual interest rate (%)		2018	2017
Mizuho Corporate Bank, Ltd. and others	Local currency	2.35% ~ 3.16%	₩	999,000	657,000
		3M JPY Libor + 1.23% ~ 6M JIBOR			
Lotte Co., Ltd. (Japan) and others	Foreign currency	+1.52%		875,047	1,300,200
Subtotal				1,874,047	1,957,200
Less: Discount on borrowings				(2,522)	(6,042)
Subtotal				1,871,525	1,951,158
Less: Current portion of long-term borrowings, net of discount				(324,825)	(851,922)
Total			₩	1,546,700	1,099,236

(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

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17. 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	-
3-2nd corporate bond (Lotte Himart Co., Ltd.)	-	-	-	150,000
4-1st corporate bond (Lotte Himart Co., Ltd.)	-	-	-	180,000
4-2nd corporate bond (Lotte Himart Co., Ltd.)	Oct. 28, 2020	2.37	100,000	100,000
4-3rd corporate bond (Lotte Himart Co., Ltd.)	Oct. 28, 2022	2.7	40,000	40,000

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17. 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
5-1st corporate bond (Lotte Himart Co., Ltd.)	Jan. 28, 2019	2.08	₩	130,000	130,000
5-2nd corporate bond (Lotte Himart Co., Ltd.)	Jan. 28, 2021	2.44		50,000	50,000
6th corporate bond (Lotte Himart Co., Ltd.)	Jul. 05, 2021	2.52		180,000	-
LSBM(foreign currency)	Sept. 05, 2020	2.38		335,430	325,844
Subtotal				<u>5,272,644</u>	<u>4,801,044</u>
Less: Discount on debentures				(8,226)	(7,885)
Debentures redemption premium				7,681	-
Less: Exchange rights adjustment				<u>(38,732)</u>	<u>(27)</u>
Total book value				<u>5,233,367</u>	<u>4,793,132</u>
Less: Current portion of debentures, net of discount				<u>(965,322)</u>	<u>(1,303,476)</u>
Total			₩	<u><u>4,268,045</u></u>	<u><u>3,489,656</u></u>

(*1) The Group issued five-year exchangeable bonds which are exchangeable to 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.

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17. Borrowings and Debentures, continued

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

(h) Matters relating to exchange:

i. Exchange ratio (%):	100
ii. Exchange price (KRW per share):	85,840
iii. Type of shares to be issued following exchange:	Ordinary shares of LOTTE Himart Co., Ltd.
iv. Period to apply for exchange:	
Start date:	May 13, 2018
End date:	March 24, 2023

v. Matters for the adjustment of exchange price:

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

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

(in millions of Korean won)

		2018		
		Borrowings	Debentures	Total
2019.01.01 ~ 2019.12.31	₩	324,954	965,430	1,290,384
2020.01.01 ~ 2020.12.31		804,109	1,185,430	1,989,539
2021.01.01 ~ 2021.12.31		744,984	1,158,184	1,903,167
2022.01.01 ~ 2022.12.31		-	690,000	690,000
After 2023.01.01		-	1,273,600	1,273,600
Total	₩	1,874,047	5,272,644	7,146,690

18. 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	₩	1,556	1,294
Other points		52,785	52,423
Unearned rental income		8,889	5,919
Others		84,220	72,928
Subtotal		147,450	132,564
Non-current:			
Unearned rental income		32,961	7,520
Subtotal		32,961	7,520
Total	₩	180,411	140,084

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19. 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
Current:				
Provision for bonus points reward program(*1)	₩ 1,571	21,268	(21,596)	1,243
Provision for bonus payable	7,620	68,478	(70,123)	5,975
Provision for sales return(*2)	10,091	10,469	(10,116)	10,443
Provisions for litigation	22,870	42,198	(61,968)	3,101
Provisions for restructuring	-	286,851	(207,198)	79,653
Other provisions(*3)	12,970	31,015	(30,710)	13,274
Subtotal	<u>55,122</u>	<u>460,279</u>	<u>(401,711)</u>	<u>113,689</u>
Non-current:				
Other provisions(*3)	3,303	4,020	(279)	7,043
Subtotal	<u>3,303</u>	<u>4,020</u>	<u>(279)</u>	<u>7,043</u>
Total	<u>₩ 58,425</u>	<u>464,299</u>	<u>(401,990)</u>	<u>120,732</u>

(*1) ₩55 million of succeeded provision to the Company as a result of the merger of LOTTE.COM INC. is included in the ending balance.

(*2) ₩175 million of succeeded provision to the Company as a result of the merger of LOTTE.COM INC. is included in the ending balance.

(*3) Other provisions include provision for closing up stores and others.

(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	Changes due to spin-off	Ending balance
Current:					
Provision for bonus points reward program	₩ 29,259	56,683	(53,256)	(31,115)	1,571
Provision for bonus payable	6,735	68,059	(67,173)	-	7,620
Provision for sales return	9,363	10,306	(9,349)	(229)	10,091
Provisions for litigation	14,428	23,402	(14,960)	-	22,870
Other provisions(*1)	8,970	25,842	(16,118)	(5,726)	12,970
Subtotal	<u>68,755</u>	<u>184,292</u>	<u>(160,856)</u>	<u>(37,070)</u>	<u>55,122</u>
Non-current:					
Provision for unused credit card limits(*2)	33,560	8,208	-	(41,768)	-
Other provisions(*1)	6,464	3,133	(2,362)	(3,932)	3,303
Subtotal	<u>40,024</u>	<u>11,341</u>	<u>(2,362)</u>	<u>(45,700)</u>	<u>3,303</u>
Total	<u>₩ 108,781</u>	<u>195,633</u>	<u>(163,217)</u>	<u>(82,770)</u>	<u>58,425</u>

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19. Provisions, continued

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

(*1) Other provisions include provision for closing up stores and others.

(*2) The Group records a provision for credit card assets at the amount that equals the product of the unused credit commitment multiplied by credit conversion factor and provision rate per BASEL discounted by the effective interest rate.

20. 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>	<u>2018</u>	<u>2017</u>
Current:		
Withholdings	₩ 51,061	95,082
Withholdings of value added tax	67,844	115,017
Advances received	841,425	945,975
Other liabilities	2,275	709
Subtotal	<u>962,605</u>	<u>1,156,783</u>
Non-Current:		
Other liabilities	97,391	132,365
Subtotal	<u>97,391</u>	<u>132,365</u>
Total	<u>₩ 1,059,996</u>	<u>1,289,148</u>

21. 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	₩ 762,292	640,841
Fair value of plan assets	(794,791)	(659,358)
Net defined benefit liabilities (assets)	<u>₩ (32,499)</u>	<u>(18,517)</u>

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21. Employee Benefits, continued

(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 ₩	58,516	53,230

(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 ₩	640,841	719,221
Current service cost	99,303	116,093
Past service costs	(58)	(8)
Interest costs	19,632	23,305
Remeasurements:		
Actuarial loss from change in demographic assumptions	2,523	1,236
Actuarial loss(gain) from change in financial assumptions	23,981	(17,029)
Actuarial loss(gain) from experience adjustments	3,007	(2,136)
Subtotal	<u>29,511</u>	<u>(17,929)</u>
Benefit payments	(51,380)	(64,300)
Others	9,456	3,197
Changes due to merger	14,987	-
Changes due to spin-off	-	(138,738)
Ending balance ₩	<u>762,292</u>	<u>640,841</u>

(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>	<u>2018</u>	<u>2017</u>
Beginning balance ₩	659,358	706,365
Return on plan assets	22,092	20,082
Remeasurements	(10,635)	(8,505)
Employer contribution	146,051	111,473
Benefit payments	(38,355)	(50,481)
Others	1,719	2,312
Changes due to merger	14,561	-
Changes due to spin-off	-	(121,888)
Ending balance ₩	<u>794,791</u>	<u>659,358</u>

The estimated contributions to the plan for the next annual reporting period are ₩126,666 million.

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21. Employee Benefits, continued

(e) The components of plan 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>
Principal guaranteed insurance policies	₩	794,644	659,206
Contributions to the National Pension Fund		147	152
	₩	<u>794,791</u>	<u>659,358</u>

(f) Expenses recognized 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 service costs	₩	99,303	100,215
Past service costs		(58)	(8)
Interest costs		19,632	20,450
Return on plan assets		(22,092)	(17,808)
Contributions to defined contribution plans		2,170	2,082
Long-term employee benefits		9,045	10,675
	₩	<u>108,000</u>	<u>115,606</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	2.25~8.25%	2.09~7.32%
Expected rate of promotion	1.43~4.41%	1.44~4.00%
Expected rate of increase in salaries	1.00~10.86%	1.80~7.50%

(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)	₩	(58,737)	76,994
Expected rate of promotion (1% movement)		66,589	(56,317)
Expected rate of increase in salaries (1% movement)		76,262	(65,795)

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

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21. Employee Benefits, continued

- (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	₩	105,372	62,086	202,494	470,147	2,081,172

The weighted average duration of the defined benefit obligation is 10.04 years.

