

LOTTE SHOPPING CO., LTD.

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

(With Independent Auditor's Report Thereon)

LOTTE SHOPPING CO., LTD

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Independent Auditors' Report

Based on a report originally issued in Korean

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

Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2019 and 2018, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the Company's Internal Control over Financial Reporting ("ICFR") as of December 31, 2019 based on the criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 19, 2020 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements as of and for the year ended December 31, 2019. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Impairment on investments in subsidiaries, associates and joint ventures

As described in Note 11, 12 and 13 to the separate statements, as of December 31, 2019, the carrying amount of the investments in subsidiaries, associates and joint ventures is ₩4,450,543 million, which is 16.5% of total assets, and the impairment loss of ₩221,453 million was recognized during 2019.

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



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

- We performed procedures to understand and tested certain internal controls over the Company's impairment assessment process relating to the investments in subsidiaries, associates and joint ventures.
- We assessed the basis of management's judgment to identify the indicators of impairment on investments in subsidiaries, associates and joint ventures and evaluated whether such basis is in compliance with the Company's accounting policy.
- We tested the mathematical accuracy of valuation model used by the Company.
- We assessed the competence, qualification and objectivity of external institution engaged by the Company to assess recoverable amount of investments in subsidiaries, associates and joint ventures.
- We engaged our valuation specialists to assist us in evaluating assumption and estimates including the future cash flows and discount rate used in the valuation of value-in-use.

(2) Impairment of cash generating units("CGUs")

As described in Note 14 and 16, as of December 31, 2019 the carrying amount of property, plant and equipment, right-of-use assets, goodwill and intangible assets in the separate statements of financial position of the Company are ₩11,110,901 million, ₩5,437,509 million, ₩224,660 million, and ₩54,865 million, respectively, and in aggregate constitute 62.4% of total assets. Also, the impairment loss of ₩1,042,491 million was recognized during 2019.

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

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

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

(3) K-IFRS 1116 'Lease'

As described in Note 39 to the separate financial statements, the Company initially adopted K-IFRS 1116 'Lease' for the preparation of the separate financial statements as of and for the year ended December 31, 2019. As of December 31, 2019 the carrying amount of right-of-use assets and lease liabilities are



amounted to ₩5,437,509 million and ₩6,440,741 million, respectively, which are 20.2% of total assets and 39.5% of total liabilities, respectively.

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

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

- We performed procedures to understand and tested certain internal controls over the Company's process relating to identification of lease contracts and assessment of accuracy of calculation.
- We tested the mathematical accuracy of calculation of right-of-use assets and lease liabilities by the Company.
- We assessed the basis of incremental borrowing rate used in calculation of lease liabilities and assessed whether such basis is in compliance with the accounting policy of the Company.
- For samples selected from the list of leases provided by the Company, we inspected contracts to compare the information such as lease term and payments with information in the contracts.

Other matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may



involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used in the preparation of the separate financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG Samjong Accounting Corp.

Seoul, Korea
March 19, 2020

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

LOTTE SHOPPING CO., LTD.
Separate Statements of Financial Position
As of December 31, 2019 and 2018

(In Korean won)	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	7,35,40	₩ 726,809,053,877	1,005,319,543,648
Trade and other receivables	5,7,38,40	631,839,037,873	589,822,640,895
Other financial assets	6,7,23,40	1,194,164,795,756	478,940,270,619
Inventories	8	484,653,820,797	491,729,201,355
Income tax refund receivables	34	-	4,043,670,661
Other non-financial assets	9	32,148,632,363	83,742,434,039
Assets held for sale	10	114,454,796,243	277,409,134,858
		<u>3,184,070,136,909</u>	<u>2,931,006,896,075</u>
Non-current assets			
Other receivables	5	236,661,332,719	-
Investments in subsidiaries, associates and joint ventures	11,12,13,38	4,450,542,519,010	3,573,579,087,258
Other financial assets	6,7,23,40	1,104,877,148,258	1,194,522,492,242
Property, plant and equipment, net	14	11,110,901,479,714	12,375,549,148,308
Right-of-use assets	14,39	5,437,509,185,898	-
Investment property, net	15	1,116,505,540,511	991,787,629,037
Goodwill	16	224,659,569,852	234,869,521,541
Intangible assets, net	16	54,865,097,617	201,107,665,736
Other non-financial assets	9	8,570,480,824	360,014,110,098
Defined benefit assets	22	35,103,841,570	-
		<u>23,780,196,195,973</u>	<u>18,931,429,654,220</u>
Total assets		₩ <u>26,964,266,332,882</u>	<u>21,862,436,550,295</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Financial Position, continued
As of December 31, 2019 and 2018

(In Korean won)	Notes		2019	2018
Liabilities				
Current liabilities				
Borrowings and debentures, net of issuance costs	7,18,40	₩	1,280,452,633,936	1,457,243,412,271
Trade and other payables	7,17,40		1,926,253,938,384	2,158,255,041,766
Other financial liabilities	7,23,40		604,472,932,958	639,583,690,111
Lease liabilities	7,39		552,513,360,420	-
Income tax payables	34		95,990,295,850	-
Unearned revenues	19		145,319,856,148	126,193,601,024
Provisions	20		6,768,727,456	15,006,717,712
Other non-financial liabilities	21		895,452,935,465	795,607,452,634
			<u>5,507,224,680,617</u>	<u>5,191,889,915,518</u>
Non-current liabilities				
Borrowings and debentures, net of issuance costs	7,18,40		3,921,374,600,766	3,883,373,774,519
Other financial liabilities	7,23,40		155,858,847,687	178,600,896,719
Lease liabilities	7,39		5,888,227,475,415	-
Defined benefit liabilities and other long- term employee benefits	22		66,808,950,284	8,745,088,503
Deferred tax liabilities	34		585,502,399,274	947,555,254,079
Unearned revenues	19		25,041,910,544	28,870,573,021
Provisions	20		148,585,646,445	-
Other non-financial liabilities	21		-	51,194,026,022
			<u>10,791,399,830,415</u>	<u>5,098,339,612,863</u>
Total liabilities			<u>16,298,624,511,032</u>	<u>10,290,229,528,381</u>
Equity				
Share capital	1,24		141,443,775,000	141,443,775,000
Capital surplus	24		3,590,535,627,005	3,590,535,627,005
Capital adjustment	25		(2,818,298,047,582)	(2,818,298,047,582)
Retained earnings	26		9,688,039,289,185	10,618,311,454,631
Accumulated other comprehensive income	27		63,921,178,242	40,214,212,860
Total equity			<u>10,665,641,821,850</u>	<u>11,572,207,021,914</u>
Total equity and liabilities		₩	<u>26,964,266,332,882</u>	<u>21,862,436,550,295</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Comprehensive Loss
For the years ended December 31, 2019 and 2018

(In Korean won, except per share information)	Notes	2019	2018
Sales	29,38	₩ 9,695,325,161,145	10,217,788,016,203
Cost of sales	8,32,38	(4,888,608,517,506)	(5,123,113,479,132)
Gross profit		4,806,716,643,639	5,094,674,537,071
Selling, general and administrative expenses	30,32,38	(4,535,581,492,845)	(4,691,109,414,397)
Reversal of allowance for bad debts(expense)	30,32,40	(115,409,723)	(424,734,446)
Operating profit		271,019,741,071	403,140,388,228
Other income	31	198,211,896,867	54,008,213,429
Other expenses	31	(1,160,759,792,601)	(322,371,050,727)
Finance income - interest income calculated using the effective interest method	33	70,801,377,414	64,896,915,484
Finance income - others	33	204,232,560,483	431,363,118,813
Finance costs	33	(586,744,645,814)	(1,083,694,691,553)
Other bad debt expenses	31,33	(5,717,803,836)	(5,885,917,059)
Loss before income tax expense		(1,008,956,666,416)	(458,543,023,385)
Income tax revenue (expense)	34	255,255,356,854	(44,375,251,999)
Loss for the period		(753,701,309,562)	(502,918,275,384)
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liabilities	22	(46,423,257,281)	(41,066,464,884)
Fair value gain through other comprehensive income on equity instruments	27	36,934,567,425	9,715,218,936
Income tax effect		2,609,389,710	8,621,592,637
Total items that will never be reclassified to profit or loss		(6,879,300,146)	(22,729,653,311)
Items that may be subsequently reclassified to profit or loss			
Gain on valuation of debt instrument at fair value through other comprehensive income	27	274,089,148	184,662,391
Loss on valuation of derivatives	23,27	(4,509,393,976)	(7,523,819,822)
Income tax effect		1,164,708,827	2,018,268,293
Total items that will be subsequently reclassified to profit or loss		(3,070,596,001)	(5,320,889,138)
Other comprehensive loss for the period, net of tax		(9,949,896,147)	(28,050,542,449)
Total comprehensive loss for the period		(763,651,205,709)	(530,968,817,833)
Loss per share	28		
Basic loss per share		₩ (26,660)	(18,297)

See accompanying notes to the separate financial statements

LOTTE SHOPPING CO., LTD. **Separate Statements of Changes in Equity** **As of December 31, 2019 and 2018**

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

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Changes in Equity, continued
As of December 31, 2019 and 2018

	Share capital	Capital surplus	Hybrid securities	Capital adjustment	Retained earnings	Other comprehensive income (loss)	Total equity
(In Korean won)							
Balance at January 1, 2019	₩ 141,443,775,000	3,590,535,627,005	-	(2,818,298,047,582)	10,618,311,454,631	40,214,212,860	11,572,207,021,914
Adjustment on initial application of K-IFRS No.1116, net of tax	-	-	-	-	4,093,333,645	-	4,093,333,645
Restated balance at January 1, 2019	141,443,775,000	3,590,535,627,005	-	(2,818,298,047,582)	10,622,404,788,276	40,214,212,860	11,576,300,355,559
Comprehensive income (loss) for the period:							
Loss for the period	-	-	-	-	(753,701,309,562)	-	(753,701,309,562)
Other comprehensive income (loss):							
Net change in equity instruments at fair value through other comprehensive income	-	-	-	-	-	26,777,561,383	26,777,561,383
Net change in debt instruments at fair value through other comprehensive income	-	-	-	-	-	198,714,632	198,714,632
Loss on valuation of derivatives	-	-	-	-	-	(3,269,310,633)	(3,269,310,633)
Remeasurements of defined benefit liabilities	-	-	-	-	(33,656,861,529)	-	(33,656,861,529)
Subtotal	-	-	-	-	(33,656,861,529)	23,706,965,382	(9,949,896,147)
Total comprehensive income (loss) for the period	-	-	-	-	(787,358,171,091)	23,706,965,382	(763,651,205,709)
Transactions with owners of the Company recognized directly in equity:							
Dividends	-	-	-	-	(147,007,328,000)	-	(147,007,328,000)
Total transactions with owners of the Company	-	-	-	-	(147,007,328,000)	-	(147,007,328,000)
Balance at December 31, 2019	₩ 141,443,775,000	3,590,535,627,005	-	(2,818,298,047,582)	9,688,039,289,185	63,921,178,242	10,665,641,821,850

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows
For the years ended December 31, 2019 and 2018

(In Korean won)	Notes	2019	2018
Cash flows from operating activities			
Loss for the period	₩	(753,701,309,562)	(502,918,275,384)
Adjustments	35	2,161,506,103,708	1,547,064,202,684
Changes in operating assets and liabilities		(212,720,615,558)	(580,926,550,020)
Income taxes paid		(17,813,866,665)	(80,592,431,381)
Net cash provided by operating activities		1,177,270,311,923	382,626,945,899
Cash flows from investing activities			
Decrease of short-term financial instruments		398,029,500,000	362,494,747,800
Decrease in short-term loans		6,164,556,000	6,332,278,000
Decrease of long-term financial instruments		-	2,000,385,763
Proceeds from sale of equity instruments at fair value through other comprehensive income		-	5,582,800,000
Proceeds from sale of debt instruments at fair value through profit or loss		133,363,940	33,477,598
Proceeds from sale of investment in subsidiaries, associates and joint ventures		100,846,331,531	3,141,956,789
Proceeds from disposal of assets held for sale		182,329,026,693	24,340,759,589
Proceeds from disposal of property, plant and equipment		1,069,125,925,782	24,704,059,430
Proceeds from disposal of intangible assets		3,137,245	849,380,409
Cash inflows from capital reduction of subsidiaries, associates and joint ventures		-	1,121,999,802
Cash inflows from settlement of derivatives		9,515,854,112	6,932,273,235
Cash inflows from business transfer		-	27,299,500,000
Cash inflows from business combination		-	15,471,571,979
Collection of financial lease receivables		22,975,634,425	-
Increase of short-term financial instruments		(975,161,592,661)	(280,000,000,000)
Purchase of debt instrument at fair value through profit or loss		(10,000,000)	(2,300,000,000)
Purchase of equity instruments at fair value through other comprehensive income		(4,719,225,648)	(19,862,422,909)
Purchase of debt instruments at fair value through other comprehensive income		(637,910,000)	(356,220,000)
Purchase of investments in subsidiaries, associates and joint ventures		(930,108,234,989)	(942,974,999,110)
Acquisition of property, plant, and equipment		(367,344,326,897)	(453,567,647,207)
Acquisition of intangible assets		(1,451,567,264)	(741,079,099)
Cash outflows from spin-off		-	(180,636,458,541)
Interests received		39,011,283,944	28,126,226,378
Dividends received		91,516,633,422	116,188,684,203
Net cash used in investing activities	₩	(359,781,610,365)	(1,255,818,725,891)

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows, continued
As of December 31, 2019 and 2018

(In Korean won)		2019	2018
Cash flows from financing activities			
Proceeds from long-term borrowings	₩	-	437,117,000,000
Proceeds from issuance of debentures		908,447,549,406	1,558,570,999,237
Repayment of short-term borrowings		(150,000,000,000)	(156,000,000,000)
Repayment of current portion of long-term borrowings		(956,500,000,000)	(1,120,067,642,984)
Interest paid on hybrid securities		-	(12,581,295,612)
Repayment of hybrid securities		-	(270,000,000,000)
Acquisition of treasury shares		-	(7,602,224)
Repayment of lease liabilities		(461,736,912,653)	-
Interest paid		(293,670,530,368)	(105,239,228,900)
Dividends paid		(147,007,328,000)	(146,140,659,600)
Net cash provided by(used in) financing activities		(1,100,467,221,615)	185,651,569,917
Net decrease in cash and cash equivalents		(282,978,520,057)	(687,540,210,075)
Cash and cash equivalents at January 1		1,005,319,543,648	1,687,990,452,840
Effect of exchange rate fluctuation on cash and cash equivalents		4,468,030,286	4,869,300,883
Cash and cash equivalents at the end of the year	₩	726,809,053,877	1,005,319,543,648

See accompanying notes to separate financial statements

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

As of December 31, 2019 and 2018

1. Organization and description of the Company

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

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

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

2. Basis of Accounting

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

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

(a) Basis of measurement

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

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

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

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 ‘Separate Financial Statements’ presented by a parent, an investor in an associate or a venturers in a joint venture in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

(b) Functional and presentation currency

The financial statements of the Company are prepared in functional currency of the operation. These separate financial statements are presented in Korean won, which is the Company’s functional and presentation currency.

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure

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

3.1 Enacted, amended standards adopted by the Company

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

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

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

The Company changed its accounting policy as a result of the adoption of K-IFRS No.1116. In accordance with the provisions of K-IFRS No.1116, the Company applied modified retrospective approach as of January 1, 2019. Therefore, the cumulative effect of applying K-IFRS No.1116 is adjusted at the date of initial application, and the comparative financial statements have not been restated. The impacts of lease standard and amended accounting policies are described in Notes 39.

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

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

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

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

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

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

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

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

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

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.1 Enacted, amended standards adopted by the Company, continued

(g) Annual Improvements 2015-2017

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

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

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

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

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

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

- K-IFRS No.1023 'Borrowing Cost'

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

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

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

(a) Conceptual Framework for Financial Reporting

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

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

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

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

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

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

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

3.3 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 Company in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred stocks when it has a short maturity with a specified redemption date.

3.4 Foreign currency translation

Foreign currency transaction and translation at the end of the reporting period

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

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

3.5 Financial assets

(a) Classification

The Company classifies the financial assets in the following categories.

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

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

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

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.5 Financial assets, continued

(b) Measurement

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

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

(i) Debt instrument

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

- Financial assets measured at amortized cost

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

- Financial assets measured at fair value through other comprehensive income

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

- Financial assets measured at fair value through profit or loss

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

(ii) Equity instrument

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

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.5 Financial assets, continued

(c) Impairment

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

(d) Recognition and derecognition

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

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

(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 Company or the counterparty.

3.6 Derivatives

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

(a) Hedge accounting

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

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

(i) Fair value hedge

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.6 Derivatives, continued

(a) Hedge accounting, continued

(ii) Cash flow hedge

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

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

(c) Other derivatives

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

3.7 Trade receivables

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

3.8 Inventories

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

The cost of inventories is based on the following methods:

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

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.8 Inventories, continued

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

3.9 Non-current Assets held for sale

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

3.10 Property, plant and equipment

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

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

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

	<u>Useful lives(years)</u>
Buildings	10 – 50
Structures	7 – 40
Machinery	5 – 30
Vehicles	5
Display fixtures	5
Furniture and fixtures	3

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

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

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

3.11 Borrowing costs

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.12 Intangible assets

The goodwill is measured in the manner described in K-IFRS No.1110 and is presented at cost less accumulated impairment losses. Intangible assets other than goodwill are initially recognized at historical cost and are presented at cost less accumulated amortization and accumulated impairment losses.

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

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

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

3.13 Investment property

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

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

Investment property except for land, are depreciated on a straight-line basis over 10 to 50 years as estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

3.14 Impairment of non-financial assets

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

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

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

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.14 Impairment of non-financial assets, continued

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

3.15 Trade payables and other payables

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

3.16 Financial liabilities

(a) Classification and measurement

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

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

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

(b) Derecognition

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

3.17 Provisions

When the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation, sales return provisions, recovery provisions and litigation provisions are recognized. Provisions are measured at the present value of the expected expenditure amount to fulfil the obligation, and the increase in the provision due to passage of time is recognized as interest expenses.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.18 Current and deferred income taxes

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

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

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

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

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

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

3.19 Employee benefits

(a) Retirement benefits

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

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

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

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.19 Employee benefits, continued

(b) Short-term employee benefits

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

(c) Other long-term employee benefits

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

3.20 Revenue recognition

(a) Sales of goods and rendering of services

The Company operates department stores, outlet stores, supermarkets, H&B stores, E-Commerce. Sales of goods from contracts with customers are generally recognized when the goods are delivered to the customers. Under K-IFRS No.1115, revenue is recognized applying the following five-step process to contracts with customers:

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

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

(b) Customer loyalty program

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

(c) Commissions

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

(d) Rental income

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

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Notes to the Separate Financial Statements

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.21 Leases

As explained in Note 3.1(a), the Company has changed its accounting policy for leases. Information on the impact of the new accounting policy is provided in Note 39.

(a) Lessor

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

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

(b) Lessee

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

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

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

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

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

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

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

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

The Company calculates the incremental borrowing rate as follows:

- Reflects interest rates based on market-observed credit ratings

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As of December 31, 2019 and 2018

3. Significant Accounting Policies and Changes in Disclosure, continued

3.21 Leases, continued

(b) Lessee, continued

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

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

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

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

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

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

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

(i) Variable lease payments

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

(ii) Extension option and termination option

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.22 Finance income and finance costs

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

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

3.23 Emission rights

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

(i) Greenhouse gases emission right

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

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

(ii) Emission liability

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

3.24 Authorization of financial statements

The separate financial statements were authorized by the Board of Directors meeting on March 12, 2020, and is subject to final authorization at the shareholder's meeting on March 27, 2020.

LOTTE SHOPPING CO., LTD.

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4. Significant Accounting Estimates and Assumptions

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

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

(a) Impairment of non-financial asset

The recoverable amount of the cash generating unit to assess whether the assets held, such as right-of-use assets and goodwill, are impaired is determined based on the calculation of value in use (see Note 16).

(b) Income taxes

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

(c) Fair value of financial instruments

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

(d) Impairment of financial assets

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

(e) Net defined benefit liability

The present value of the net defined benefit liability is affected by various factors, especially changes in discount rates, which are determined by actuarial methods (see Note 22).

(f) Revenue recognition

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

(g) Leases

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

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4. Significant Accounting Estimates and Assumptions, continued

(g) Leases, continued

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

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

Lease term is re-evaluated if the option is actually exercised (not exercised) or if the Company bears obligation to exercise (not exercise) the option. Only if significant events occur that are within the scope of the lessee's control and affect the determination of the lease term, or if there is a significant change in the situation, the Company changes its judgement whether the exercise of extension option (or not) is reasonably certain.

(h) Provision for restoration costs

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

5. Trade and Other Receivables

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

(in millions of Korean won)

	Trade receivables	Other receivables	Lease payments receivable	Total
Current:				
Total carrying amount	₩ 364,579	248,273	28,596	641,448
Reduction: Allowance for bad debts	(1,108)	(8,497)	(4)	(9,609)
Net carrying amount	<u>363,471</u>	<u>239,776</u>	<u>28,592</u>	<u>631,839</u>
Non-current:				
Total carrying amount	-	25,438	211,315	236,753
Reduction: Allowance for bad debts	-	(71)	(20)	(91)
Net carrying amount	₩ <u>25,367</u>	<u>25,367</u>	<u>211,295</u>	<u>236,662</u>

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

(in millions of Korean won)

	Trade receivables	Other receivables	Total
Total carrying amount	₩ 415,342	183,438	598,780
Reduction: allowance for bad debts	(1,053)	(7,905)	(8,958)
Net carrying amount	₩ <u>414,289</u>	<u>175,533</u>	<u>589,822</u>

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6. Restricted Deposits

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

(in millions of Korean won)

Account	Description	Depository	2019	2018	Remarks
Other financial assets (current)	Short-term financial deposit	HSBC and others	₩ -	10	Pledge assets
	Long-term financial instrument	Industrial Bank of Korea and others	113,000	109,000	Deposits for Mutually Beneficial Cooperation Fund
Other financial assets (non-current)	Long-term financial instrument	Shinhan Bank and others	15	15	Deposits for current account
	Other comprehensive income - Fair value	Busan city hall and others			Payment guarantee
Total		₩	<u>125,988</u>	<u>122,894</u>	

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7. Fair Value of Financial Instruments

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

(in millions of Korean won)

		2019	2018
Financial assets measured at fair value (*1):			
	Current assets:		
	Short-term financial instruments	₩ 113,000	109,000
Fair value through profit or loss	Non-current assets:		
	Non-current debt instruments	3,436	4,124
	Non-current derivatives assets held for trading	21,545	30,896
	Subtotal	137,981	144,020
	Current debt instruments	130	-
Fair value through other comprehensive income	Non-current equity instruments (*2)	269,417	227,764
	Non-current debt instruments	10,289	9,227
	Subtotal	279,836	236,991
Derivatives assets	Current derivatives assets held for hedging	-	318
	Non-current derivatives assets held for hedging	21,899	7,177
	Subtotal	21,899	7,495
	Total financial assets measured at fair value	439,716	388,506
Financial assets not being measured at fair value:			
	Current :		
	Cash and cash equivalents	726,809	1,005,320
	Trade and other receivables	631,838	589,823
	Short-term financial instruments	782,650	210,010
	Short-term loans	6,165	6,165
Financial assets at amortized cost (*3)	Accrued income	4,807	5,759
	Current portion of security deposits	287,413	147,688
	Non-current :		
	Deposits for current account	15	15
	Long-term loans	18,494	24,658
	Long-term account receivables	236,661	-
	Security deposit	841,462	940,998
	Subtotal	3,536,314	2,930,436
	Total financial assets not being measured at fair value:	3,536,314	2,930,436
	Total financial assets	₩ 3,976,030	3,318,942

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

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

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

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Notes to the Separate Financial Statements
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7. Fair value of Financial Instruments, continued

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

<i>(in millions of Korean won)</i>		2019	2018
Current:			
Short-term financial instruments	₩	895,650	319,010
Short-term loans		6,165	6,165
Accrued income		4,807	5,759
Current portion of security deposits		287,413	147,688
Debt instruments		130	-
Derivatives assets held for hedging		-	318
Total		<u>1,194,165</u>	<u>478,940</u>
Non-current:			
Deposits for current account		15	15
Long-term loans		18,494	24,658
Security deposits		841,462	940,998
Non-current equity instruments		187,737	177,427
Non-current debt instruments		13,725	13,351
Derivatives assets held for hedging		21,899	7,177
Derivatives assets held for trading		21,545	30,896
Total	₩	<u>1,104,877</u>	<u>1,194,522</u>

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

(i) Equity instruments

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

		2019		2018	
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable equity instruments measured at fair value through other comprehensive income:					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	65,446	62,626
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	13,487	12,320
momo.com Inc.(*)	7,319,420	5.23%	35,956	81,679	50,336
Others	-	-	2,736	1,638	1,991
Subtotal			<u>97,118</u>	<u>162,250</u>	<u>127,273</u>
Non-marketable equity instruments measured at fair value through other comprehensive income:					
Lotte Properties (Shenyang) Limited	47,858,756	17.93%	61,213	101,504	99,907
Others	-	-	6,269	5,663	583
Subtotal			<u>67,482</u>	<u>107,167</u>	<u>100,490</u>
Total			₩ <u>164,600</u>	<u>269,417</u>	<u>227,763</u>

(*) Reclassified as asset held for sale during 2018.

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7. Fair value of Financial Instruments, continued

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

(ii) Debt instruments

(in millions of Korean won)

		2019	2018
		Acquisition cost	Carrying amount
National housing bond	₩	10,014	9,227
Urban railway bond		-	-
Total	₩	<u>10,014</u>	<u>9,227</u>

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

(in millions of Korean won)

		2019	2018
Financial liabilities measured at fair value:			
	Current derivatives liabilities held for trading	₩ 16,572	13,365
Fair value through profit or loss	Non-current derivatives liabilities held for trading	-	32
	Subtotal	16,572	13,397
Derivatives liabilities	Current derivatives liabilities held for hedging	6	22,315
	Non-current derivatives liabilities held for hedging	8,664	10,810
	Subtotal	8,670	33,125
Total financial liabilities measured at fair value:		<u>25,242</u>	<u>46,522</u>

Financial liabilities not being measured at fair value:

	Current :		
	Trade payables and other payables	1,926,254	2,158,255
	Short-term borrowings	100,000	250,000
	Current portion of long-term borrowings	-	100,000
	Current debentures	1,180,453	1,107,243
	Lease liabilities	552,513	-
	Accrued expenses	129,260	93,063
Financial liabilities at amortized cost (*)	Current portion of security deposits	195,323	181,212
	Non-current :		
	Long-term borrowings	445,347	590,059
	Long-term debentures	3,476,028	3,293,315
	Security deposits received	139,793	159,959
	Lease liabilities	5,888,227	-
	Others	7,403	7,800
	Subtotal	14,040,601	7,940,906
Other financial liabilities	Financial guarantee liabilities	263,311	329,629
Total financial liabilities not being measured at fair value:		<u>14,303,912</u>	<u>8,270,535</u>
Total financial liabilities	₩	<u>14,329,154</u>	<u>8,317,057</u>

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

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

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

<i>(in millions of Korean won)</i>		2019	2018
Current:			
Derivatives liabilities held for trading	₩	16,572	13,365
Derivatives liabilities held for hedging		6	22,315
Financial guarantee liabilities		263,312	329,628
Accrued expense		129,260	93,063
Current portion of security deposits		195,323	181,212
Total		<u>604,473</u>	<u>639,583</u>
Non-current:			
Derivatives liabilities held for trading			32
Derivatives liabilities held for hedging		8,663	10,810
Security deposits		139,793	159,959
Others		7,403	7,800
Total	₩	<u>155,859</u>	<u>178,601</u>

(f) Fair value hierarchy

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

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

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7. Fair value of Financial Instruments, continued

(f) Fair value hierarchy, continued

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

(i) December 31, 2019

		2019			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	137,981	137,981
Financial assets at fair value through other comprehensive income		162,250	10,419	107,167	279,836
Derivatives assets held for hedging		-	21,899	-	21,899
Total		162,250	32,318	245,148	439,716
Financial liabilities at fair value through profit or loss		-	-	16,573	16,573
Derivatives liabilities held for hedging		-	8,669	-	8,669
Total	₩	-	8,669	16,573	25,242