22. Derivative Instruments and Hedge Accounting

- (a) Details of derivatives outstanding as of December 31, 2018 are as follows:

<u>Purpose</u>	<u>Type</u>	<u>Description</u>
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	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

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22. Derivative Instruments and Hedge Accounting, continued

(a) Details of derivatives outstanding as of December 31, 2018 are as follows:, continued

(*1) Total return swaps of the Group 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	
TRS	Lotte Shopping Co., Ltd	Silver Investment No. 1 Co., Ltd.	2016-04-27	2021-04-29	₩ 120,000								
		Silver Investment No. 2 Co., Ltd.			50,000			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)	None	None		Daiwa Securities	
		LMC No. 1 Co., Ltd.	2017-06-14	2022-06-16	12,800							KB Securities	-
		LMC No. 3 Co., Ltd.			20,000								
		LOY No. 1 Co., Ltd.	2017-07-19	2022-07-20	57,000								
		LOY No. 2 Co., Ltd.			65,000							KB Securities and others	
		LOY No. 3 Co., Ltd.			41,000								
Kimpo Hangang Park No. 1 Co., Ltd.	2017-09-08	2022-09-16	29,800								Mirae Asset Daewoo		
Kimpo Hangang Park No. 2 Co., Ltd.			120										

(b) Fair value of derivatives outstanding as of December 31, 2018 and 2017 are summarized as follows:

(in millions of Korean won)

Description	Type		Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swaps	₩	7,342	33,122	11,532	105,923
	Interest swaps		677	3	1,581	469
Trade	Total return swap		30,896	-	35,616	-
	Currency swaps		9,107	1,660	-	-
	Stock options		-	32	-	101
Total		₩	48,022	34,817	48,729	106,493

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22. 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	₩ 35,844	Profit or loss(*1)
		6,390	Other comprehensive income
	Interest swaps	(240)	Other comprehensive income
Trade	Total return swap	2,468	Profit or loss
	Currency swaps	182	Profit or loss
	Stock options	69	Profit or loss

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

23. 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)*

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

(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	159,339	125,321
	₩ 3,574,212	3,505,686

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24. Hybrid Securities classified as equity

(1) 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	2017
Hybrid security 1-1(*1)	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				₩	-	<u>269,118</u>

(*1) Hybrid security classified as equity was fully repaid on Nov. 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 Group 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 Group 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 Group cannot declare or pay dividends attributable to ordinary share. Since the Group 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.

25. 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	₩	3,803	3,795
Other capital adjustments		<u>2,906,025</u>	<u>2,900,618</u>
Total	₩	<u>2,909,828</u>	<u>2,904,413</u>

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26. Retained Earnings

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		<u>(144,926)</u>	<u>738,434</u>
	₩	<u>10,991,567</u>	<u>11,730,313</u>

27. Accumulated Other Comprehensive Income (loss)

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

<i>(in millions of Korean won)</i>	<u>2018</u>				
	<u>Beginning balance</u>	<u>Changes in accounting policy</u>	<u>Changes for the year</u>	<u>Tax effects for the year</u>	<u>Ending balance</u>
Gain(loss) on valuation of fair value through other comprehensive income(*1) ₩	52,680	(12,674)	20,085	(6,521)	53,570
Exchange rate differences on translating foreign operations	(40,271)	-	(29,325)	1,718	(67,878)
Effective portion of unrealized changes in fair values of cash flow hedges	(13,057)	-	6,148	(1,239)	(8,148)
Change in equity of equity method investments	(82,080)	-	16,686	(4,130)	(69,524)
	₩	<u>(82,728)</u>	<u>(12,674)</u>	<u>13,594</u>	<u>(10,172)</u>
		<u>(82,728)</u>	<u>(12,674)</u>	<u>13,594</u>	<u>(10,172)</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.

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27. Accumulated Other Comprehensive Income (loss), continued

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

(in millions of Korean won)

	2017				
	Beginning balance	Changes for the year	Tax effects for the year	Changes due to spin-off	Ending balance
Net change in unrealized fair value of available for-sale financial assets	₩ 82,322	(4,641)	743	(25,744)	52,680
Exchange rate differences on translating foreign operations	(22,212)	(20,108)	1,251	798	(40,271)
Effective portion of unrealized changes in fair values of cash flow hedges	(6,878)	950	(8,513)	1,384	(13,057)
Change in equity of equity method investments	34,721	(28,594)	7,784	(95,991)	(82,080)
	₩ 87,953	(52,393)	1,265	(119,553)	(82,728)

28. Loss per Share

(a) Basic Loss per share

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

(in Korean won, except for number of shares)

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

(in Korean won, except for number of shares)

	2017	
	Continuing operations	Discontinued operations
Loss for the year attributable to the owners of the Company	₩ (123,862,194,880)	(12,532,978,000)
Interests of hybrid securities, net of tax	(12,748,218,078)	-
Weighted average number of ordinary shares outstanding	29,231,757	29,231,757
Basic loss per share	₩ (4,673)	(429)

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28. Loss per Share, continued

(b) Diluted loss per share

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

(in Korean won, except for number of shares)

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

(*1) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd during 2018.

(in Korean won, except for number of shares)

		2017	
		Continuing operations	Discontinued operations
Loss for the year attributable to the owners of the Company	₩	(123,862,194,880)	(12,532,978,000)
Interests paid for hybrid securities, net of tax		(12,748,218,078)	-
Effect of convertible notes, net of tax(*1)		-	(219,449,077)
Effect of exchange of exchangeable bond, net of tax(*1)		(486,903,897)	-
Diluted loss attributable to ordinary shareholders		(137,097,316,855)	(12,752,427,077)
Weighted average number of ordinary shares for diluted earnings per share		29,231,757	29,231,757
Diluted loss per share	₩	(4,690)	(436)

(*1) The dilutive effect occurred in exchangeable bond of LOTTE Himart Co., Ltd. Convertible bond of Korea Seven Corporation during 2017.

(ii) Diluted weighted average number of ordinary shares

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

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29. 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	₩	21,844,319	22,527,989
Sales of products		351,542	54,451
Other sales		1,777,304	1,900,754
Total sales		<u>23,973,165</u>	<u>24,483,194</u>
Sales discounts and sales returns		(951,872)	(939,618)
Reserve for sales return and deferred sales		(233,209)	(463,094)
Cost of specific sales		(6,260,952)	(6,430,063)
Total sales deduction		<u>(7,446,033)</u>	<u>(7,832,775)</u>
Revenue from other sources: rental revenue		1,293,649	1,275,644
Total	₩	<u>17,820,781</u>	<u>17,926,063</u>

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

<i>(in millions of Korean won)</i>		<u>2018</u>	<u>2017</u>
Contract assets			
Inventory expected for return	₩	3,201	3,341
		<u>3,201</u>	<u>3,341</u>
Contract liabilities			
Customer loyalty program		74,410	63,117
Gift vouchers		732,825	760,758
Other		136,971	185,588
	₩	<u>944,206</u>	<u>1,009,463</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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29. Sales, continued

(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>
Revenue		
Customer loyalty program	₩	63,117
Other		148,898
Total		<u>212,015</u>
Collected		
Gift vouchers		385,535
Total	₩	<u>385,535</u>

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

(in millions of Korean won)

	<u>Book amount</u>	<u>1 year</u>	<u>Between 1-5 years</u>	<u>Over 5 years</u>
₩	732,825	418,055	312,167	2,603

30. 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	₩ 1,343,544	1,289,974
Retirement benefits	98,228	104,652
Long-term employee benefits	8,984	10,675
Employee benefits	255,429	258,909
Training expenses	17,126	16,030
Travel expenses	25,680	27,614
Vehicles maintenance expenses	2,986	3,223
Insurance premium	16,870	16,694
Taxes and dues	189,693	188,518
Entertainment expenses	4,207	4,368
Supplies expenses	66,688	70,156
Publication expenses	1,733	1,927
Communication expenses	24,416	25,263

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30. Selling, General and Administrative Expenses and Bad Debt Expenses, continued

Details of selling, general and administrative expenses and bad debt expenses for the years ended December 31, 2018 and 2017 are as follows:, continued