(ii) December 31, 2018

		2018			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	144,020	144,020
Financial assets at fair value through other comprehensive income		127,273	9,227	100,490	236,990
Derivatives assets held for hedging		-	7,495	-	7,495
Total		127,273	16,722	244,510	388,505
Financial liabilities at fair value through profit or loss		-	-	13,397	13,397
Derivatives liabilities held for hedging		-	33,125	-	33,125
Total	₩	-	33,125	13,397	46,522

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

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

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7. Fair value of Financial Instruments, continued

(g) Level 3 Fair values

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

<i>(in millions of Korean won)</i>		2019	2018
Beginning of the year	₩	231,113	42,187
Changes in accounting policy		-	170,648
Total income (loss) for the year		(853)	61,691
Gain (loss) included in profit and loss		(2,811)	24,173
Gain (loss) included in OCI		1,958	37,518
Purchases		8,729	22,164
Disposal		(10,413)	(12,869)
Changes due to merger		-	2,745
Changes due to spin-off		-	(20,435)
Exchange right		-	(35,018)
End of the year	₩	<u>228,576</u>	<u>231,113</u>

(h) Sensitivity analysis

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

(i) Settlement agreement

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

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

(h) Sensitivity analysis, continued

(ii) Stock options (liability-classified)

(in millions of Korean won)

		Stock price		Stock price variability	
		10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩	6,551	(4,509)	(1,023)	2,004

(iii) Exchange right

(in millions of Korean won)

		Stock price volatility	
		1% Decrease	1% Increase
Exchange right	₩	(9)	15

LOTTE SHOPPING CO., LTD.
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8. Inventories

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

<i>(in millions of Korean won)</i>		2019	2018
Merchandise (*1)	₩	467,023	478,882
Valuation allowance		(10,759)	(8,610)
Finished goods		9,480	6,530
Valuation allowance		-	-
Semi-finished goods		254	150
Raw materials		7,613	4,971
Ingredients		103	38
Supplies		322	277
Materials-in-transit		9,840	8,978
Packing materials		778	513
	₩	<u>484,654</u>	<u>491,729</u>

(*1) As of December 31, 2019, inventories expected to be returned of ₩487 million are included (2018: ₩441 million).

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

<i>(in millions of Korean won)</i>		2019	2018
Cost of goods sold:			
Amount of inventories recognized as cost of goods sold	₩	4,842,926	4,994,773
Increase (decrease) in valuation allowance of inventories		2,149	(12,321)

9. Other Non-financial Assets

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

<i>(in millions of Korean won)</i>		2019	2018
Current:			
Advance payments	₩	11,941	15,798
Prepaid expenses		<u>20,208</u>	<u>67,944</u>
		<u>32,149</u>	<u>83,742</u>
Non-current:			
Long-term advance payments		6,497	9,141
Long-term prepaid expenses		<u>2,073</u>	<u>350,873</u>
	₩	<u>8,570</u>	<u>360,014</u>

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

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

<i>(in millions of Korean won)</i>		2019	2018
Equity instruments and etc. (*1)	₩	82,368	50,336
Land, etc. (*2)		<u>32,087</u>	<u>227,073</u>
	₩	<u>114,455</u>	<u>277,409</u>

(*1) Since the Company decided to sell a marketable equity instrument, momo.com Inc., and investment in joint venture, Shenyang SL Cinema Investment Management Co., Ltd., the relevant assets are classified as non-current assets held for sale.

(*2) The Company measures the assets held for sale at the lower of their carrying amount and fair value less cost to sell and impairment losses for the periods ended December 31, 2019 and 2018 are ₩ 30,503 million and ₩ 61,865 million, respectively.

LOTTE SHOPPING CO., LTD.
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11. Investments in Associates

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

(in millions of Korean won)

2019				
Company	Location	Major operation	Percentage of ownership (%)	Book value
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	₩ 24,827
Zara Retail Korea Co., Ltd.	Korea	Import and selling of clothing	20.00	16,106
Lotte Europe Holdings B.V. (*1,3)	Netherlands	Holding company	-	-
Coralis S.A. (*1)	Luxembourg	Holding company	45.00	41,493
LOTTE PROPERTIES HCMC COMPANY LIMITED	Vietnam	Real estate development	40.00	79,488
Lotte start-up fund No. 1 (*2)	Korea	Investment on new technology	7.35	1,400
Prototype (*5)	Korea	Service	20.00	-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52	6,400
Lotte Card Co. Ltd.	Korea	Specialized credit finance business, etc.	20.00	325,239
Total				₩ 494,953

(in millions of Korean won)

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

11. Investments in Associates, continued

(*1) The Company performed an impairment test for the investee companies based on external valuation agency, as a result of the impairment test, the Company recognized impairment loss for the years ended December 31, 2019 and 2018 as follows:

Valuation method and assumption used in the impairment test are an equivalent of what is applied to the impairment test for cash generating unit of the Company's subsidiary.

<i>(in millions of Korean won)</i>		2019	2018
Lotte Europe Holdings B.V.	₩	6,809	22,663
Coralis S.A.		32,242	-
Hubei XL Cinema Co., Ltd.		-	2,862
Hemisphere Film Investors II LLC		-	2,806
Shandong Longzhile Cinema Co., Ltd.		-	1,122
	₩	<u>39,051</u>	<u>29,453</u>

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

(*3) Disposal was completed during the year 2019.

(*4) These investments have been reclassified to investments in subsidiaries from investments in associates due to additional acquisition during 2019.

(*5) These investments have been succeeded due to the merger of LOTTE. COM INC. during 2018.

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

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

(in millions of Korean won)

2019				
Company	Location	Major operation	Percentage of ownership (%)	Carrying amount
STL Co., Limited (*1)	Korea	Import and selling of clothing	50.00	₩ 1,784
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	12,842
				₩ 14,626

(in millions of Korean won)

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

(*1) The Company performed an impairment test for the investee companies and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2019 and 2018 as follows. Valuation method and assumption used in the impairment test are an equivalent of what is applied to the impairment test for cash generating unit of the Company's subsidiary.

(in millions of Korean won)

	2019	2018
STL Co., Limited	₩ -	4,216
	₩ -	4,216

(*2) Disposal was completed during the year 2019.

(*3) These have been reclassified as assets held for sale during 2019.

LOTTE SHOPPING CO., LTD.
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13. Investments in Subsidiaries

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

(in millions of Korean won)	2019			
Name of entity	Location	Major operation	Percentage of ownership (%)(*1)	Book Value
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	₩ 393,213
Lotte Gimhae Development Co., Ltd.	Korea	Building Maintaining Service company	100.00	300
Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	100.00	66,477
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	100.00	213,563
Lotte GFR Co., Ltd.	Korea	Apparel manufacturing and selling	99.93	72,359
CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95	117,670
LOTTE Himart Co., Ltd. (*3)	Korea	Consumer electronics retail	65.25	1,248,067
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*2)	Hong Kong	Holding company	100.00	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00	460,301
LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46	124,314
Lotte (China) Management Co., Ltd.	China	Managing company	70.00	3,495
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.(*7)	Singapore	Holding company	20.00	14,185
LOTTE Ulsan Development	Korea	Real estate development	96.83	24,783
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00	127,421
Lotte Cultureworks Co., Ltd.	Korea	Cinema	86.37	486,615
Lotte corporate venture fund No. 1 (*4)	Korea	Investment on new technology	18.78	400
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	95.00	4,750
Lotte Real Estate Investment Trust Co.,Ltd. (*8)	Korea	Real estate development	50.00	274,694
Lotte Town DongTan Co., Ltd. (*5)	Korea	Real estate development	100.00	116,724
Lotte Incheon Development Co., Ltd.	Korea	Real estate development	100.00	178,707
Lotte Incheon Town Co., Ltd.	Korea	Real estate development	70.00	12,846
Lotte Shopping Rus LLC.	Russia	Real estate development	100.00	80
				₩ 3,940,964

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

13. Investments in Subsidiaries, continued

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

(in millions of Korean won)

Name of entity	Location	Major operation	2018	
			Percentage of ownership (%)(*1)	Book Value
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	₩ 393,213
Lotte Gimhae Development Co., Ltd.	Korea	Building Maintaining Service company	100.00	300
Lotte Suwon Station Shopping Town Co., Ltd. (*2)	Korea	Real estate development	95.00	62,435
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	56.30	60,000
Lotte GFR Co., Ltd.	Korea	Apparel manufacturing and selling	99.93	72,359
CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95	164,643
LOTTE Himart Co., Ltd. (*3)	Korea	Consumer electronics retail	65.25	1,248,068
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*2)	Hong Kong	Holding company	100.00	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*2)	Singapore	Holding company	100.00	424,548
LOTTE CINEMA VIETNAM CO., LTD. (*2,6)	Vietnam	Cinema	90.00	27,947
LOTTE PROPERTIES (CHENGDU) HK LIMITED (*2)	Hong Kong	Holding company	73.46	153,611
Lotte (China) Management Co., Ltd.	China	Managing company	70.00	3,495
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD. (*7)	Singapore	Holding company	20.00	14,185
LHSC Limited (*6)	Cayman Islands	Holding company	17.58	-
LOTTE Ulsan Development	Korea	Real estate development	94.84	23,900
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00	127,421
Lotte Cultureworks Co., Ltd.	Korea	Cinema	100.00	486,616
Lotte corporate venture fund No. 1 (*4)	Korea	Investment on new technology	18.78	400
PT. LOTTE CINEMA INDONESIA (*2,6)	Indonesia	Cinema	99.98	4,155
Lotte DMC Development Co., Ltd.	Korea	Real estate business, real estate lease	95.00	4,750
Lotte Real Estate Investment Trust Co., Ltd. (*8)	Korea	Real estate development	-	-
Lotte Town DongTan Co., Ltd. (*5)	Korea	Real estate development	-	-
Lotte Incheon Development Co., Ltd.	Korea	Real estate development	-	-
Lotte Incheon Town Co., Ltd.	Korea	Real estate development	-	-
Lotte Shopping Rus LLC.	Russia	Real estate development	-	-
				₩ <u>3,272,046</u>

(*1) Percentage of ownership represents ownership of the Company. Percentage of ownership described in Note 38 represents an ownership of the Company and its subsidiaries.

(*2) The Company shall determine each of subsidiaries as a separate cash generating unit during the years ended December 31, 2019 and 2018 and recognize impairment loss. This recognition of impairment loss is caused by worsened profit and loss, net assets reduction, etc. of subsidiaries.

- The Company recognized impairment loss by calculating recoverable amount based on the value in use and net fair value measured by external valuation agency for the impairment test.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

13. Investments in Subsidiaries, continued

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

- The calculation of value in use and net fair value uses estimation of cash flow before tax based on financial budget over a period of time in the future being approved by management.

-The sales growth rate used for the same period is based on past performance and market prospect and it is an estimation of sales growth rate that is to calculate predictive value of cash flow for a particular period.

- For the calculation of permanent cash flow beyond a particular period, terminal growth rate does not exceed long-term average growth rate of applicable industry of relevant cash generating unit, and estimates of certain growth rate like inflation rate are used.

-The fair value of net assets is calculated by reflecting adjusted amounts made to either assets or liabilities whichever the difference of fair value and book value is significant under judgement.

Impairment losses during the years ended December 31, 2019 and 2018 are as follows.

<i>(in millions of Korean won)</i>		2019	2018
Lotte Suwon Station Shopping Town Co., Ltd.	₩	-	26,984
CS Mart Co., Ltd.		46,973	48,098
Lotte Shopping Holdings (Hong Kong) Co., Ltd.		35,142	730,005
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		70,990	47,565
LOTTE PROPERTIES (CHENGDU) HK LIMITED		29,297	6,780
LOTTE CINEMA VIETNAM CO., LTD.		-	1,649
PT. LOTTE CINEMA INDONESIA		-	191
	₩	<u>182,402</u>	<u>861,272</u>

(*3) During 2018, the Company issued an exchangeable bond which are exchangeable for common stocks of Lotte Himart Co., Ltd.. The total number of shares to be exchanged is 3,536,812 shares, and if all exchangeable bonds are exchanged for the common shares of Lotte Himart Co., Ltd., the Company's percentage of ownership in Lotte Himart Co., Ltd. would have decreased from 65.25% to 50.27%, but there would be no influence on the controlling ability of the Company on Lotte Himart Co., Ltd. Also, the Company concluded the transaction to lend the common shares of Lotte Himart Co., Ltd. to the extent of 50% of the number of shares in subject of exchange, and the number of lent shares as of December 31, 2019 is 1,000,000 shares. The Company's right to vote and dispose the shares is restricted according to the agreement, however there is no influence on the controlling ability of the Company on Lotte Himart Co., Ltd.

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

(*5) These companies have been reclassified to investment in subsidiaries from investment in associates due to additional share acquisition during the year 2019.

(*6) Disposal and liquidation were completed during the year 2019.

(*7) LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD., subsidiary of the Company, possesses 40.00% of the Company.

(*8) In accordance with listing regulation of securities market, these investment are being kept for an year from the acquisition date.

(b) The fair value of marketable shares in subsidiaries as of December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		2019	2018
LOTTE Himart Co., Ltd.	₩	475,961	718,563
Lotte Real Estate Investment Trust Co.,Ltd.		529,664	-

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

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

(in millions of
Korean won)

		2019				2018			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	6,317,411	-	-	6,317,411	7,002,991	-	-	7,002,991
Buildings		5,408,238	(2,013,626)	(11)	3,394,601	6,140,100	(2,181,302)	(1,673)	3,957,125
Structures		332,118	(135,275)	(9,982)	186,861	331,910	(129,694)	(4,771)	197,445
Machinery		97,964	(44,476)	(853)	52,635	96,871	(37,347)	(769)	58,755
Vehicles		5,015	(4,314)	(282)	419	5,239	(4,409)	(187)	643
Display fixtures		65,094	(64,888)	(6)	200	67,313	(67,030)	-	283
Tools and equipment		3,591,150	(2,826,604)	(183,073)	581,473	3,455,339	(2,668,899)	(138,926)	647,514
Construction-in-progress		577,302	-	-	577,302	562,588	-	(51,796)	510,792
Total	₩	16,394,292	(5,089,183)	(194,207)	11,110,902	17,662,351	(5,088,681)	(198,122)	12,375,548

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

(in millions of Korean won)

		2019						
		Beginning balance	Acquisitions	Held for sale	Depreciation	Impairment	Disposals	Ending balance
Land	₩	7,002,991	-	(23,067)	-	-	(415,677)	6,317,410
Buildings		3,957,125	27	(8,893)	(144,290)	-	(364,659)	3,394,600
Structures		197,445	2	-	(12,631)	(6,273)	(2,780)	186,861
Machinery		58,755	1,093	-	(7,129)	(85)	-	52,634
Vehicles		643	163	-	(291)	(97)	-	418
Display fixtures		283	-	-	(77)	(6)	-	200
Tools and equipment		647,515	169,889	(286)	(260,517)	(53,528)	(3,860)	581,473
Construction-in-progress		510,793	190,372	-	-	-	(2,120)	577,303
Total	₩	12,375,550	361,546	(32,246)	(424,935)	(59,989)	(789,096)	11,110,899

(*) Others include reclassification between the accounts and changes in acquisition cost for the year 2019.

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

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

(in millions of Korean won)

		2018										
		Beginning balance	Acquisitions	Spin-off	Business transfer	Merger	Held for sale	Depreciation	Impairment	Disposals	Others(*)	Ending balance
Land	₩	7,232,378	6,968	-	-	-	(176,058)	-	-	(1,355)	(58,942)	7,002,991
Buildings		4,183,918	16,274	-	-	-	(85,721)	(156,602)	(1,662)	(14,045)	14,962	3,957,124
Structures		210,988	-	-	-	-	-	(12,891)	(4,459)	(3)	3,810	197,445
Machinery		40,317	3,799	-	-	-	-	(7,878)	(7)	-	22,524	58,755
Vehicles		850	198	-	-	-	-	(417)	(7)	-	19	643
Display fixtures		64,307	5,926	(103,224)	-	-	-	(11,056)	-	(690)	45,020	283
Tools and equipment		685,036	159,733	-	(6,137)	9,840	-	(263,464)	(46,551)	(8,837)	117,896	647,516
Construction-in-progress		715,950	257,059	-	-	2,663	-	-	(51,796)	-	(413,083)	510,793
Total	₩	13,133,744	449,957	(103,224)	(6,137)	12,503	(261,779)	(452,308)	(104,482)	(24,930)	(267,794)	12,375,550

(*) Others include reclassification between the accounts and changes in acquisition cost for the year 2018.

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

(d) The Company performed impairment test for cash generating units for the years ended December 31, 2019 and 2018 that have indication of impairment, and the details of impairment losses are summarized as follows. The Company has calculated recoverable amounts for cash generating units that have indication of impairment based on financial plans for a particular period which have been approved by management.

(in millions of Korean won)

(in millions of Korean won)

		2019				
		Department stores	Discount stores	Supermarkets	Others	Total
Impairment loss on property, plant and equipment	₩	4,649	31,354	20,772	3,212	59,987
Impairment loss on right-of-use assets		263,475	568,719	112,716	25,565	970,475
Impairment loss on intangible assets (excluding goodwill)		380	570	17	808	1,775
Impairment loss on goodwill		-	2,293	7,961	-	10,254
Impairment loss on other non-current assets		-	1,912	-	-	1,912
Total	₩	268,504	604,848	141,466	29,585	1,044,403

(in millions of Korean won)

(in millions of Korean won)

		2018				
		Department stores	Discount stores	Supermarkets	Others	Total
Impairment loss on property, plant and equipment	₩	61,100	14,583	25,049	3,749	104,481
Impairment loss on intangible assets (excluding goodwill)		30,629	13,105	316	853	44,903
Impairment loss on goodwill		-	-	22,857	-	22,857
Impairment loss on other non-current assets		-	19,347	-	-	19,347
Total	₩	91,729	47,035	48,222	4,602	191,588

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

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.
- The annual revenue growth rate for the following five-year in the future was estimated based on an analysis of average revenue growth rates in the past and GDP growth rates estimated by external agencies. The cash flow after the five-year period is estimated with growth rate of constantly at 0%~1.5% (2018: 1%).
- Weighted average cost of capital in 2019 for peer industry was applied as the discount rate of 5.51% (2018: 8.80%) in determining recoverable amount of each cash-generating units.

The relevant values through major assumption are based on external and internal data (historical data) based on the management's estimation of future trends for distribution industry

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

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

<i>(in millions of Korean won)</i>		2019			
Pledged assets		Book amount	Guaranteed amount	Type of borrowings	Guarantee recipient
Buildings	₩	68,161	52,289	Security deposit for lease	Shinhan Bank and others
Land		64,503	1,632	Provisional attachment on interests	National Health Insurance Service and others

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

<i>(in millions of Korean won)</i>		2019	2018
Capitalized borrowing costs	₩	4,096	5,916
Capitalization interest rates		2.57%	2.49%

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15. Investment Property

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

(in millions of Korean won)

		2019				2018		
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	570,730	-	-	570,730	531,082	-	531,082
Buildings		591,417	(162,841)	(1)	428,575	606,381	(145,675)	460,706
Right-of-use assets		146,605	(11,393)	(18,011)	117,201	-	-	-
Total	₩	<u>1,308,752</u>	<u>(174,234)</u>	<u>(18,012)</u>	<u>1,116,506</u>	<u>1,137,463</u>	<u>(145,675)</u>	<u>991,788</u>

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

(in millions of Korean won)

		2019					
		Beginning balance	Changes in accounting policy	Acquisition	Depreciation	Disposal	Ending balance
Land	₩	531,081	-	-	-	-	570,729
Buildings		460,706	-	-	(14,107)	-	428,575
Right-of-use assets		-	129,685	-	(11,618)	-	117,200
Total	₩	<u>991,787</u>	<u>129,685</u>	<u>-</u>	<u>(25,725)</u>	<u>-</u>	<u>1,116,504</u>

(*) Others include changes in accounting policy and reclassification between the accounts.

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

(in millions of Korean won)

		2018				
		Beginning balance	Acquisition	Depreciation	Disposal	Ending balance
Land	₩	430,386	-	-	-	531,082
Buildings		328,287	-	(15,132)	-	460,706
Total	₩	<u>758,673</u>	<u>-</u>	<u>(15,132)</u>	<u>-</u>	<u>991,788</u>

(*)Others include reclassification between the accounts and etc.

(d) Income and expense from investment property

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

(in millions of Korean won)

		2019	2018
Rental income	₩	87,319	76,134
Direct operating expense (including maintenance and repair expenses)		39,908	53,717

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15. Investment Property, continued

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

<i>(in millions of Korean won)</i>	Location	Book value	Fair value
Land and buildings	40-1 Jamsil-dong, Songpa-gu, Seoul and 103 more.	₩ 1,116,506	1,894,224

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16. Goodwill and Intangible Assets

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

(in millions of
Korean won)

		2019				2018			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	639,017	-	(414,358)	224,659	649,087	-	(414,217)	234,870
Industrial property rights		7,501	(6,450)	(222)	829	7,190	(6,052)	(211)	927
Rights to use facility		40,183	(37,740)	(578)	1,865	525,875	(212,451)	(152,683)	160,741
Membership		16,492	-	(1,808)	14,684	16,543	-	(1,429)	15,114
Other intangible assets		88,384	(50,864)	(32)	37,488	87,410	(60,245)	(2,840)	24,325
Total	₩	791,577	(95,054)	(416,998)	279,525	1,286,105	(278,748)	(571,380)	435,977

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

(in millions of
Korean won)

		2019						
		Beginning balance	Changes in accounting policy	Acquisitions	Amortization	Impairment	Disposals	Others(*)
Goodwill	₩	234,870	-	86	-	(10,254)	(42)	-
Industrial Property rights		927	-	196	(428)	(19)	-	153
Rights to use facility		160,741	(157,287)	-	(1,085)	(570)	-	67
Membership		15,114	-	-	-	(380)	(22)	(30)
Other Intangible assets		24,325	(1,451)	1,467	(7,434)	(805)	(150)	21,537
Total	₩	435,977	(158,738)	1,749	(8,947)	(12,028)	(214)	21,727

(*) Others include reclassification between the accounts.

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

(in millions of Korean won)

		2018								
		Beginning balance	Acquisitions	Spin-off	Business Transfer	Merger	Amortization	Impairment	Disposals	Others(*)
Goodwill	₩	229,568	83	-	(88)	28,265	-	(22,857)	(101)	-
Industrial Property rights		1,201	335	-	-	42	(480)	(133)	(1)	(38)
Rights to use facility		221,675	-	-	-	-	(18,472)	(42,488)	-	26
Membership		17,800	1	-	-	524	-	(1,429)	(421)	(1,361)
Other intangible assets		12,822	21,320	(3,946)	(2,109)	21,543	(30,604)	(852)	-	6,151
Total	₩	483,066	21,739	(3,946)	(2,197)	50,374	(49,556)	(67,759)	(523)	4,778

(*) Others include reclassification between the accounts.

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16. Goodwill and Intangible Assets, continued

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

<i>(in millions of Korean won)</i>		2019	2018
Department stores	₩	192,828	192,828
Discount stores		-	2,293
Supermarkets		3,567	11,484
Others		28,265	28,265
Total	₩	<u>224,660</u>	<u>234,870</u>

The impairment losses on goodwill are recognized because part of book value of cash generating unit exceeded recoverable amount during the year 2019 and 2018.

<i>(in millions of Korean won)</i>		2019	2018
Discount stores	₩	2,293	-
Supermarkets		7,961	22,857
Total	₩	<u>10,254</u>	<u>22,857</u>

The same valuation methods and assumptions used for cash generating units recoverable amount calculation have been used to calculate goodwill impairment above. (See Note 14)

17. Trade and Other Payables

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

<i>(in millions of Korean won)</i>		2019	2018(*)
Trade payables	₩	332,741	326,354
Other payables		1,593,513	1,831,901
Total	₩	<u>1,926,254</u>	<u>2,158,255</u>

(*)The Company has reclassified part of trade payables to other payables of the year 2018 to make it easy to compare with financial statements of the year 2019. This reclassification will not affect net profits and net assets stated in financial statements of the year 2018.

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18. Borrowings and Debentures

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

(in millions of Korean won)

		2019	2018
Current:			
Short-term borrowings	₩	100,000	250,000
Current portion of long-term borrowings		150,000	100,000
Current portion of long-term debentures		1,053,600	1,139,030
Current portion of discount on long-term debentures		(2,330)	(2,763)
Current portion of debentures redemption premium		7,681	7,681
Exchange rights adjustment		(28,499)	(36,705)
Subtotal		1,280,452	1,457,243
Non-current:			
Long-term borrowings		445,347	590,318
Discount on long-term borrowings		-	(259)
Long-term debentures		3,480,983	3,298,184
Discount on debentures		(4,955)	(4,869)
Subtotal		3,921,375	3,883,374
Total	₩	5,201,827	5,340,617

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

(in millions of Korean won)

Lender	Details	Annual interest rate(%)		2019	2018
Shinhan Bank	Financial note	CD(91)+0.30%	₩	100,000	50,000
KTB Investment & Securities Co., Ltd.	Financial note	2.24~2.28%		-	200,000
		Total	₩	100,000	250,000

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

(in millions of Korean won)

Lender	Details	Annual interest rate(%)		2019	2018
Lotte Co., Ltd. (Japan)	Foreign currency	3M Tibor+1.23%	₩	106,347	101,318
Mizuho Corporate Bank, Ltd.	Local currency	1.98%		-	100,000
DB Financial Investment Co., Ltd.	Financial note	2.46%		150,000	150,000
Mizuho Corporate Bank, Ltd.	Local currency	2.35%		165,000	165,000
Mizuho Corporate Bank, Ltd.	Local currency	2.44%		174,000	174,000
	Subtotal			595,347	690,318
Less: Discount on borrowings				(127)	(259)
	Subtotal			595,220	690,059
Less: Current portion of long-term borrowings, net of discount				(149,873)	(100,000)
	Total		₩	445,347	590,059

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18. Borrowings and Debentures, continued

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

(in millions of Korean won)

Description	Maturity	Annual interest rate		2019	2018
59-3rd placed	2019-08-07	3.33%	₩	-	200,000
63-2nd placed	2019-07-02	3.08%		-	200,000
65-1st placed	2020-03-03	2.26%		160,000	160,000
65-2nd placed	2022-03-03	2.45%		240,000	240,000
66-1st placed	2020-06-23	2.40%		130,000	130,000
66-2nd placed	2022-06-23	2.64%		50,000	50,000
66-3rd placed	2025-06-23	2.98%		140,000	140,000
68th placed	2020-07-31	2.40%		110,000	110,000
69-1st placed (foreign currency)	2019-01-29	3M USD Libor+0.55%		-	111,810
69-2nd placed (foreign currency)	2019-01-29	3M USD Libor+0.02%		-	111,810
70-1st placed	2019-04-04	1.77%		-	100,000
70-2nd placed	2021-04-04	2.02%		170,000	170,000
70-3rd placed	2026-04-04	2.48%		70,000	70,000
71th placed (foreign currency)	2019-11-29	1M USD Libor		-	111,810
72-1st placed	2020-01-23	1.94%		240,000	240,000
72-2nd placed	2022-01-23	2.36 %		160,000	160,000
73-1st placed	2020-06-15	2.11%		110,000	110,000
73-2nd placed	2022-06-15	2.50%		150,000	150,000
73-3rd placed	2024-06-15	2.69%		100,000	100,000
74th placed	2022-06-29	2.48%		50,000	50,000
75th placed	2024-08-07	2.74%		150,000	150,000
76-1st placed (foreign currency)	2021-05-21	3M USD Libor		115,780	111,810
76-2nd placed (foreign currency)	2021-05-21	3M USD Libor+0.95%		202,615	195,668
77-1st placed	2021-05-28	2.64%		160,000	160,000
77-2nd placed	2023-05-30	2.96%		310,000	310,000
77-3rd placed	2028-05-30	3.47%		100,000	100,000
78-1st placed (foreign currency)	2021-08-17	3M USD Libor		185,248	178,896
78-2nd placed (foreign currency)	2021-08-28	3M USD Libor + 0.95%		115,780	111,810

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18. Borrowings and Debentures, continued

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

(in millions of Korean won)