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Utility expenses	₩ 314,652	313,584
Repairs and maintenance	35,178	33,535
Rental expenses	971,953	940,257
Depreciation	621,552	673,787
Amortization	44,563	43,991
Commission expenses	1,114,568	1,076,629
Service commission expenses	960,524	930,681
Advertising expenses	231,818	264,471
Samples expenses	265	161
Sales commissions	168,987	192,591
Sales promotion expenses	128,001	132,467
Decoration expenses	14,888	17,134
Bad debt expense (reversal)	(1,035)	218
Transportation expenses	184,246	183,593
Research and development expenses	300	284
Provisions	25,786	(231)
Compensation expenses	35,852	2,176
Other	2,984	2,508
Total	₩ <u>6,910,666</u>	<u>6,825,839</u>

31. Other Income and Expenses

Details of other income and expenses 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 income:		
Gain on foreign currency transactions	₩ 1,490	1,092
Gain on foreign currency translation	578	96
Gain on disposal of property, plant and equipment	2,830	6,806
Gain on disposal of intangible assets	819	35
Reversal of impairment losses on intangible assets	-	108
Gain on disposal of assets and liabilities held for sale	11,422	-
Gain on disposal of other non-current assets	1,842	2,886
Reversal of impairment losses on other non-current assets	52	42
Others	41,447	93,756
Total	₩ <u>60,480</u>	<u>104,821</u>

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31. Other Income and Expenses, continued

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

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Other expenses:		
Loss on foreign currency transactions	₩ 1,639	875
Loss on foreign currency translation	560	1,157
Loss on disposal of property, plant and equipment	8,599	6,268
Impairment loss on property, plant and equipment	128,184	65,593
Loss on disposal of intangible assets	287	293
Impairment loss on intangible assets	395,487	401,269
Impairment loss of assets held for sale	61,866	2,599
Impairment loss on other non-current assets	20,214	28,001
Donation	22,444	30,702
Other bad debt expenses	9,127	3,018
Taxes and dues	805	2,784
Others	52,905	56,419
Total	₩ <u>702,117</u>	<u>598,978</u>

32. Nature of expenses

Details of nature of expenses 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>
Purchase of inventories	₩ 9,873,806	9,688,004
Changes in inventories	35,244	211,390
Employee benefits	1,725,129	1,671,225
Rental expenses	983,389	950,534
Depreciation and amortization	749,031	765,102
Sales commissions	168,988	192,591
Sales promotion expenses	164,456	171,965
Commission expenses	1,127,684	1,092,861
Service expenses	1,091,797	958,509
Advertising expenses	250,578	287,848
Utility expenses	319,838	316,563
Taxes and dues	190,021	188,656
Other	543,817	629,776
Total	₩ <u>17,223,778</u>	<u>17,125,024</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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33. 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	₩ 90,369	86,033
Dividend income	8,685	9,172
Gain on foreign currency transactions	7,470	32,901
Gain on foreign currency translation	92,971	207,863
Gain on valuation of debt instrument measured at fair value through profit or loss	259	-
Gain on disposal of debt instrument measured at fair value through profit or loss	81	-
Gain on valuation of available-for-sale financial assets	-	110
Gain on disposal of available-for-sale financial assets	-	2,165
Gain on valuation of derivative instruments held for hedging	50,226	-
Gain on valuation of derivative instruments held for trading	3,287	23,363
Gain on transaction of derivative instruments held for hedging	24,224	-
Gain on transaction of derivatives instrument held for trading	494	12
Gain on disposal of investments in subsidiaries, associates and joint ventures	849	184
Total	₩ <u>278,915</u>	<u>361,803</u>
Finance costs:		
Interest expense	₩ 233,927	226,505
Loss on foreign currency transactions	36,689	5,291
Loss on foreign currency translation	117,170	59,551
Loss on valuation of debt instrument measured at fair value through profit or loss	6,636	-
Loss on disposal of debt instrument measured at fair value through profit or loss	18	-
Loss on disposal of available-for-sale financial assets	-	3,430
Impairment loss on available-for-sale financial assets	-	17,248
Loss on valuation of derivative instruments held for hedging	14,383	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	1,873	914
Other bad debt expenses (finance)	5,108	81
Loss on disposal of investments in associates and joint ventures	0	1,255
Impairment loss of investments in joint ventures	357	-
Total	₩ <u>416,728</u>	<u>483,024</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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33. 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 measure at amortized cost	Total	
Recognized in profit or loss :									
Interest income	₩ 53,025	37,171	173	-	-	-	-	90,369	
Interest expense	(5,716)	(17)	-	-	-	(491)	(227,703)	(233,927)	
Dividend income	-	-	4,552	4,133	-	-	-	8,685	
Valuation / Disposal	-	-	(6,315)	-	2,720	35,844	-	32,249	
Impairment	-	(13,200)	-	-	-	-	-	(13,200)	
Exchange differences	1,777	(4,741)	(611)	(18)	-	-	(49,955)	(53,548)	
Others	-	-	-	-	(1,379)	24,224	-	22,845	
Subtotal	49,086	19,213	(2,201)	4,115	1,341	59,577	(277,658)	(146,527)	
Recognized in other comprehensive income (loss)(*1)									
Changes in the fair value of available-for-sale financial assets	-	-	-	(9,411)	-	-	-	(9,411)	
Gain on valuation of derivative instruments	-	-	-	-	-	6,150	-	6,150	
Subtotal	-	-	-	(9,411)	-	6,150	-	(3,261)	
Total	₩ 49,086	19,213	(2,201)	(5,296)	1,341	65,727	(277,658)	(149,788)	

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

(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 based on amortized cost	Total	
Recognized in profit or loss :								
Interest income	₩ 41,921	43,963	149	-	-	-	86,033	
Interest expense	-	-	-	-	-	(226,505)	(226,505)	
Dividend income	-	-	9,172	-	-	-	9,172	
Valuation / Disposal	-	-	(1,266)	22,424	(137,100)	-	(115,942)	
Impairment	-	(3,235)	(17,248)	-	-	-	(20,483)	
Exchange differences	1,282	(4,961)	27	650	-	178,080	175,078	
Others	-	-	-	(902)	(30,599)	(81)	(31,582)	
Subtotal	43,203	35,767	(9,166)	22,172	(167,699)	(48,506)	(124,229)	
Recognized in other comprehensive income (loss)(*1)								
Changes in the fair value of available-for-sale financial assets	-	-	(22,886)	-	-	-	(22,886)	
Gain on valuation of derivative instruments	-	-	-	-	1,539	-	1,539	
Subtotal	-	-	(22,886)	-	1,539	-	(21,347)	
Total	₩ 43,203	35,767	(32,052)	22,172	(166,160)	(48,506)	(145,576)	

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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34. 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	₩ 114,090	260,192
Deferred tax due to temporary differences	43,111	21,745
Total income tax effect	157,201	281,937
Income tax charged directly to equity	3,343	19,047
Income tax expense (*1)	₩ 160,544	300,984

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

(b) (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	₩ (4,841)	1,840
Exchange differences on translating foreign operations	2,461	1,494
Gain (loss) on valuation of derivative instruments	(1,241)	(8,654)
Defined benefit liabilities actuarial gain (loss)	11,071	(3,430)
Changes in equity of equity method investments	(4,107)	7,379
Effect of changes in revenue recognition	-	20,418
Income tax charged directly to equity	₩ 3,343	19,047

Income tax related to gain(loss) on valuation of financial instruments measured at fair value through other comprehensive income, cumulative effect of foreign currency translation, loss (gain) on valuation of derivatives, actuarial loss(gain) and changes in equity using equity method of accounting are recognized in other comprehensive income.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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34. 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	₩ (304,707)	280,347
Income tax using statutory tax rate	(73,277)	68,306
Adjustment:		
Tax effects on non-taxable income	(68,029)	(110,465)
Tax effects on non-deductible expense	109,151	19,422
Tax credit	(1,543)	(1,041)
Adjustment for prior periods	(3,947)	1,014
Tax effects on share of profit of subsidiaries, associates and joint ventures	29,058	26,272
Unused tax losses for which no deferred tax asset is recognized	172,530	171,049
Deferred tax expense due to changes in tax rate	-	121,463
Other	(3,399)	4,964
Income tax expense	₩ 160,544	300,984
Effective tax rate (*1)	-	107.4%