Description	Maturity	Annual interest rate		2019	2018
79th placed	2033-08-07	3.55%	₩	70,000	70,000
80th placed	2038-08-29	3.40%		30,000	30,000
81th placed (foreign currency)	2022-01-28	3M USD Libor		115,780	-
82-1st placed	2022-01-28	2.09%		110,000	-
82-2nd placed	2024-01-30	2.29%		150,000	-
82-3rd placed	2029-01-30	2.73%		140,000	-
83-1st placed	2024-08-29	1.64%		100,000	-
83-2nd placed	2026-08-28	1.71%		70,000	-
83-3rd placed	2029-08-29	1.82%		110,000	-
84th placed (foreign currency)	2022-11-29	3M USD Libor		115,780	-
Exchangeable bonds (*1)	2023-04-04	-		303,600	303,600
Subtotal				4,534,583	4,437,214
Less: Discount on debentures				(7,285)	(7,632)
Debentures redemption premium				7,681	7,681
Less: Exchange rights adjustment				(28,499)	(36,705)
Total book value				4,506,480	4,400,558
Less: Current portion of debentures				(1,030,452)	(1,107,243)
Total			₩	3,476,028	3,293,315

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

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

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18. Borrowings and Debentures, continued

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

(7) Call option by the Company:

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

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

(8) Matters relating to exchange:

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

v. Matters for the adjustment of exchange price:

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

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

(in millions of Korean won)

		2019		
		Borrowings	Debentures	Total
2020.01.01 ~ 2020.12.31	₩	150,000	1,053,600	1,203,600
2021.01.01 ~ 2021.12.31		445,347	949,423	1,394,770
2022.01.01 ~ 2022.12.31		-	991,560	991,560
2023.01.01 ~ 2023.12.31		-	310,000	310,000
After 2024.01.01		-	1,230,000	1,230,000
Total	₩	595,347	4,534,583	5,129,930

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19. Unearned Revenues

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

<i>(in millions of Korean won)</i>		2019	2018
Current:			
Membership points	₩	45	70
Other points		47,258	52,166
Unearned rental income		4,269	4,297
Deferred income(*1)		93,748	69,661
Subtotal		145,320	126,194
Non-current:			
Unearned rental income		25,042	28,871
Subtotal		25,042	28,871
Total	₩	170,362	155,065

(*1) Deferred income for the year of 2019 and 2018 include contract liabilities described in Note 29.

20. Provisions

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

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	Ending balance
Current:					
Provision for bonus payable	₩	-	37,736	(37,736)	-
Provision for sales return		1,593	199	(440)	1,352
Provision for restoration		-	2,885	-	2,885
Provisions for litigation		2,405	-	(69)	2,336
Other provisions		11,009	4,772	(15,586)	195
Total		15,007	45,592	(53,831)	6,768
Non-current:					
Provision for restoration		-	148,586	-	148,586
Total	₩	-	148,586	-	148,586

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

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	Ending balance
Provision for bonus payable	₩	-	57,734	(57,734)	-
Provision for sales return		1,593	1,626	(1,626)	1,593
Provisions for litigation		-	2,405	-	2,405
Other provisions		-	12,786	(1,777)	11,009
Total	₩	1,593	74,551	(61,137)	15,007

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21. Other Non-financial Liabilities

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

<i>(in millions of Korean won)</i>		2019	2018
Current:			
Withholdings	₩	16,386	13,300
Withholdings of value added tax		99,900	59,998
Advances received		779,167	722,310
Subtotal		895,453	795,608
Non-current:			
Other liabilities		-	51,194
Subtotal		-	51,194
Total	₩	895,453	846,802

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22. Employee Benefits

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

<i>(in millions of Korean won)</i>		2019	2018
Present value of defined benefit obligations	₩	689,972	591,984
Fair value of plan assets		(725,076)	(638,969)
Defined benefit assets	₩	(35,104)	(46,985)

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

<i>(in millions of Korean won)</i>		2019	2018
Present value of other long-term employee benefits	₩	66,809	55,730

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

<i>(in millions of Korean won)</i>		2019	2018
Beginning balance	₩	591,984	511,984
Current service cost		79,749	74,058
Interest costs		15,032	14,724
Remeasurements:			
Actuarial loss from change in demographic assumptions		-	2,250
Actuarial loss from change in financial assumptions		21,345	20,966
Actuarial loss from experience adjustments		18,643	9,258
Subtotal		39,988	32,474
Benefit payments		(44,359)	(43,096)
Others		7,578	9,168
Changes due to spin-off		-	(22,315)
Changes due to merger		-	14,987
Ending balance	₩	689,972	591,984

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22. Employee Benefits, continued

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

<i>(in millions of Korean won)</i>		2019	2018
Beginning balance	₩	638,969	547,049
Return on plan assets		17,996	17,910
Remeasurements		(6,435)	(8,690)
Employer contribution		103,500	119,800
Benefit payments		(31,590)	(31,639)
Others		2,636	4,020
Changes due to spin-off		-	(24,041)
Changes due to merger		-	14,561
Ending balance	₩	<u>725,076</u>	<u>638,970</u>

The estimated contributions to the plan for the next annual reporting period are ₩92,261 million.

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

<i>(in millions of Korean won)</i>		2019	2018
Principal guaranteed insurance policies	₩	725,051	638,942
Contributions to the National Pension Fund		25	27
Total	₩	<u>725,076</u>	<u>638,969</u>

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

<i>(in millions of Korean won)</i>		2019	2018
Current service costs	₩	79,749	74,058
Interest costs		15,032	14,724
Return on plan assets		(17,996)	(17,910)
Contributions to defined contribution plans		2,627	438
Long-term employee benefits		15,722	8,258
Total	₩	<u>95,134</u>	<u>79,568</u>

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22. Employee Benefits, continued

(g) Defined benefit obligation

(i) Actuarial assumptions

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

	2019	2018
Discount rate	2.07 ~ 2.96%	2.50 ~ 3.80%
Expected rate of promotion	1.43 ~ 2.94%	1.43 ~ 2.94%
Expected rate of increase in salaries	0.80 ~ 11.43%	1.23 ~ 10.86%

(ii) 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>	Increase	Decrease
Discount rate (1% movement)	₩ (52,519)	60,420
Expected rate of promotion (1% movement)	60,268	(41,299)
Expected rate of increase in salaries (1% movement)	59,454	(52,663)

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.

(h) Maturity profile of defined benefit obligation

Information about the maturity profile of the defined benefit obligation as of December 31, 2019, is as follows:

<i>(in millions of Korean won)</i>		Less than 1 year	Between 1-2 years	Between 2-5 years	Between 5-10 years	Over 10 years
Benefits payment	₩	91,398	58,032	196,679	440,198	1,292,011

The weighted average duration of the defined benefit obligation is 8.29 years.

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23. Derivatives

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

Purpose	Type	Description
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures and borrowings in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Fixed interest is paid regarding variable interest of KRW and foreign currency borrowings.
Trade	Embedded derivatives	The right of exchange for exchangeable bonds issued by the Company.
	Total return swap(*1)	Cash flows of an investor in beneficiary are exchanged with contracted cash flows.
	Stock options	Right to buy preferred shares is held or the right to sell preferred shares of related companies is granted

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

(in millions of Korean won)

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

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23. Derivatives, continued

(b) Hedge accounting

As of December 31, 2019, the Company entered into currency swap contracts to hedge fair value risk that debentures issued in foreign currency redeemed on the maturity date are dependent on changes in foreign currency. The gain or loss arising from changes in fair value of derivatives are recognized as profit or loss for the period since gain or loss on foreign currency translation from the debentures issued in foreign currency can be hedged through the currency swap.

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

Details of derivative contracts for hedging as of December 31, 2019 are as follows:

Type	Description	Principal amount	Fixed exchange rate (in Korean won)	Variable rate	Swap rate	Maturity	Remark
Currency swap	76-1st placed (foreign currency)	USD 100,000,000	₩ 1,078.50	3M USD Libor	2.38%	2021.05.21	The Bank of Tokyo-Mitsubishi UFJ
	76-2nd placed (foreign currency)	USD 175,000,000	1,078.50	3M USD Libor+0.95	2.26%	2021.05.21	Sumitomo Mitsui Banking Corporation
	78-1st placed (foreign currency)	USD 160,000,000	1,136	3M USD Libor	2.46%	2021.08.17	The Bank of Tokyo-Mitsubishi UFJ
	78-2st placed (foreign currency)	USD 100,000,000	1,122	3M USD Libor+0.95	2.27%	2021.08.28	The Development Bank of Singapore
	81 placed (foreign currency)	USD 100,000,000	1,128	3M USD Libor	2.24%	2022.01.28	The Bank of Tokyo-Mitsubishi UFJ
	84 placed (foreign currency)	USD 100,000,000	1,177	3M USD Libor	1.87%	2022.11.29	The Bank of Tokyo-Mitsubishi UFJ
Interest rate swap	Short term borrowings	KRW 100,000,000	Not applicable	91 days CD rate +0.30%	1.72%	2020.09.22	Shinhan Bank

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23. Derivatives, continued

(c) Gain or loss on valuation of derivatives

Changes in the fair value of derivatives for the year ended December 31, 2019 are as follows:

(in millions of Korean won)

Purpose	Type	Amount	Remarks
Cash flow hedge	Currency swaps	₩ 22,300	Profit or loss(*1)
		(4,189)	Other comprehensive income(*2)
	Interest swaps	(321)	Other comprehensive income(*2)
Trade	Embedded derivatives	4,537	Profit or loss
	Total return swap	840	Profit or loss
	Stock options	(7,712)	Profit or loss

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

(*2) The aggregate amounts of loss on valuation of derivatives incurred as of December 31, 2019 are ₩16,706 million. The Company recognized accumulated other comprehensive loss of ₩12,112 million (less tax effects of ₩4,594 million).

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24. Capital Stock and Capital Surplus

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

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

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

<i>(in millions of Korean won)</i>		2019	2018
Additional paid-in capital	₩	3,414,873	3,414,873
Others		175,663	175,663
Total	₩	3,590,536	3,590,536

25. Capital Adjustments

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

<i>(in millions of Korean won)</i>		2019	2018
Treasury stocks	₩	3,803	3,803
Changes due to merger		14,423	14,423
Other capital adjustments		2,800,072	2,800,072
Total	₩	2,818,298	2,818,298

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26. Retained Earnings

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

<i>(in millions of Korean won)</i>		2019	2018
Legal reserves	₩	231,142	216,441
Voluntary reserves		10,220,052	10,920,052
Unappropriated deficit		(763,155)	(518,182)
	₩	<u>9,688,039</u>	<u>10,618,311</u>

(b) The appropriation of retained earnings for the years ended December 31, 2019 and 2018 are as follows:

<i>(in millions of Korean won)</i>		2019	2018
Unappropriated retained earnings carried over from prior year	₩	20,110	26,812
Adjustment of beginning balance (changes in accounting policies)		4,093	12,190
Remeasurements of net defined benefit liabilities		(33,657)	(29,773)
Interests of hybrid securities		-	(12,581)
Loss from sale of equity instruments at fair value through other comprehensive income		-	(11,911)
Loss for the period		<u>(753,701)</u>	<u>(502,918)</u>
		<u>(763,155)</u>	<u>(518,181)</u>
Transfers such as voluntary reserves		<u>900,000</u>	<u>700,000</u>
Appropriation of retained earnings			
Legal reserve		10,743	14,700
Voluntary reserve		-	-
Dividends (Cash dividend %):			
Common stock : ₩3,800(76%) in 2019 and ₩5,200(104%) in 2018		<u>107,428</u>	<u>147,007</u>
		<u>118,171</u>	<u>161,707</u>
Unappropriated retained earnings to be carried forward	₩	<u>18,674</u>	<u>20,112</u>

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27. Accumulated Other Comprehensive Income (loss)

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

(in millions of Korean won)

		2019				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	49,057	37,209	-	(10,232)	76,034
Cash flow hedge		(8,842)	(5,436)	927	1,240	(12,111)
	₩	<u>40,215</u>	<u>31,773</u>	<u>927</u>	<u>(8,992)</u>	<u>63,923</u>

(in millions of Korean won)

(in millions of Korean won)		2018					
		Beginning balance	Changes in accounting policy	Changes for the year	Reclassification on adjustments	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income (*)	₩	42,158	(12,190)	9,899	16,429	(7,240)	49,056
Cash flow hedge		(3,388)	-	(9,921)	2,398	2,069	(8,842)
	₩	38,770	(12,190)	(22)	18,827	(5,171)	40,214

(*) Fair value gain (loss) through other comprehensive income was classified as gains (losses) on valuation of available-for-sale financial assets in the 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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28. Earnings (losses) per Share

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

<i>(in Korean won, except for number of shares)</i>	2019	2018
Loss for the year attributable to the owners of the Company	₩ (753,701,309,562)	₩ (502,918,275,384)
Interests of hybrid securities	-	(12,581,295,612)
Weighted average number of common shares for diluted earnings per share	28,270,640	28,173,381
Diluted loss per share	₩ (26,660)	₩ (18,297)

(b) Diluted earnings (losses) per share

Basic and diluted earnings (losses) per share are the same since any potential common shares have not issued.

29. Sales

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

<i>(in millions of Korean won)</i>	2019	2018
Revenue from contracts with customers		
Sales of merchandise	₩ 14,455,368	15,425,232
Sales of products	488,879	306,939
Other sales	316,867	394,415
Total sales	15,261,114	16,126,586
Sales discounts and sales returns	(862,859)	(833,097)
Provision for sales return and deferred sales	(204,649)	(200,889)
Cost of specific sales	(5,820,669)	(6,191,695)
Total sales deduction	(6,888,177)	(7,225,681)
Revenue from other sources: rental revenue	1,322,388	1,316,883
Total	₩ 9,695,325	10,217,788

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

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

<i>(in millions of Korean won)</i>		2019	2018
Contract assets			
Inventory expected for return	₩	487	441
		<u>487</u>	<u>441</u>
Contract liabilities			
Customer loyalty program		89,700	62,898
Gift vouchers		778,085	728,315
Other		43,293	41,590
Total	₩	<u>911,078</u>	<u>832,803</u>

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

<i>(in millions of Korean won)</i>		2019	2018
Revenue			
Customer loyalty programs		62,898	56,253
Others	₩	40,843	43,839
Subtotal		<u>103,741</u>	<u>100,092</u>
Collected			
Gift vouchers		474,643	380,929
Subtotal	₩	<u>474,643</u>	<u>380,929</u>

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

<i>(in millions of Korean won)</i>		Book amount	1 year	Between 1-5 years	Over 5 years
	₩	778,086	507,079	268,055	2,952

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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, 2019 and December 31, 2018 are as follows:

<i>(in millions of Korean won)</i>		2019	2018
Salaries and bonuses	₩	918,968	945,178
Retirement benefits		78,624	70,865
Long-term employee benefits		15,529	8,257
Employee benefits		171,325	168,329
Training expenses		8,842	9,183
Travel expenses		14,968	16,364
Vehicles maintenance expenses		1,517	1,519
Insurance premium		10,999	11,048
Taxes and dues		157,714	154,521
Entertainment expenses		1,920	1,248
Supplies expenses		42,819	47,746
Publication expenses		847	813
Communication expenses		10,973	10,478
Utility expenses		231,751	244,044
Repairs and maintenance		26,105	22,965
Paid rents		117,387	773,645
Depreciation		1,060,655	461,367
Amortization		8,928	23,201
Commission expenses		540,733	552,497
Service commission expenses		765,140	778,375
Advertising expenses		114,223	113,760
Samples expenses		176	236
Sales commissions		108,298	145,779
Sales promotion expenses		84,278	74,956
Decoration expenses		7,615	14,198
Bad debt expense		115	425
Transportation expenses		25,344	22,503
Research and development expenses		199	207
Compensation expenses		7,822	15,863
Provisions		(20)	65
Others		1,903	1,899
Total	₩	<u>4,535,697</u>	<u>4,691,534</u>

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31. Other Income and Expenses

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

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
Other income:			
Gain on foreign currency transactions	₩	1,295	808
Gain on foreign currency translation		170	352
Gain on disposal of property, plant and equipment		159,910	2,582
Gain on disposal of intangible assets		3	589
Gain on termination of financial lease		2,392	-
Gain on disposal of right-of-use assets		2,275	-
Gain on disposal of assets and liabilities held for sale		3,179	11,422
Reversal of impairment losses on other non-current assets		-	52
Miscellaneous gains		<u>28,988</u>	<u>38,203</u>
Total	₩	<u>198,212</u>	<u>54,008</u>
Other expenses:			
Loss on foreign currency transactions	₩	1,207	1,285
Loss on foreign currency translation		70	42
Loss on disposal of property, plant and equipment		5,583	5,338
Impairment loss on right-of-use assets		970,474	-
Impairment loss on property, plant and equipment		59,988	104,482
Loss on disposal of intangible assets		227	262
Impairment loss on intangible assets and goodwill		12,028	67,759
Loss on termination of lease		574	-
Loss on disposal of right-of-use assets		4,897	-
Impairment loss on assets held for sale		30,504	61,866
Impairment loss on other non-current assets		1,911	19,347
Impairment loss on business transfer		-	2,791
Donations		12,329	12,711
Other bad debt expenses (reversal of provisions)		5,718	778
Taxes and dues		56	716
Miscellaneous losses		<u>60,910</u>	<u>45,772</u>
Total	₩	<u>1,166,476</u>	<u>323,149</u>

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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32. Nature of Expenses

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

<i>(in millions of Korean won)</i>		2019	2018
Purchase of inventories	₩	4,793,685	4,972,554
Changes in inventories		7,982	10,985
Employee benefits		1,197,765	1,204,093
Paid rents		120,522	776,060
Depreciation and amortization		1,078,991	516,996
Sales commissions		108,298	145,779
Sales promotion expenses		84,278	74,956
Commission expenses		540,845	552,632
Service expenses		783,039	792,325
Advertising expenses		123,586	123,123
Utility expenses		234,360	246,413
Taxes and dues		157,909	154,704
Others		193,046	244,028
Total of cost of goods sales and selling, general and administrative expenses	₩	<u>9,424,306</u>	<u>9,814,648</u>

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33. Finance Income and Finance Costs

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

(in millions of Korean won)

		<u>2019</u>	<u>2018</u>
Finance income:			
Interest income according to the effective interest rate method	₩	70,801	64,897
Dividend income		92,497	116,114
Gain on foreign currency transactions		9,710	5,270
Gain on foreign currency translation		1,920	4,013
Gain on disposal of debt instrument at fair value through profit or loss		77	1
Gain on valuation of debt instrument at fair value through profit or loss		492	229
Gain on valuation of derivatives held for hedging		24,220	24,900
Gain on valuation of derivatives held for trading		5,476	24,758
Gain on transaction of derivatives held for hedging		6,820	22,745
Gain on transaction of derivatives held for trading		557	425
Gain on disposal of investments in subsidiaries, associates and joint ventures		989	472
Reversal of financial guarantee liabilities		61,476	232,437
Total	₩	<u>275,035</u>	<u>496,261</u>
Finance costs:			
Interest expense according to the effective interest rate method	₩	311,268	127,528
Loss on foreign currency transactions		9,496	28,102
Loss on foreign currency translation		32,236	28,472
Loss on valuation of debt instrument at fair value through profit or loss		1,132	311
Loss on disposal of debt instrument at fair value through profit or loss		2	
Loss on valuation of derivatives held for hedging		1,920	3,254
Loss on valuation of derivatives held for trading		7,811	567
Loss on transaction of derivatives held for hedging		120	-
Loss on transaction of derivatives held for trading		468	361
Other bad debt expenses (finance)		-	5,108
Loss on disposal of investments in subsidiaries, associates and joint ventures		839	156
Impairment loss on investments in subsidiaries, associates and joint ventures		221,453	894,942
Total	₩	<u>586,745</u>	<u>1,088,801</u>

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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, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019							
		Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Other financial liabilities
Recognized in profit or loss									
Interest income	₩	26,194	44,608	-	-	-	-	-	70,802
Interest expense		-	-	-	-	-	-	(311,268)	(311,268)
Dividend income		-	-	2,518	3,776	-	-	-	6,294
Valuation/ Disposal		-	-	(565)	-	(2,246)	29,000	-	26,189
Impairment		-	(5,833)	-	-	-	-	-	(5,833)
Exchange differences		4,468	(445)	-	(65)	-	-	(33,901)	12
Reversal of financial guarantee liabilities		-	-	-	-	-	-	-	61,476
Subtotal		30,662	38,330	1,953	3,711	(2,246)	29,000	(345,169)	61,488
Recognized in other comprehensive income (loss) (*1)									
Fair value gain through other comprehensive income (*1)		-	-	-	37,208	-	-	-	37,208
Gain on valuation of derivatives (*1)		-	-	-	-	-	(4,510)	-	(4,510)
Subtotal		-	-	-	37,208	-	(4,510)	-	32,698
Total	₩	30,662	38,330	1,953	40,919	(2,246)	24,490	(345,169)	61,488

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

(in millions of Korean won)

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

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

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34. Income Taxes

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

<i>(in millions of Korean won)</i>		2019	2018
Current income taxes	₩	104,576	12,309
Deferred tax due to temporary differences		(362,053)	21,426
Total income tax effect		(257,477)	33,735
Income tax charged directly to equity		2,221	10,640
Income tax income (expense)	₩	(255,256)	44,375

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

<i>(in millions of Korean won)</i>		2019	2018
Fair value loss through other comprehensive income	₩	(10,232)	(7,240)
Gain (loss) on valuation of derivatives		1,240	2,069
Remeasurements of defined benefit liabilities		12,766	11,293
Effect of changes in accounting policy		(1,553)	4,518
Income tax charged directly to equity	₩	2,221	10,640

Income tax related to fair value loss through other comprehensive income, gain (loss) on valuation of derivatives, remeasurements of defined benefit liabilities and effects of changes in accounting policy are recognized in other comprehensive income.

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34. Income Taxes, continued

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

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Loss before income tax expense	₩	(1,008,957)	(458,543)
Income tax using statutory tax rate		(277,463)	(110,967)
Adjustment:		22,208	155,343
Tax effects on non-taxable income		(8,616)	(14,078)
Tax effects on non-deductible expense		5,794	25,830
Tax credit		(971)	(361)
Adjustment for prior periods		21,036	(7,962)
Changes in temporary differences that are not realizable		15,301	148,534
Others		(10,336)	3,380
Income tax expense	₩	<u>(255,255)</u>	<u>44,376</u>
Effective tax rate (*)		-	-

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

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

LOTTE SHOPPING CO., LTD.
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34. Income Taxes, continued

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

(in millions of Korean won)

		2019			
		Beginning balance	Profit or loss	Equity	Ending balance
Investments in subsidiaries and associates	₩	(3,954)	-	-	(3,954)
Depreciation		55,893	(3,458)	-	52,435
Allowance for bad debt		(396)	267	-	(129)
Accrued income		(875)	(524)	-	(1,399)
Losses on valuation of inventories		2,363	577	-	2,940
Provision for sales return		322	(80)	-	242
Property, plant and equipment (capitalization of borrowing costs)		(12,656)	1,757	-	(10,899)
Land		36,987	-	-	36,987
Land (asset revaluation)		(1,123,079)	78,098	-	(1,044,981)
Accrued expense		35,765	(24,236)	-	11,529
Gain (loss) on foreign currency translation		1,767	-	-	1,767
Construction-in-progress		1,710	(76)	-	1,634
Impairment loss on intangible assets		39,656	(3,508)	-	36,148
Security deposits for leases		15,179	(2,153)	-	13,026
Goodwill		(33,941)	(13,555)	-	(47,496)
Exchangeable bonds		(10,094)	2,257	-	(7,837)
Fair value loss through other comprehensive income		(18,608)	-	(10,232)	(28,840)
Gain(loss) on valuation of derivatives		(1,323)	5,421	1,240	5,338
Salaries and retirement benefits		11,765	(3,951)	12,766	20,580
Right-of-use assets and lease liabilities		-	326,187	(1,553)	324,634
Others		55,964	(3,192)	-	52,772
Total	₩	(947,555)	359,831	2,221	(585,503)

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

34. Income Taxes, continued

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

(in millions of Korean won)

(in millions of Korean won)

		2018				
		Beginning balance	Merger	Profit or loss	Equity	Ending balance
Impairment loss on available-for-sale financial assets	₩	7,588	(4,624)	(2,964)	-	-
Investments in subsidiaries and associates		(3,954)	-	-	-	(3,954)
Depreciation		56,987	4	(1,098)	-	55,893
Allowance for bad debt expense		434	21	(851)	-	(396)
Accrued income		(892)	(23)	40	-	(875)
Losses on valuation of inventories		5,788	-	(3,425)	-	2,363
Provision for sales return		278	43	1	-	322
Property, plant and equipment (capitalization of borrowing costs)		(11,333)	-	(1,324)	-	(12,657)
Land		36,987	-	-	-	36,987
Land (asset revaluation)		(1,123,170)	-	91	-	(1,123,079)
Accrued expense		31,747	-	4,018	-	35,765
Gain (loss) on foreign currency translation		1,767	-	-	-	1,767
Construction-in-progress		1,787	-	(77)	-	1,710
Impairment loss on intangible assets		29,830	-	9,826	-	39,656
Rental guarantee deposits		17,559	1	(2,380)	-	15,180
Goodwill		(14,806)	-	(19,136)	-	(33,942)
Exchangeable bonds		(7)	-	(10,086)	-	(10,093)
Fair value loss through other comprehensive income		-	(11,347)	-	(7,240)	(18,587)
Gain(loss) on valuation of available-for-sale financial instrument		(15,991)	15,991	-	-	-
Gain (loss) on valuation of derivatives		(8,482)	-	5,090	2,069	(1,323)
Salaries and retirement benefits		13,198	884	(13,611)	11,293	11,764
Others		50,602	(2,996)	3,820	4,518	55,944
Total	₩	(924,083)	(2,046)	(32,066)	10,640	(947,555)

- (f) Temporary differences not recognized as deferred tax assets related to investments in associates and subsidiaries as of December 31, 2019 and 2018 are ₩3,484,840 million and ₩3,432,746 million, respectively.

- (g) As of December 31, 2019 and 2018, 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)

		2019	2018
Deferred tax assets	₩	2,364,639	544,207
Deferred tax liabilities		2,950,141	1,491,762
Current tax assets		13,824	30,409
Current tax liabilities		109,815	26,366

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

35. Separate Statements of Cash Flows

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

<i>(in millions of Korean won)</i>		2019	2018
Cash	₩	11,537	12,101
Deposits		29,985	27,410
Other cash equivalents		685,287	965,809
Total	₩	<u>726,809</u>	<u>1,005,320</u>

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

(i) Adjustments

<i>(in millions of Korean won)</i>		2019	2018
Income tax expense	₩	(255,255)	44,376
Retirement benefits		76,785	70,872
Long-term employee benefits		15,722	8,319
Depreciation		1,070,044	467,439
Amortization		8,947	49,556
Impairment loss on property, plant and equipment		59,988	104,482
Impairment loss on intangible assets and goodwill		12,028	67,759
Impairment loss on asset held for sale		30,504	61,866
Impairment loss on right-of-use assets		970,474	-
Loss on foreign currency translation		32,306	28,514
Loss on foreign currency transactions		9,496	28,102
Loss on disposal of property, plant and equipment		5,583	5,338
Loss on business transfer		-	2,791
Loss on disposal of intangible assets		227	262
Loss on disposal of right-of-use assets		4,897	-
Loss on valuation of debt instrument at fair value through profit or loss		1,132	311
Loss on disposal of debt instrument at fair value through profit or loss		2	-
Bad debt expenses		115	425
Other bad debt expenses		5,718	5,886
Impairment loss on other non-current assets		1,911	19,347
Loss on valuation of derivatives		9,731	3,821
Loss on transactions of derivatives		588	361
Rental expenses (amortization of discount on deposit, etc.)		1,074	59,848
Loss on lease termination		574	-
Loss on disposal of investments in subsidiaries, associates and joint ventures		839	156
Impairment loss on investments in subsidiaries, associates and joint ventures		221,453	894,942
Interest expense		311,268	127,528
Miscellaneous losses		13,211	1,311