(*1) The Group 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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34. 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	Profit or loss	Equity	Merger and others	
Impairment loss on available-for-sale financial assets	₩	8,076	(3,452)	-	(4,624)	-
Buildings		(11,604)	172	-	8,551	(2,881)
Depreciation		75,054	3,686	-	4	78,744
Allowance for bad debt expense		1,035	334	-	21	1,390
Accrued income		(1,390)	(188)	-	(23)	(1,601)
Unearned revenues		585	2,360	-	-	2,945
Long-term prepaid expenses		(32,635)	(10,470)	-	8,417	(34,688)
Losses on valuation of inventories		7,721	1,780	-	-	9,501
Provision for sales return		2,017	(266)	-	43	1,794
Property, plant and equipment (capitalization of borrowing costs)		(11,333)	(1,153)	-	-	(12,486)
Land		36,987	(5,020)	-	-	31,967
Land (asset revaluation)		(1,155,196)	5,111	-	-	(1,150,085)
Provision for mileage program		352	(65)	-	-	287
Accrued expense		31,972	5,717	-	-	37,689
Gain (loss) on foreign currency translation		1,639	42	-	-	1,681
Construction-in-progress		1,772	(77)	-	-	1,695
Other intangible assets		(47,779)	40,018	-	-	(7,761)
Rental guarantee deposits		19,582	9,786	-	-	29,368
Goodwill		(14,864)	(19,135)	-	-	(33,999)
Exchangeable bonds		(7)	(10,087)	-	-	(10,094)
Investments in subsidiaries and associates		(97,622)	(37,105)	(1,930)	-	(136,657)
Gain (loss) on valuation of equity instrument measured at fair value through other comprehensive income		(56,718)	-	(4,841)	4,644	(56,915)
Loss (gain) on valuation of derivatives		(8,482)	8,400	(1,240)	-	(1,323)
Salaries and retirement benefits		15,812	(14,632)	11,071	884	13,135
Translation difference of foreign subsidiaries		3,809	-	2,461	-	6,270
Others		113,973	(22,210)	(2,177)	(2,994)	86,592
Total	₩	(1,117,244)	(46,454)	3,343	14,923	(1,145,432)

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34. 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)

		2017				Ending balance
		Beginning balance	Profit or loss	Equity	Spin-off	
Impairment loss on available-for-sale financial assets	₩	6,843	7,087	-	(5,854)	8,076
Buildings		(12,817)	1,213	-	-	(11,604)
Depreciation		63,232	12,534	-	(712)	75,054
Allowance for bad debt expense		1,971	877	-	(1,813)	1,035
Accrued income		(958)	(516)	-	84	(1,390)
Unearned revenues		13,639	3,020	-	(16,074)	585
Long-term prepaid expenses		(38,013)	4,936	-	442	(32,635)
Losses on valuation of inventories		6,927	1,085	-	(291)	7,721
Provision for sales return		2,281	(206)	-	(58)	2,017
Property, plant and equipment (capitalization of borrowing costs)		(9,362)	(1,971)	-	-	(11,333)
Land		32,549	4,438	-	-	36,987
Land (asset revaluation)		(1,021,726)	(134,666)	-	1,196	(1,155,196)
Provision for mileage program		7,450	(135)	-	(6,963)	352
Accrued expense		25,284	8,040	-	(1,352)	31,972
Gain (loss) on foreign currency translation		1,410	229	-	-	1,639
Construction-in-progress		1,625	147	-	-	1,772
Other intangible assets		(48,530)	1,556	-	(805)	(47,779)
Rental guarantee deposits		12,078	7,504	-	-	19,582
Goodwill		(44,946)	26,830	-	3,252	(14,864)
Exchangeable bonds		(106)	99	-	-	(7)
Other capital surplus		62,286	-	-	(62,286)	-
Investments in subsidiaries and associates		(361,121)	(28,910)	7,379	285,030	(97,622)
Changes in the fair value of available-for-sale financial assets		(70,076)	-	1,840	11,518	(56,718)
Loss (gain) on valuation of derivatives		12,690	(4,976)	(8,654)	(7,542)	(8,482)
Salaries and retirement benefits		23,786	(924)	(3,430)	(3,620)	15,812
Translation difference of foreign subsidiaries		2,315	-	1,494	-	3,809
Others		57,541	51,917	20,418	(15,903)	113,973
Total	₩	(1,273,748)	(40,792)	19,047	178,249	(1,117,244)

(f) As of December 31, 2018 and 2017, the amounts of total deductible temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

(in millions of Korean won)

		2018	2017
Investments in associates	₩	266,325	260,176
Investments in subsidiaries		2,346,199	2,549,394
Total	₩	2,612,524	2,809,570

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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35. Consolidated 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	₩	26,661	38,433
Deposits		416,388	353,446
Other cash equivalents		1,375,424	2,234,365
Total	₩	<u>1,818,473</u>	<u>2,626,244</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	₩	160,544	300,984
Retirement benefits		96,784	119,308
Long-term employee benefits		9,046	13,148
Depreciation		645,390	779,211
Amortization		114,219	125,562
Impairment loss on intangible assets		395,592	440,235
Loss on disposal of intangible assets		287	293
Loss on foreign currency translation		118,363	69,140
Loss on foreign currency transactions		35,754	1,652
Loss on disposal of property, plant and equipment		15,170	8,082
Impairment loss on property, plant and equipment		128,356	136,471
Bad debt expense		17,479	8,014
Contribution to other provisions liabilities		42,144	-
Impairment loss on other non-current assets		20,214	28,001
Loss on valuation of debt instrument measured at fair value through profit or loss		6,636	-
Loss on disposal of debt instrument measured at fair value through profit or loss		18	-
Loss on valuation of financial liabilities at fair value through profit or loss		-	118
Loss on transactions of derivative instruments		1,873	31,513
Loss on valuation of derivative instruments		14,950	138,150
Share of loss of associates and joint ventures		19,137	67,624
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	1,255
Impairment loss on investments in subsidiaries, associates and joint ventures		357	-
Rental expenses (amortization of discount on deposit, etc.)		90,456	81,904
Loss on disposal of available-for-sale financial assets		-	3,430
Impairment loss on available-for-sale financial assets		-	17,248
Miscellaneous losses		1,311	-

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35. Consolidated Statements of Cash Flows, continued

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

<i>(in millions of Korean won)</i>	<u>2018</u>	<u>2017</u>
Loss on disposal of assets held for sale	₩ -	20
Impairment loss on assets held for sale	61,865	2,599
Other expenses	43,649	7,491
Cost of card business	-	393,235
Interest expense	240,872	252,582
Financial guarantee costs	-	81
Gain on foreign currency translation	(97,716)	(207,976)
Gain on foreign currency transactions	(7,170)	(32,716)
Gain on disposal of property, plant and equipment	(2,861)	(6,990)
Gain on disposal of intangible assets	(819)	(35)
Gains on the disposal of assets held for sale	(11,422)	
Gain on valuation of financial liabilities at fair value through profit or loss	(259)	
Gain on disposal of financial liabilities at fair value through profit or loss	(81)	
Gain on transactions of derivative instruments	(24,718)	(12)
Gain on valuation of derivative instruments	(53,514)	(23,363)
Share of profit of associates and joint ventures	(107,720)	(137,992)
Gain on disposal of available-for-sale financial assets	-	(2,165)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(172,601)	(184)
Miscellaneous gains	(6,372)	(8,315)
Other income	(18)	(2)
Gain on settlement of spin-off	-	(377,543)
Income of card business	-	(596,245)
Interest income	(91,044)	(96,048)
Dividend income	(8,685)	(9,172)
Total	₩ <u>1,695,466</u>	<u>1,528,593</u>

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

(b) Adjustments for cash flows from operating activities and changes in operating assets and liabilities for the years ended December 31, 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>
Increase in trade receivables	₩	(3,544)	(131,191)
Increase in other receivables		(57,986)	(143,036)
Increase in other financial assets		(140,532)	(616,108)
Decrease in inventories		89,172	295,448
Decrease (increase) in other non-financial assets		(45,214)	107,185
Increase (decrease) in trade payables		(615,656)	357,828
Increase in other payables		50,268	273,389
Increase in other financial liabilities		59,296	4,924
Increase (decrease) in unearned revenues		11,087	(8,070)
Increase (decrease) in provisions		(12,050)	7,391
Decrease in other non-financial liabilities		(51,695)	(96,923)
Payment of retirement benefits and other long-term employee benefits		(50,776)	(63,857)
Increase in plan assets		(111,895)	(64,884)
Total	₩	<u>(879,525)</u>	<u>(77,904)</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	₩	(4,544)	37,425
Reclassification of borrowings and debentures to current portion		1,290,146	2,155,397

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

<i>(in millions of Korean won)</i>		<u>2018</u>			
		<u>Other assets</u>	<u>Liabilities from financing activities</u>		
		<u>Current derivative liabilities (assets) held for hedging</u>	<u>Short-term borrowings and debentures</u>	<u>Long-term borrowings and debentures</u>	<u>Total</u>
Beginning balance	₩	93,279	3,078,792	4,588,892	7,760,963
Net cash flow from financing activities		1,243	(265,845)	306,563	41,962
Non-cash flows(*1)		(68,933)	(832,793)	919,290	17,563
Ending balance	₩	<u>25,589</u>	<u>1,980,154</u>	<u>5,814,745</u>	<u>7,820,488</u>

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35. Consolidated Statements of Cash Flows, continued

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

(*1) This include gain (loss) on valuation and transaction of derivative assets (liabilities), interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification of non-current portion into current portion and others.

(e) Adjustment in liabilities arising from financial activities for the year ended December 31, 2017 are as follows:,

(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	₩	(214,580)	5,058,613	9,424,335	14,268,368
Net cash flow from financing activities		102,687	176,709	1,511,393	1,790,789
Non-cash flows					
Spin-off		(1,832)	(2,998,888)	(5,178,058)	(8,178,778)
Others(*1)		207,004	842,358	(1,168,778)	(119,416)
Ending balance	₩	93,279	3,078,792	4,588,892	7,760,963

(*1) Others include gain (loss) on valuation and transaction of derivative assets (liabilities), interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification of non-current portion into current portion and others.

36. Operating Leases

(a) Lessee

i) The Group 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:

		2018	2017
Within 1 year	₩	803,097	880,255
1 ~ 5 years		2,601,833	2,851,160
Over 5 years		5,266,070	6,230,583
Total	₩	8,671,000	9,961,998

ii) Operating lease payments recognized as rental expenses for the years ended December 31, 2018 and 2017 are ₩938,389 million and ₩950,534 million, respectively.

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36. Operating Leases, continued

(b) Lessor

i) The Group 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	₩	85,877	112,945
1 ~ 5 years		178,550	195,029
Over 5 years		<u>359,255</u>	<u>122,735</u>
Total	₩	<u>623,682</u>	<u>430,709</u>

ii) Operating lease revenues recognized as rental income for the years ended December 31, 2018 and 2017 are ₩1,314,831 million and ₩1,289,288 million, respectively.

37. Greenhouse Gases Emission Rights

(a) Emission Right

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

(b) Emission liabilities

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

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38. Operating Segment

(a) The Group's reportable segments consist of department stores (retail), discount stores (retail), consumer electronics retail, supermarkets and others as follows:

<u>Classification</u>	<u>Department store</u>	<u>Discount store</u>	<u>Consumer electronics retail</u>	<u>Supermarket</u>	<u>Others</u>
Main business	Retail stores for middle and higher-end merchandise	Retail and whole-sale stores for middle and discounted price merchandise	Consumer electronics	Retail and whole-sale stores for middle and discounted price merchandise	Others
Major products or services	Sales of merchandise and leasing		Sales of home appliance	Sales of merchandise and leasing	Sales of merchandise and leasing
Major customers	General consumers				

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

(b) Information about reportable segments as of and for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		2018						
		<u>Department store</u>	<u>Discount store</u>	<u>Consumer electronics retail</u>	<u>Supermarket</u>	<u>Others</u>	<u>Reclassification of profit(loss) from discontinued operations</u>	<u>Total</u>
Revenue from customers	₩	3,188,654	6,273,697	4,112,495	1,971,785	2,298,842	(24,692)	17,820,781
Inter-segment sales		43,161	68,590	183	3,662	86,063	(644)	201,015
Total segment sales	₩	<u>3,231,815</u>	<u>6,342,287</u>	<u>4,112,678</u>	<u>1,975,447</u>	<u>2,384,905</u>	<u>(25,336)</u>	<u>18,021,796</u>

(in millions of Korean won)

		2017						
		<u>Department store</u>	<u>Discount store</u>	<u>Consumer electronics retail</u>	<u>Supermarket</u>	<u>Others</u>	<u>Reclassification of profit(loss) from discontinued operations</u>	<u>Total</u>
Revenue from customers	₩	3,185,691	6,527,446	4,099,094	2,066,354	2,301,722	(254,244)	17,926,063
Inter-segment sales		18,480	49,965	247	5,057	69,717	(907)	142,559
Total segment sales	₩	<u>3,204,171</u>	<u>6,577,411</u>	<u>4,099,341</u>	<u>2,071,411</u>	<u>2,371,439</u>	<u>(255,151)</u>	<u>18,068,622</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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38. Operating Segment, continued

(c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		Sales		Operating profit	
		2018	2017	2018	2017
Department store	₩	3,231,815	3,204,171	424,806	395,619
Discount store		6,342,287	6,577,411	(287,402)	(228,585)
Consumer electronics retail		4,112,678	4,099,341	186,481	207,463
Supermarket		1,975,447	2,071,411	(62,137)	(4,682)
Others		2,384,905	2,371,439	46,411	175,755
Segment total		18,047,132	18,323,773	308,159	545,570
Elimination of inter-segment amounts		(201,659)	(143,466)	(12,533)	(15,502)
Reclassification of income from discontinued operations		(24,692)	(254,244)	301,378	270,970
After consolidated adjustments	₩	17,820,781	17,926,063	597,004	801,038

(in millions of Korean won)

		Depreciation and amortization		Profit (loss) for the year	
		2018	2017	2018	2017
Department store	₩	294,927	335,454	310,055	377,415
Discount store		208,049	225,267	(522,592)	(781,719)
Consumer electronics retail		47,829	49,193	85,488	148,435
Supermarket		25,967	25,102	(102,528)	(38,506)
Others		171,192	143,357	120,741	128,999
Segment total		747,964	778,373	(108,836)	(165,376)
Elimination of inter-segment amounts		11,644	13,649	(356,160)	144,740
Reclassification of income from discontinued operations		(10,577)	(26,920)	210,718	1,261
After consolidated adjustments	₩	749,031	765,102	(254,278)	(19,375)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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38. Operating Segment, continued

(d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

		Assets		Liabilities	
		2018	2017	2018	2017
Department store	₩	13,760,907	14,006,562	9,560,571	9,225,476
Discount store		8,438,740	8,576,096	2,023,413	2,908,406
Consumer electronics retail		3,117,088	3,204,628	1,055,205	1,178,850
Supermarket		1,078,705	1,179,224	266,590	281,737
Others		5,240,107	6,175,536	2,298,369	2,920,854
Segment total		31,635,547	33,142,046	15,204,148	16,515,323
Elimination of inter-segment amounts		(5,376,238)	(5,193,558)	(1,372,212)	(1,918,188)
After consolidated adjustments	₩	26,259,309	27,948,488	13,831,936	14,597,135

(e) Sales, before consolidated adjustments, by geographical areas for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)

Region		2018	2017
Domestic	₩	16,452,084	16,220,811
China		151,543	634,133
Vietnam		360,895	341,001
Indonesia		1,082,610	1,127,828
Subtotal		18,047,132	18,323,773
Discontinued operations		(25,336)	(255,151)
Total	₩	18,021,796	18,068,622

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39. Contingencies and Commitments

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

<i>(in millions of Korean won, Foreign currency)</i>	<u>Credit line</u>	<u>Amount used under credit facility</u>
General loan	KRW	743,500
	CNY	270,000
	VND	1,162,000,000
	USD	775,521
	IDR	2,754,430,000
Discount of bill	KRW	714,000
Buyer's credit	KRW	410,000
Bank overdraft	KRW	80,000
	IDR	289,620,000
Letter of credit and others	USD	32,000

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

<u>Company</u>	<u>Contractor</u>	<u>Description of contract</u>
Lotte Shopping Co., Ltd. Woori Home Shopping & Television Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services
	Lotte Capital Co., Ltd.	Contract of operating leases
	LOTTE rental co., ltd	
	Shinhan card	Issuing credit cards
	Lotte Card Co., Ltd.	
	BC CARD CO., LTD.	
Lotte GFR Co, Ltd. (Formerly, NCF Co., Ltd.)	LOTTE LOGISTICS CORP.	Logistics services
	Lotte Global Logistics Co., LTD. (formerly, Hyundai Logistics Co.,Ltd.)	
	CJ Korea Express Corporation	
	HANJIN TRANSPORTATION CO., LTD.	
	Cable TV operators	Providing broadcast programs
	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts

(c) As of December 31, 2018, the Group is involved in 38 lawsuits as a plaintiff with damage claims totaling ₩69,025 million and the Group is involved in 52 lawsuits as a defendant with damage claims totaling ₩57,391 million. Regarding 14 lawsuits out of various with damage claims as a defendant, the Group recorded ₩3,101 million as provision.