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

35. Separate Statements of Cash Flows, continued

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

(i) Adjustments, continued

<i>(in millions of Korean won)</i>		2019	2018
Other expenses without cash outflows	₩	220	9,361
Gain on foreign currency translation		(2,090)	(4,365)
Gain on foreign currency transactions		(9,710)	(5,270)
Gain on disposal of property, plant and equipment		(159,910)	(2,582)
Gain on valuation of debt instrument at fair value through profit or loss		(492)	(229)
Gain on valuation of derivatives		(29,696)	(49,658)
Gain on transactions of derivatives		(7,377)	(23,170)
Gain on lease termination		(2,392)	-
Gain on disposal of right-of-use assets		(2,275)	-
Reversal of impairment loss on other non-current assets		-	(52)
Gain on disposal of investments in subsidiaries, associates and joint ventures		(989)	(472)
Gain on disposal of debt instrument at fair value through profit or loss		(77)	(1)
Reversal of financial guarantee costs		(61,476)	(232,437)
Gain on disposal of intangible assets		(3)	(589)
Gain on disposal of asset held for sale		(3,179)	(11,422)
Rental income		(5,113)	(4,635)
Interest income		(70,800)	(64,897)
Dividends income		(92,497)	(116,114)
Miscellaneous gains		-	(16)
Total	₩	<u>2,161,506</u>	<u>1,547,064</u>

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

35. Separate Statements of Cash Flows, continued

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

(ii) Changes in operating assets and liabilities

(in millions of Korean won)

		2019	2018
Decrease of trade receivables	₩	50,703	96,390
Decrease (increase) of other receivables		(14,025)	28,732
Decrease (increase) in other financial assets		(66,723)	4,884
Decrease (increase) of inventories		7,074	(15,078)
Decrease (increase) in other non-financial assets		11,693	(35,926)
Increase (decrease) of trade payables		6,502	(516,523)
Decrease of other payables		(216,509)	(110,227)
Increase of other financial liabilities		17,242	96,715
Increase (decrease) in other non-financial liabilities		104,406	(4,439)
Increase of deferred income		18,949	8,853
Increase (decrease) of provisions		(10,248)	231
Payment of other long-term employee benefits		(5,517)	(3,983)
Payment of defined benefit assets		(43,479)	(39,106)
Increase in plan assets		(72,789)	(91,450)
Total	₩	(212,721)	(580,927)

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

(in millions of Korean won)

		2019	2018
Other payables for acquisition of property, plant and equipment	₩	(16,586)	(3,611)
Acquisition of right-of-use assets		886,285	-
Increase in stock from in-kind contribution in subsidiaries		269,694	-

LOTTE SHOPPING CO., LTD.
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35. Separate Statements of Cash Flows, continued

(d) Adjustment in liabilities arising from financial activities for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019				
		Other assets	Liabilities from financing activities			
		Current derivatives liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	Lease liabilities	Total
Beginning balance	₩	(318)	1,457,243	3,883,374	5,986,115	11,326,414
Net cash flow from financing activities		-	(1,106,500)	908,448	(461,737)	(659,789)
Non-cash flows						
Transfer to current portion		318	913,828	(851,423)	917,834	980,557
Foreign currency translation		-	6,820	(21,111)	-	(14,291)
Others		-	9,062	2,087	(1,471)	9,678
Ending balance	₩	-	1,280,453	3,921,375	6,440,741	11,642,569

(in millions of Korean won)

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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36. Greenhouse Gases Emission Rights

(a) Emission Right

The Company participates in the allocation and trading system of emissions from 2015. 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	810,303
2019	707,966
2020	707,965

The Company has carried forward emission right of 112,674 tCO₂-eq from the previous compliance period. The Company submitted emission right of 801,340 tCO₂-eq to the government in 2018. There is no pledged emission and the Company has 1,507,106 tCO₂-eq as of December 31, 2019.

(b) Emission liabilities

The Company disposed 22,640 tCO₂-eq and 30,462 tCO₂-eq of emission in 2018 and 2019, respectively. The Company estimated to emit 717,057 tCO₂-eq of CO₂ in 2019.

37. Contingencies and Commitments

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

(in millions of Korean won, full foreign currency)

	<u>Currency</u>	<u>Credit line</u>	<u>Amount used under credit facility</u>
General loan	KRW	339,000	339,000
Discount of bill	KRW	250,000	250,000
Buyer's credit	KRW	240,000	-
Bank overdraft	KRW	45,000	-
Guarantee payment of foreign currency	USD	50,000,000	-
Letter of credit and others	USD	23,000,000	11,480,424

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

(c) As of December 31, 2019, the Company is involved in 27 lawsuits as a plaintiff with damage claims totaling ₩47,327 million and is involved in 26 lawsuits as a defendant with damage claims totaling ₩54,338 million. The management believes that the ultimate resolutions of other legal actions will not have a material impact on the financial position or results of operations of the Company.

Also, the Company is involved in 7 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩23,387 million and the Company recognized other liabilities of ₩2,336 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2018.

(d) As of December 31, 2019, the Company has entered into loan agreements securing trade receivables with Industrial Bank of Korea and others amounting to ₩402,000 million.

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

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

- (f) Brand usage contract, etc.

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

- (g) The Company was fined ₩41,200 million by the Fair Trade Commission in connection with the promotion cost of the discount store business unit and set it as other financial liabilities. In this regard, the Company will proceed with administrative litigation against the Fair Trade Commission, and at this time the Company cannot reliably estimate the impacts from the result of the litigation.
- (h) As of December 31, 2019, the Company has designated the Company or a third party that requires the purchase of the entire credit loan receivable with respect to Lotte Capital Co., LTD. and KEB Hana bank in connection with the new collateral plan (₩50.8 billion, maturing on March 25th, 2022) of KORAMCO Specialty Investment Private Property Investment Trust No. 57.
- (i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust No.29 for ₩220 billion in 2008 and the Company has been leasing back the assets. The Company has the preemptive options to purchase the land and the building at a fair value at the end of the lease.

The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust No.1~4 for ₩594.9 billion in 2010 and 2011, and the Company has been leasing back the assets. The Company has the preemptive options to purchase the land and the building at a fair value at the end of the lease

The Company has been leasing the building of Lotte outlet asiapolis store from KB Star Retail Private Real Estate Investment Trust No.1 since 2013 and the Company has the preferential right of negotiation to purchase the building.

In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust No.1 for ₩601.7 billion and the Company has been leasing back the assets. The Company disposed land and buildings of 2 Lotte department stores including Dongrae store and 3 Lotte mart stores including Sung Jung store to Capstone Private Real Estate Investment Trust No.11 for ₩500.1 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

In 2015, the Company disposed land and buildings of Lotte outlets store Gwang Myeong to KTB Confidence Private Real Estate Investment Trust No.55 for ₩146.9 billion and the Company has been leasing the assets. And the Company disposed of land and buildings of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust No.81 for ₩55.1 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

The Company has been leasing the land and buildings of Lotte department store Gangnam. Starting 2019, the Company has been leasing the land and buildings of Lotte department store Gangnam of LOTTE REIT Co., Ltd. for ₩269.7 billion. The Company disposed the land and buildings of 5 branches including Lotte department store Changwon and 4 branches including Lotte mart Euiwang for ₩1,062.3 billion and the Company has been leasing back the assets. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

37. Contingencies and Commitments, continued

- (j) During 2018, the land and buildings of Lotte Mart's Geumcheon branch are sold for ₩64.2 billion to the KORAMCO Specialty Investment Private Property Investment Trust No.82 and the Company has been leasing back from KORAMCO respectively. The Company has the preferential right of negotiation to purchase the land and the building at the end of the lease.
- (k) During 2019, the Company granted LOTTE REIT Co., Ltd. the preferential right of negotiation to purchase 17 branches including Lotte department store Myeondong and 67 branches including Lotte Mart Gangbyeon.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

38. Related Party Transactions

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

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

(*) It has a significant influence over the Company

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
Woori Home Shopping & Television Co., Ltd.	53.03	-	53.03
Lotte DatViet Homeshopping Co., Ltd.	-	91.77	91.77
Lotte GFR (Formerly, NCF)	99.93	-	99.93
Lotte Gimhae Development Co., Ltd.	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	100.00	-	100.00
Lotte Songdo Shopping Town Co., Ltd.	100.00	-	100.00
CS Mart Co., Ltd.	99.95	-	99.95
Lotte Himart Co., Ltd. (*)	65.25	-	65.25
Lotte Ulsan Development Co., Ltd.	96.83	-	96.83
Lotte Cultureworks Co., Ltd.	86.37	-	86.37
Lotte Cinema Hong Kong Co., Limited	-	100.00	100.00
LOTTE CINEMA VIETNAM CO., LTD.	-	90.00	90.00
PT. LOTTE CINEMA INDONESIA	-	100.00	100.00
Lotte corporate venture fund No. 1	18.78	79.81	98.59
Lotte DMC Development Co., Ltd.	95.00	-	95.00
LOTTE REIT Co., Ltd	50.00	-	50.00
Lotte Incheon Development Co., Ltd	100.00	-	100.00
Lotte Incheon Town Co., Ltd	70.00	-	70.00
LOTTE Town Dongtan Co., LTD	100.00	-	100.00
Lotte (China) Management Co., Ltd.	70.00	-	70.00
LOTTE SHOPPING RUS Ltd.	100.00	-	100.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	100.00	-	100.00
Liaoning LOTTE Mart Co., Ltd.	-	100.00	100.00
Jilin LOTTE Mart Co., Ltd.	-	100.00	100.00
Lotte Business Management (Tianjin) Co., Ltd.	-	100.00	100.00
Lotte Department Store (Shenyang) Co., Ltd.	-	100.00	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	-	100.00	100.00
Lotte Department Store (Chengdu) Co., Ltd.	-	100.00	100.00
Lotte Shopping Business Management (Hong Kong) Limited	-	100.00	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	73.46	-	73.46
Lotte Properties (Chengdu) Limited	-	100.00	100.00

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

38. Related Party Transactions, continued

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

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

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

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

(in millions of Korean won)		2019				
Name of related parties		Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*1)	Other expenses(*5)
Shareholders:						
Lotte Corporation	₩	2,003	-	-	165	21,808
Hotel Lotte Co., Ltd.		71,042	-	30	38	41,844
Hotel Lotte Pusan Co., Ltd.		7,106	-	441	547	11,490
Subtotal		80,151	-	471	750	75,142
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd.		14,307	-	-	-	29,369
Lotte Himart Co., Ltd. (*2)		55,957	-	41	491	27
Lotte Cultureworks Co., Ltd.		45,214	-	-	1,182	421
Lotte Suwon Station Shopping Town Co., Ltd.		1,482	-	249	1,999	19,414
LOTTE REIT Co., Ltd.(*3)		111	-	-	1,062,901	5,988
Others		53,762	3,780	-	6,525	9,149
Subtotal		170,833	3,780	290	1,073,098	64,368
Associates:						
FRL Korea Co., Ltd.		41,057	-	-	-	22
Zara Retail Korea		13,418	-	-	-	-
LOTTE CARD Co., Ltd.		4,212	-	-	524	137,284
Others		106	-	-	-	407
Subtotal		58,793	-	-	524	137,713
Others (*4):						
Lotte Confectionery Co., Ltd. (divided newly established)		7,615	71,303	18	1	7,040
Lotte Chilsung Beverage Co., Ltd.		8,283	53,165	-	73	239
Lotte Data Communication Company		987	-	43,948	-	112,395
Korea Seven Co., Ltd.		3,543	-	-	7	129
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)		13,424	-	-	20	2,360
LOTTE ASSET DEVELOPMENT CO., LTD		22,813	47	1,804	4,017	13,611
LOTTE Property&Development		22,277	-	-	56	34,580
Lotte Station Building Co., Ltd.		8,280	-	-	293	469
Lotte Trading Co., Ltd.		1,064	135,127	-	186	2
Lotte Engineering & Construction Co., Ltd.		533	-	69,463	-	160
LOTTE FOOD CO., LTD.		5,399	100,861	-	2	8,387
LOTTE ALUMINIUM CO., LTD.		26	5,762	3,739	-	10,213
Others		15,606	5,944	2,199	372	305,880
Subtotal		109,850	372,209	121,171	5,027	495,465
Total	₩	419,627	375,989	121,932	1,079,399	772,688

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

(*2) Aside from transactions listed above, the Company sold the LOTTE Himart Co., Ltd. gift voucher for a total of ₩15,033 million for the year ended December 31, 2019 (2018 : ₩27,006 million)

(*3) The Company has signed a sale and purchase contract and lease contract with LOTTE REIT Co., Ltd in 2019.

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

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

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

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

(in millions of Korean won)		2018				
Name of related parties		Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*1)	Other expenses
Shareholders:						
Lotte Corporation	₩	2,136	-	-	741	24,299
Hotel Lotte Co., Ltd.		62,965	-	-	118	114,663
Hotel Lotte Pusan Co., Ltd.		6,442	-	573	13,351	28,120
Subtotal		71,543	-	573	14,210	167,082
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd.		4,599	-	77	28	31,716
Lotte Himart Co., Ltd. (*2)		52,416	-	30	75	45
Lotte Cultureworks Co., Ltd.		26,979	-	-	46	339
Others (*3)		25,831	15,365	-	7,789	47,641
Subtotal		109,825	15,365	107	7,938	79,741
Associates:						
FRL Korea Co., Ltd.		54,027	-	-	-	4
Zara Retail Korea		12,476	-	-	-	-
Others		157	-	-	15	3,112
Subtotal		66,660	-	-	15	3,116
Others (*4):						
Lotte Confectionery Co., Ltd. (divided newly established)		14,472	73,716	6,715	-	6,325
Lotte Chilsung Beverage Co., Ltd.		6,114	57,017	3,256	125	619
Lotte Data Communication Company		1,433	-	61,580	154	107,027
Lotte Card Co., Ltd.		4,159	-	-	696	142,424
Korea Seven Co., Ltd.		4,105	-	-	66	142
LOTTE.COM INC. (*6)		410	-	169	-	45,492
Daehong Communications Co., Ltd. (divided newly established) (*5)		626	-	217	16	20,920
Daehong Communications Co., Ltd. (before division) (*5)		304	-	19	-	9,559
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)		14,046	1,719	4,274	1	253
Lotte Station Building Co., Ltd.		6,776	-	-	646	2,001
Lotte Trading Co., Ltd.		815	152,093	758	106	-
Lotte Engineering & Construction Co., Ltd.		1,874	-	78,061	10	2,493
LOTTE FOOD CO., LTD.		5,225	114,855	3,867	-	7,096
LOTTE ALUMINIUM CO., LTD.		616	5,638	12,047	2	11,269
Others		93,826	9,530	5,427	1,802	336,190
Subtotal		154,801	414,568	176,390	3,624	691,810
Total	₩	402,829	429,933	177,070	25,787	941,749

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

(*2) Aside from transactions listed above, the Company sold the LOTTE Himart Co., Ltd. gift voucher for a total of ₩27,006 million for the year ended December 31, 2018 (2017 : ₩28,135 million)

(*3) Aside from transactions listed above, the Company transferred GF Business division to Lotte GFR Co., Ltd. (Formerly, NCF) on June 1, 2018.