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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39. Contingencies and Commitments, continued

As Woori Home Shopping & Television Co., Ltd., a subsidiary of the Group, received a six-month suspension (6 hours per day) penalty from the government, Woori Home Shopping & Television Co., Ltd. won the first and second trial of the administrative litigation for cancellation of business suspension. However, the Group cannot reliably estimate how Ministry of Science and ICT would respond in the future.

In addition, discount store business division of the Company is under investigation of Fair Trade Commission in connection with the logistics expenses, however, the Group cannot reliably estimate the impacts from the result of investigation.

(d) As of December 31, 2018, the Group has entered into loan agreements securing trade receivables with Industrial Bank of Korea and others amounting to ₩2,798,671 million.

(e) Performance guarantees and others.

i) Lotte Shopping Co., Ltd.

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.

ii) Woori Home Shopping Co., Ltd.

As of December 31, 2018, Woori Home Shopping Co., Ltd., a subsidiary of Group, is provided the payment guarantee for product sales from the Small and Medium Industry Bank (₩5,830 million) and agreement performance guarantee form Seoul Guarantee Insurance Company (₩1,105 million).

iii) Lotte Himart Co., Ltd.

As of December 31, 2018, Lotte Himart Co., Ltd., a subsidiary of Group, is provided the guarantees in relation with supply agreement with some suppliers, who require the guarantee, totaling ₩1,906 million from Seoul Guarantee Insurance Company.

(f) Brand usage contract, etc.

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

(g) Others

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

i) The Group disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Group has the options to purchase the assets at a fair value at the end of the lease.

ii) The Group disposed 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 the Company has been leasing the assets. The Group has the options to purchase the assets at a fair value at the end of the lease.

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39. Contingencies and Commitments, continued

(g) Others, continued

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

iv) In 2014, the Group disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust for ₩601.7 billion and the Group has been leasing the assets. The Group disposed of 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 the Group has been leasing the assets. The Group has the preferential right of negotiation to purchase the assets at the end of the lease.

v) In 2015, the Group disposed of land and buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩146.9 billion and the Group has been leasing the assets. And the Group disposed of land and buildings of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust for ₩55.1 billion and the Group has been leasing the assets. The Group has the preferential right of negotiation to purchase the assets at the end of the lease.

The Group does not consolidate these structured entities.

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40. Inter-company Transactions and Balances with Consolidated Companies

(a) The Group has provided guarantees for consolidated companies as of December 31, 2018 are as follows:

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings	
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	
PT. Lotte Mart Indonesia	JP Morgan	IDR 100,000,000,000	July 6, 2018 ~ July 6, 2021	Working capital	
	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	
Lotte Cinema Vietnam Co., Ltd.	JP Morgan	USD 30,000,000	May 23, 2018 ~ May 23, 2019	Working capital	
	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	

(b) As December 31, 2018, the Group entered into an agreement to provide financial support for Suwon Landmark the Third Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩220,000 million of par value in maturing on May 28, 2021) issued by Suwon Landmark the Third Co., Ltd., which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD. The Group entered into an agreement to provide financial support for KS the First Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩60,000 million of par value in maturing on Aug. 23, 2019) issued by KS the First Co., Ltd., which was collateralized with the assets of Lotte Ulsan Development Co., Ltd. The forfeiture of benefit of time clause in the funds supplementation agreement regarding Lotte Ulsan Development Co., Ltd. is deleted due to the revision of the agreement.

(c) The Group 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.

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41. Related Party Transactions

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

Related company	Percentage of ownership (%)
Lotte Corporation (*1)	38.8
Hotel Lotte Co., Ltd.	8.86
Hotel Lotte Pusan Co., Ltd.	0.78

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

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 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(*4)	Other expenses
Shareholders:					
Lotte Corporation	₩ 4,108	908	-	806	44,208
Hotel Lotte Co., Ltd.	63,587	1,464	-	118	115,274
Hotel Lotte Pusan Co., Ltd.	6,444	182	573	13,351	28,120
Subtotal	<u>74,139</u>	<u>2,554</u>	<u>573</u>	<u>14,275</u>	<u>187,602</u>
Associates:					
FRL Korea Co., Ltd.	39,707	75,383	-	-	4
Zara Retail Korea	12,476	-	-	-	-
Others	159	186	-	15	3,137
Subtotal	<u>52,342</u>	<u>75,569</u>	<u>-</u>	<u>15</u>	<u>3,141</u>
Others(*1):					
Lotte Engineering & Construction Co., Ltd.	4,117	69	143,736	10	2,517
Lotte Confectionery Co., Ltd. (divided newly established)	3,924	115,456	6,715	-	9,523
Lotte Chilsung Beverage Co., Ltd.	7,465	75,464	3,256	125	1,157
Lotte Data Communication Company	2,377	7,556	75,504	154	146,196
Daehong Communications Co., Ltd. (divided newly established)(*2)	1,589	5,012	468	16	38,439
Daehong Communications Co., Ltd. (before division)(*2)	304	-	386	-	14,836
Lotte Station Building Co., Ltd.	7,551	9	-	1,242	2,868
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	14,222	5,389	4,274	1	428
Lotte Trading Co., Ltd.	899	161,667	758	106	17
LOTTE FOOD CO., LTD.	4,966	131,398	3,867	-	9,041
LOTTE ALUMINIUM CO., LTD.	624	7,534	15,654	44	16,409
Lotte Logistics Co., Ltd. (divided newly established)(*2)	2,107	5,327	-	32	147,828
Lotte Logistics Co., Ltd. (before division)(*2)	800	1,381	-	-	47,856
Korea Fuji Film Co., Ltd. (divided newly established)(*2)	968	316	-	-	3
Korea Fuji Film Co., Ltd. (before division)(*2)	398	53	-	-	-
Others	142,563	56,872	15,943	3,585	448,063
Subtotal	<u>194,874</u>	<u>573,503</u>	<u>270,561</u>	<u>5,315</u>	<u>885,181</u>
Total(*3)	<u>₩ 321,355</u>	<u>651,626</u>	<u>271,134</u>	<u>19,605</u>	<u>1,075,924</u>

(*1) 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.

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41. 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

(*2) The companies are newly established during 2018. A former companies which existed with each company name are merged with Lotte Corporation.

(*3) Includes amount reclassified as profit from discontinued operation.

(*4) Other income includes the gain on disposal of property, plant and equipment.

(in millions of Korean won)

Name of related parties	2017				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income	Other expenses
Shareholders:					
Lotte Corporation	₩ 850	-	-	12	10,489
Lotte Confectionery Co., Ltd.	8,917	119,094	-	0	15,351
Hotel Lotte Co., Ltd.	108,799	-	-	204	124,874
Korea Fuji Film Co., Ltd.	1,541	609	-	0	22
Lotte IT Tech Co., Ltd.	3,002	1,710	61,484	224	202,322
Hotel Lotte Pusan Co., Ltd.	9,900	-	827	8	25,410
Subtotal	133,009	121,413	62,311	448	378,468
Associates:					
FRL Korea Co., Ltd.	39,690	80,691	-	107	7
Others	12,650	-	-	138	1,005
Subtotal	52,340	80,691	-	245	1,012
Others (*1):					
Lotte Engineering & Construction Co., Ltd.	9,575	-	257,401	22	1,467
Lotte Confectionery Co., Ltd. (divided newly-established)	1,295	30,822	-	68	2,704
Lotte Chilsung Beverage Co., Ltd.	13,423	99,938	-	107	695
Lotte Data Communication Company	295	-	14,269	-	20,964
Daehong Communications Co., Ltd.	8,877	-	1,722	38	80,582
Lotte Station Building Co., Ltd.	16,424	-	-	1,354	5,604
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	20,670	6,595	287	5	1,383
Lotte Trading Co., Ltd.	1,618	177,990	-	-	423
LOTTE FOOD CO., LTD.	16,135	237,350	-	-	8,772
LOTTE ALUMINIUM CO., LTD.	2,379	10,718	29,484	-	30,313
Lotte Logistics Co., Ltd.	47,148	1,811,313	667	-	247,382
Others	191,072	64,177	19,237	28,638	321,940
Subtotal	328,911	2,438,903	323,067	30,232	722,229
Total (*2)	₩ 514,260	2,641,007	385,378	30,925	1,101,709

(*1) 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.

(*2) Includes amount reclassified as profit from discontinued operation.

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41. Related Party Transactions, continued

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

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

(*1) 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.

(in millions of Korean won) Name of related parties	2017					
	Loans	Borrowings	Repayment	Capital increase	Capital deduction	
Associates:						
Stonebridge Innovation Quarter Fund	₩	-	-	3,000	-	
Lotte-IMBC Contents Fund		-	-	1,500	-	
Others		-	-	1,224	1,223	
Subtotal		-	-	5,724	1,223	
Joint ventures:						
PT. INDO LOTTE MAKMUR		-	-	9,410	-	
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		-	-	1,658	-	
Subtotal		-	-	11,068	-	
Others(*1):						
LOTTE rental Co., Ltd.		-	1,815	362	-	
Lotte Global Logistics Co., LTD.		-	-	978	-	
Lotte Capital Co., Ltd.		-	50,000	25,002	-	
Mybi Co., Ltd.		-	10,000	10,000	-	
Lotte Shopping Rus Ltd.		4,795	-	-	-	
Lotte Capital Lease & Finance (China) Co., Ltd. and others		-	9,805	26,868	-	
Subtotal		4,795	71,620	62,232	978	
Total	₩	4,795	71,620	62,232	17,770	1,223

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41. Related Party Transactions, continued

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

(*1) 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.

(d) Account balances with related companies 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	Loans	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:						
Lotte Corporation	₩ 68	-	12,503	-	-	7,105
Hotel Lotte Co., Ltd.	1,168	-	51,783	-	-	37,725
Hotel Lotte Pusan Co., Ltd.	-	-	20,049	-	-	1,967
Subtotal	1,236	-	84,335	-	-	46,797
Associates:						
FRL Korea Co., Ltd.	1,526	-	159	12,858	-	23,831
Others	7	-	26	-	-	311
Subtotal	1,533	-	185	12,858	-	24,142
Others(*1):						
Lotte Engineering & Construction Co., Ltd.	175	-	4,070	158	-	69,080
Lotte Confectionery Co., Ltd. (divided newly established)	8	-	1,148	9,728	-	1,025
Lotte Chilsung Beverage Co., Ltd.	737	-	4,194	6,883	-	6,246
Lotte Data Communication Company	0,676	-	58,959	108	-	31,167
Daehong Communications Co., Ltd. (divided newly established) (*2)	6,356	-	4	3,472	-	16,458
Lotte Station Building Co., Ltd.	4,121	-	8,837	-	-	6,487
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	31	-	322	648	-	8,754
Lotte Trading Co., Ltd.	144	-	518	6,211	-	81
LOTTE FOOD CO., LTD.	453	-	765	10,507	-	10,722
LOTTE ALUMINIUM CO., LTD.	7	-	90	1,105	-	4,290
Lotte Logistics Co., Ltd. (divided newly-established)(*2)	7	-	371	94	-	18,618
Korea Fuji Film Co., Ltd. (divided newly-established)(*2)	3	-	-	37	-	1,439
Others	127,197	12,990	26,553	2,784	145,830	97,996
Subtotal	139,240	12,990	105,831	41,735	145,830	272,363
Total	₩ 142,009	12,990	190,351	54,593	145,830	343,302

(*1) 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.

(*2) Includes amount reclassified as profit from discontinued operation.

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41. Related Party Transactions, continued

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

(in millions of Korean won)

Name of related parties	2017						
	Receivables			Payables			
	Trade receivables	Loans	Other receivables	Trade payables	Borrowings	Other payables	
Shareholders:							
Lotte Corporation	₩	270	-	10,264	-	-	3,638
Hotel Lotte Co., Ltd.		281	-	54,283	-	-	60,200
Korea Fuji Film Co., Ltd.		5	-	-	129	-	1,501
Hotel Lotte Pusan Co., Ltd.		-	-	17,869	-	-	2,969
Subtotal		556	-	82,416	129	-	68,308
Associates:							
FRL Korea Co., Ltd.		-	-	1	10,982	-	19,117
Zara Retail Korea		-	-	-	-	-	5,579
Subtotal		-	-	1	10,982	-	24,696
Others(*1):							
Lotte Engineering & Construction Co., Ltd.		101	-	5,072	-	-	82,422
Lotte Confectionery Co., Ltd. (divided newly established)		433	-	411	13,003	-	2,810
Lotte Chilsung Beverage Co., Ltd.		231	-	4,088	6,358	-	6,236
Lotte Data Communication Company		-	-	47,575	4	-	27,334
Daehong Communications Co., Ltd.		6,473	-	287	7	-	27,183
Lotte Station Building Co., Ltd.		5,740	-	11,888	-	-	6,797
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)		47	-	479	401	-	9,624
Lotte Trading Co., Ltd.		82	-	711	9,861	-	20
LOTTE FOOD CO., LTD.		279	-	1,611	13,207	-	8,729
LOTTE ALUMINIUM CO., LTD.		245	-	40	1,882	-	4,580
Lotte Logistics Co., Ltd.		49	-	337	901	-	15,865
Others		158,706	4,795	21,681	4,182	149,142	190,695
Subtotal		172,386	4,795	94,180	49,806	149,142	382,295
Total	₩	172,942	4,795	176,597	60,917	149,142	475,299

(*1) 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.

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

- (e) Details of payment guarantees and collateral provided by the Group 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:

<u>Name of company</u>	<u>Guaranteed by</u>	<u>Guaranteed amount</u>	<u>Guarantee period</u>	<u>Remarks</u>
Associates				
Shandong Longzhile Cinema Co., Ltd.	IBK bank	CNY 13,000,000	January 11, 2017 ~ January 11, 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
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 Group 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).

- (f) The Group entered into an agreement to jointly provide financial support for Invest Farmland 2nd Co., Ltd. and Invest Farmland 3rd Co., Ltd. and Mars L D 1st, LLC. in default of the principal and interest on the asset backed loan (₩144,000 million of par value in maturing on May 31, 2019) of Lotte Incheon Development Co., Ltd. and the asset backed loan (₩620,000 million of par value in maturing on October 27, 2021) issued by LOTTE Town Dongtan Co., LTD. When the Group 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.

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

(in millions of Korean won)

<u>Classification</u>	<u>Name of corporation</u>	<u>Contractual amount</u>	<u>Used amount</u>	<u>Repayment</u>	<u>Unsettled amount</u>
Perspective of user	Lotte Shopping	₩ 240,000	2,952,063	3,042,963	7,367
	Lotte Himart Co., Ltd.	150,000	1,863,671	1,863,671	-
	Lotte Cultureworks Co., Ltd.	20,000	13,887	11,989	1,897

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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42. Risk management

(a) Management of financial risks

1) Objectives and Policies of the Group

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

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

2) Credit risk

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

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

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)	₩	1,791,812	2,587,811
Trade and other receivables		1,119,397	870,456
Other financial assets (current)		1,061,979	1,245,665
Other financial assets (non-current) (*2)		1,298,574	1,228,351
	₩	<u>5,271,762</u>	<u>5,932,283</u>

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

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

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

42. Risk management, continued

(a) Management of financial risks, 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	₩	1,220,808	10.04%	122,619
0 ~ 3 months past due		11,247	1.28%	144
3 ~ 6 months past due		5,127	4.13%	212
6 ~ 9 months past due		2,465	6.29%	155
9 ~ 12 months past due		817	59.88%	489
12 ~ 15 months past due		1,567	34.57%	542
15 months past due		17,871	91.46%	16,344
Total	₩	<u>1,259,902</u>	-	<u>140,505</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	₩	1,067,087	0.48%	5,108
15 months past due		34	100.00%	34
Total	₩	<u>1,067,121</u>	-	<u>5,142</u>

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	₩	1,299,599	0.08%	1,025
15 months past due		2,567	100.00%	2,567
Total	₩	<u>1,302,166</u>	-	<u>3,592</u>

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

42. Risk management, continued

(a) Management of financial risks, continued

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:

		2017			Total
		Receivables that are neither past due nor impaired	Receivables that are past due but not impaired	Receivables impaired(*1)	
Trade and other receivables	₩	853,504	16,952	17,058	887,514
Other financial assets (current)		1,245,665	-	34	1,245,699
Other financial assets (non-current)		1,228,351	-	3,592	1,231,943
Total	₩	3,327,520	16,952	20,684	3,365,156

(*1) Allowance for bad debts is recognized for financial assets that are determined individually impaired.

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

		2018	2017
Beginning Balance	₩	17,058	28,833
Provision		17,662	8,249
Reversal of impairment loss		(5,291)	(443)
Write-offs		(10,473)	(3,060)
Recoveries		-	25
Others		121,549	(328)
Changes due to spin-off		-	(16,218)
Ending balance	₩	140,505	17,058

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

		2018	2017
Beginning Balance	₩	34	209,817
Provision		5,108	167,007
Reversal of impairment loss		-	(3)
Write-offs		-	(179,432)
Recoveries		-	13,527
Changes due to spin-off		-	(210,882)
Ending balance	₩	5,142	34

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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42. Risk management, continued

(a) Management of financial risks, 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	₩	3,592	4,621
Provision		-	3
Reversal of impairment loss		-	(3)
Write-offs		-	(1,000)
Changes due to spin-off		-	(29)
Ending balance	₩	<u>3,592</u>	<u>3,592</u>

iii) Financial assets that are past due but nor 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	₩	16,952	8,360	5,374	2,637	581
Total	₩	<u>16,952</u>	<u>8,360</u>	<u>5,374</u>	<u>2,637</u>	<u>581</u>

iv) Payment guarantees

As of December 31, 2018, the Group has provided financial guarantees to associates and joint ventures. Should the Group be liable for payment upon defaults of the associates and joint ventures, the expected amounts which the Group is liable to pay within 1 year are ₩152,500 million.

3) Liquidity risks

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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42. Risk management, continued

(a) Management of financial 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)	₩	802,899	423,641	815,678	-
Trade payables and other payables		2,839,480	5,104	65,810	-
Other financial liabilities (current)		312,060	78,183	27,843	-
Borrowings and debentures (non-current) (*1),(*2)		38,469	40,740	92,099	6,146,745
Other financial liabilities(non-current)		3,614	-	1,732	95,269
Acceptances and guarantees		152,500	-	-	-
Total	₩	<u>4,149,022</u>	<u>547,668</u>	<u>1,003,162</u>	<u>6,242,014</u>

(*1) Interest expenses are included.

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

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 Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Group's return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out under strict supervision of the internal risk management, and generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

i) Currency risk

The Group is exposed to currency risk on assets and liabilities that are denominated in currencies other than Korean won, the respective functional currency of the Group. Currencies that generate exchange positions include USD, JPY and others. The objective of exchange risk management is to continue stable financial activities by minimizing uncertainty and profit and loss fluctuations. Foreign currency trade for speculation is strictly prohibited.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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42. Risk management, continued

(a) Management of financial risks, continued

The Group enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Group needs foreign currencies, the Group enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations.

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

		2018		2017	
		Assets	Liabilities	Assets	Liabilities
USD	₩	119,617	1,391,169	5,662	1,755,032
EUR		-	-	230	1,620
JPY		1	101,318	4	94,911
HKD		127	-	5,105	-
CNY		3,395	-	7,210	26
SGD		4	-	-	-
Total	₩	123,144	1,492,487	18,211	1,851,589

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:

		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
HKD		140.38	145.13	142.77	137.07
CNY		166.40	167.46	162.76	163.65
SGD		815.38	818.91	818.28	800.63

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

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

42. Risk management, continued

(a) Management of financial risks, continued

(in millions of Korean won)

		2018		2017	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	(12,769)	12,769	(56,542)	56,542
EUR		-	-	(139)	139
JPY		(10,132)	10,132	(9,491)	9,491
HKD		13	(13)	510	(510)
CNY		339	(339)	718	(718)
SGD		-	-	-	-
Total	₩	(22,549)	22,549	(64,944)	64,944

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

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 Group arises on variable interest rate financial instruments and borrowings. The purpose of interest rate risk management is to minimize value fluctuation of financial assets and liabilities that occur from uncertainty caused by changes in interest rates.

The Group makes interest swap transactions with financial institutions for hedging interest rate risk of variable borrowings and debentures.

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

(in millions of Korean won)

		2018	2017
Financial assets	₩	254,542	413,705
Financial liabilities		2,289,057	2,307,906

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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42. Risk management, continued

(a) Management of financial risks, continued

The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Group's interest income and expense that would incur in relation to the deposits and borrowings for the years ended December 31, 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 Group has entered into interest rate swap transactions are not included.

<i>(in millions of Korean won)</i>		2018		2017	
		100bps increase	100bps decrease	100bps increase	100bps decrease
Interest income	₩	2,399	(2,399)	4,055	(4,055)
Interest expenses		11,180	(11,180)	8,564	(8,564)

iii) Price risk

The Group is exposed to fluctuations of price in equity instrument at fair value through other comprehensive income. The book value of the marketable equity instrument at fair value through other comprehensive income as of December 31, 2018 and 2017 are ₩229,046 million and ₩270,712 million, respectively. The Group 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 price as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		2018		2017	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	22,905	(22,905)	27,071	(27,071)

(b) Capital Management

The objective of the Group's capital management is maximizing shareholders' profit through maintaining a sound capital structure. The Group makes necessary improvements to the capital structure through monthly monitoring of financial ratios such as liabilities to equity ratios and net borrowings to equity ratios in order to achieve an optimal capital structure.

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>		2018	2017
Liabilities (A)	₩	13,831,936	14,597,135
Equity (B)		12,427,373	13,351,353
Financial instruments (C)		2,683,344	3,674,135
Borrowings (D)		7,794,899	7,667,684
Liabilities to equity ratio (A/B)		111.30%	109.33%
Net borrowings to equity ratio ((D-C)/B)		41.13%	29.91%

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43. Discontinued operations

(a) Spin-off

On April 26, 2017, the Company's Board of Directors approved the spin-off of the respective investment divisions of Lotte Shopping Co., Ltd., Lotte Chilsung Beverage Co., Ltd., and Lotte Food Co., Ltd. which are merged into the investment division of Lotte Confectionery Co., Ltd. Profit or loss incurred from the investment division is presented under the category of profit or loss from discontinued operations.

(b) Sales of discount stores in China

The Group committed to selling and liquidating the discount stores in China during the year ended December 31, 2018. Profit or loss incurred from the segment of discount stores in China is presented under the category of profit or loss from discontinued operations. The comparative period of the consolidated statement of comprehensive income was restated.

Details of profit(loss) from discontinued operation 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	₩ 24,692	4,475,794
Cost of sales	(50,920)	(3,308,815)
Gross profit (loss) on sales	<u>(26,228)</u>	<u>1,166,979</u>
Selling, general and administrative expenses	(271,037)	(1,325,082)
Bad debt expense	(4,113)	(3,210)
Operating loss	(301,378)	(161,313)
Other income	10,644	13,030
Other expenses	(51,077)	(181,724)
Financial income - interest income calculated using the effective interest method	675	10,015
Financial income - Others	8,484	218
Financial expenses	(7,636)	(31,881)
Other bad debt expenses	(42,309)	(1,569)
Share of profit of associates and joint ventures	-	2,002
Profit(loss) in disposal of discontinued operation	<u>171,752</u>	<u>377,543</u>
Profit (loss) before income tax	<u>(210,845)</u>	<u>26,321</u>
Tax income(expense)	127	(27,582)
Net loss from discontinued operation	₩ <u>(210,718)</u>	<u>(1,261)</u>

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43. Discontinued operation, continued

(c) Cash flows related to the discontinued operation 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>
Cash flows from operating activities	₩	(273,678)	(533,392)
Cash flows from investing activities		82,809	(168,202)
Cash flows from financial activities		314,681	475,830
Effect of exchange rate changes on cash and cash equivalents		-	(173)
Exchange difference on translating foreign operations		(8,095)	1,358
Total	₩	<u>115,717</u>	<u>(224,579)</u>

44. Merger

(a) The Group merged with LOTTE.COM INC. on August 1, 2018 based on the resolution of board of directors on May 11, 2018. The Group intended to extend and stabilize the Group'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 is determined to be 1: 0.0285254 in common shares. Due to this merger, 166,708 shares of common shares to be issued by the Group to on 1 common share of LOTTE.COM INC. are issued to shareholders on the shareholders' registry of LOTTE.COM INC. is issued.

(b) The fair value and book 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>129,168</u>

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44. Merger, continued

(b) The fair value and book value of identifiable assets and liabilities being acquired from the merger are as follows:, continued

<i>(in millions of Korean won)</i>	<u>Amount</u>
Current liabilities	
Trade payables and other payables	₩ 115,524
Other financial liabilities	230
Unearned revenues	56
Provisions	214
Other non-financial liabilities	<u>5,172</u>
Subtotal	<u>121,196</u>
Non-current liabilities	
Defined benefit liability and other long-term employee liabilities	749
Deferred tax liabilities	<u>1,146</u>
Subtotal	<u>1,895</u>
Total liabilities	₩ <u><u>123,091</u></u>

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

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