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

(*5) Daehong Communications Co., Ltd established Daehong Communications Co., Ltd (new company) by spinning off the business sectors except for the investment sector on April 1, 2018, and the remaining investment sectors were merged by Lotte Corporation.

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

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

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

<i>(in millions of Korean won)</i>		2019			2018	
Name of related parties		Cash contribution	Stock purchase	Stock sale	Cash contribution	Capital deduction
Shareholders:						
Lotte Corporation (*1)	₩	-	255,507	-	-	-
Hotel Lotte Co., Ltd. (*2)		-	26,067	(42,808)	-	-
Hotel Lotte Pusan Co., LTD (*3)		-	16,593	-	-	-
Subtotal		-	298,167	(42,808)	-	-
Subsidiaries:						
LOTTE REIT Co., Ltd(*4)		274,694	-	-	-	-
Lotte Shopping Holdings(Singapore)		106,743	-	-	27,234	-
Lotte Shopping Holdings (Hong Kong)Co., Limited		35,142	-	-	721,003	-
Lotte Incheon Development Co., Ltd(*5)		-	14,937	-	-	-
Lotte Cultureworks Co., Ltd.(*6)		-	-	(55,050)	55,000	-
LHSC Limited		-	-	(426)	-	-
Lotte GFR Co., Ltd.		-	-	-	52,300	-
Lotte DMC Development Co., Ltd.		-	-	-	4,750	-
Lotte corporate venture fund No. 1		-	-	-	400	-
LOTTE CINEMA CO., LTD.		-	-	-	-	(500)
Subtotal		416,579	14,937	(55,476)	860,687	(500)
Associates:						
Lotte start-up fund No. 1		600	-	-	800	-
KDB open innovation fund		6,400	-	-	-	-
Coralis S.A.		19,141	-	-	-	-
LOTTE PROPERTIES HCMC CO.,LTD.		-	-	-	79,488	-
Hemisphere Film Investors III LLC		-	-	-	-	(1,256)
Union Investment Partners		-	-	-	-	(2,348)
Subtotal		26,141	-	-	80,288	(3,604)
Joint ventures:						
STL Co.,Ltd.		-	-	-	2,000	-
Subtotal		-	-	-	2,000	-
Others:						
LOTTE Property & Development(*7)		-	107,325	-	-	-
LOTTE STATION B/D. CO. (*8)		-	104,403	-	-	-
LOTTE Engineering & Construction Co.,Ltd (*9)		-	66,254	-	-	-
LOTTE ASSET DEVELOPMENT CO.,LTD (*10)		-	49,603	(3,802)	-	-
Lotte Europe Holdings B.V.(*11)		-	80	-	-	-
Lotte Properties(Shenyang) Limited		-	-	-	19,294	-
LOTTE CAPITAL Co., Ltd. (*12)		-	74,659	-	-	-
Subtotal		-	402,324	(3,802)	19,294	-
Total	₩	442,720	715,428	(102,086)	962,269	(4,104)

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

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

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

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

(*3) The Company purchased ₩16,593 million of LOTTE CARD Co.,Ltd. common stock from Hotel Lotte Pusan Co., LTD during 2019.

(*4)The Company contributed land and building amounting to ₩269,694 million of book value to LOTTE REIT Co., Ltd. LOTTE REIT Co., Ltd. recognized these assets at fair value of ₩424,905 million as a capital measured through appraisal.

(*5) The Company purchased ₩14,937 million of LOTTE Songdo Shopping Town CO., LTD common stock from LOTTE Incheon Development Co., Ltd during 2019.

(*6) The Company sold common stock of LOTTE CINEMA VIETNAM CO., LTD., LOTTE ENTERTAINMENT VIETNAM CO., LTD, Hemisphere Film Investors II LLC, PT. LOTTE CINEMA INDONESIA, Shandong Longzhile Cinema Co., Ltd. and Hubei XL Cinema Co., Ltd. to Lotte Cultureworks Co., Ltd. at ₩27,947 million, ₩431 million, ₩12,041 million, ₩4,185 million and ₩5,167 million, ₩5,279 million respectively.

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

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

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

(*10) The Company purchased ₩32,626 million of LOTTE Songdo Shopping Town CO., LTD common stock, ₩3,755 million of Lotte Suwon Station Shopping Town Co., Ltd. common stock and ₩13,222 million of LOTTE Town Dongtan Co.,LTD common stock from LOTTE ASSET DEVELOPMENT CO.,LTD. during 2019.

(*11) The Company purchased ₩80 million of LOTTE SHOPPING RUS.Ltd common stock from Lotte Europe Holdings B.V. during 2019.

(*12) The Company purchased ₩74,658 million of Lotte Card Co., Ltd. common stock from LOTTE CAPITAL CO., LTD. during 2019.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

38. Related Party Transactions, continued

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

(in millions of Korean won)

Name of related parties	2019					
	Receivables			Payables		
	Trade receivables	Other receivables	Financial lease receivables	Trade payables	Other payables(*3)	Lease liabilities
Shareholders:						
Lotte Corporation	₩ 40	221	-	-	243	29,088
Hotel Lotte Co., Ltd.	1,023	49,007	-	-	35,420	272,997
Hotel Lotte Pusan Co., Ltd.	-	20,090	-	-	4,627	28,428
Subtotal	1,063	69,318	-	-	40,290	330,513
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd.	28,884	184	-	-	4,127	-
Lotte Himart Co., Ltd.	2,211	10,032	18,131	-	11,225	132
Lotte Cultureworks Co., Ltd.	1,323	477	49,826	84	123,859	1,031
Lotte Suwon Station Shopping Town Co., Ltd.	-	830	-	-	1,026	293,618
LOTTE REIT Co., Ltd.	-	74,400	-	-	6,819	747,131
Others	11,001	20,761	-	1,946	9,568	85,656
Subtotal	43,419	106,684	67,957	2,030	156,624	1,127,568
Associates:						
FRL Korea Co., Ltd.	648	1,345	-	-	15,125	-
Zara Retail Korea Co., Ltd.	-	-	-	-	6,657	-
Lotte Card Co., Ltd. (*2)	122,143	438	-	-	9,178	-
Others	4	7	-	-	283	6,427
Subtotal	122,795	1,790	-	-	31,243	6,427
Others (*1):						
Lotte Confectionery Co., Ltd.	41	15	-	6,005	1,890	-
Lotte Chilsung Beverage Co., Ltd.	998	3,815	-	4,358	8,692	738
Lotte Data Communication Company	-	88,450	-	72	30,798	4,942
Korea Seven Co., Ltd.	6	93	251	-	2,440	-
Lotte GRS Co., Ltd.	367	329	1,074	-	8,051	-
LOTTE ASSET DEVELOPMENT CO., LTD	-	6,841	142,583	-	16,274	2,730
LOTTE Property&Development	2	2,274	-	-	5,643	515,477
Lotte Station Building Co., Ltd.	3,077	8,936	-	-	6,526	10,038
Lotte Trading Co., Ltd.	-	528	-	5,012	46	-
Lotte Engineering & Construction Co., Ltd.	7	4,027	-	-	31,509	1,193
LOTTE FOOD CO., LTD.	-	1,349	-	6,474	11,466	1,042
LOTTE ALUMINIUM CO., LTD.	107	14	-	422	1,600	-
Others	52	9,052	658	566	144,776	3,060
Subtotal	4,657	125,723	144,566	22,909	269,711	539,220
Total	₩ 171,934	303,515	212,523	24,939	497,868	2,003,728

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

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

(*3) Borrowings in foreign currency from Lotte Co., Ltd. (Japan) amounting ₩106,347 million is included.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

38. Related Party Transactions, continued

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

(in millions of Korean won)

(in millions of Korean won)		2018			
Name of related parties		Receivables		Payables	
		Trade receivables	Other receivables	Trade payables	Other payables
Shareholders:					
Lotte Corporation	₩	40	171	-	5,214
Hotel Lotte Co., Ltd.		1,165	49,004	-	37,673
Hotel Lotte Pusan Co., Ltd.		-	20,049	-	1,945
Subtotal		1,205	69,224	-	44,832
Subsidiaries:					
Woori Home Shopping & Television Co., Ltd.		28,973	164	-	4,913
Lotte Himart Co., Ltd.		1,936	8,793	-	7,487
Lotte Cultureworks Co., Ltd.		1,528	497	230	118,587
Others		2,768	11,207	-	33,455
Sub total		35,205	20,661	230	164,442
Associates:					
FRL Korea Co., Ltd.		1,526	159	-	36,688
Zara Retail Korea		-	-	-	5,787
Others		6	26	-	276
Subtotal		1,532	185	-	42,751
Others (*1):					
Lotte Confectionery Co., Ltd.		8	383	6,860	3,154
Lotte Chilsung Beverage Co., Ltd.		660	4,194	4,835	6,260
Lotte Data Communication Company		-	58,959	34	22,672
Lotte Card Co., Ltd.		69,174	450	-	17,271
Korea Seven Co., Ltd.		2	919	-	1,968
Daehong Communications Co., Ltd. (divided newly established) (*2)		2,891	4	-	4,718
Lotte GRS Co., Ltd. (formerly, Lotteria Co., Ltd.)		-	322	57	8,976
Lotte Station Building Co., Ltd		4,094	8,837	-	5,417
Lotte Trading Co., Ltd.		-	501	5,934	87
Lotte Engineering & Construction Co., Ltd.		-	4,070	-	60,747
LOTTE FOOD CO., LTD.		446	732	7,574	11,365
LOTTE ALUMINIUM CO., LTD.		7	90	383	3,181
Others		170	19,366	437	161,751
Subtotal		77,452	98,827	26,114	307,567
Total	₩	115,394	188,897	26,344	559,592

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

(*2) Daehong Communications Co., Ltd established Daehong Communications Co., Ltd (new company) by spinning off the business sectors except for the investment sector on April 1, 2018, and the remaining investment sectors were merged by Lotte Corporation.

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

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

(in millions of Korean won)

Name of related parties	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	2,142
Hotel Lotte Co., Ltd.	-	76,793
Hotel Lotte Pusan Co., LTD	-	14,133
Subtotal	-	93,068
Associates:		
Lotte Cultureworks Co., Ltd.	4,676	168
Lotte Himart Co., Ltd.	3,384	17
Lotte Suwon Station Shopping Town Co., Ltd.	-	23,381
Lotte Songdo Shopping Town Co., Ltd.	-	6,567
Others	-	26,153
Subtotal	8,060	56,286
Joint ventures:		
LOTTE CARD Co.,ltd	580	
Lotte Ps Net	-	2,839
Subtotal	580	2,839
Others (*1):		
LOTTE ASSET DEVELOPMENT CO.,LTD	14,157	334
Lotte Data Communication Company	-	4,286
LOTTE Property & Development	-	38,622
LOTTE STATION B/D. CO.	-	1,571
LOTTE rental co.,ltd	15	1,093
Others	326	942
Subtotal	14,498	46,848
Total	₩ 23,138	199,041

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

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

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

- (f) The contents of compensation of major management during the years ended December 31, 2019 and 2018 are as follows.

(in millions of Korean won)

Classification	2019	2018
Short-term salary	₩ 33,177	36,065
Retirement benefits	2,529	4,520
Other long-term benefits	276	1,745
Total	₩ 35,982	42,330

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

38. Related Party Transactions, continued

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

(in CNY, IDR, USD, VND)

Name of company	Guaranteed by	Guaranteed amount	Guarantee period	Remarks
Subsidiaries:				
PT. Lotte Mart Indonesia	BNP Paribas	IDR 400,000,000,000	April 14, 2019~ April 14, 2020	Payment guarantee
	SC Bank	IDR 300,000,000,000	April 13, 2019~ April 13, 2020	
	HSBC	IDR 250,000,000,000	April 14, 2019~ April 14, 2020	
	JP Morgan	USD 30,000,000	May 23, 2019~ May 23, 2020	
Lotte Cinema Vietnam Co., Ltd.	SC Bank	USD 10,000,000	April 13, 2018~ April 13, 2021	
Lotte Shopping Business Management (Hong Kong) Limited	The Export- Import Bank of Korea	USD 300,000,000	September 5, 2017~ September 5, 2020	
LOTTE PROPERTIES (CHENGDU) HK LIMITED	The Export- Import Bank of Korea	USD 190,000,000	March 15, 2017~ March 16, 2020	
	KEB Hana Bank	USD 25,000,000	March 15, 2017~ March 15, 2020	
Lotte Department Store (Chengdu) Co., Ltd.	KEB Hana Bank	CNY 20,000,000	May 31, 2019~ May 30, 2020	
Joint ventures:				
International Business Center Company Limited	The Export-Import Bank of Korea	USD 12,000,000	April 5, 2019 ~ April 3, 2020	
Associates				
Shandong Longzhile Cinema Co., Ltd.	IBK bank	CNY 13,000,000	January 11, 2017 ~ January 11, 2020	

(h) The Company entered into and maintain an agreement to jointly provide financial support for Suwon Landmark 3rd Co., Ltd., Invest Farmland 2nd Co., Ltd., Invest Farmland 3rd Co., Ltd., KS 1st Co., Ltd., and Mars L D 1st, LLC. in default of the principal and interest on the asset backed commercial paper (₩220,000,000 thousand of par value in maturing on May 28, 2021) of LOTTE Suwon Station Shopping Town CO., LTD., the asset backed loan (₩150,000,000 thousand of par value in maturing on February 28, 2020) issued by Lotte Incheon Town Co., Ltd., the asset backed commercial paper (₩60,000,000 thousand of par value in maturing on April 23, 2020) by Lotte Ulsan Development Co., Ltd., the asset backed loan (₩620,000,000 thousand of par value in maturing on October 28, 2021) by LOTTE Town Dongtan Co., LTD, the asset backed commercial paper (₩130,000,000 thousand of par value in maturing on June 26, 2020) by Lotte Incheon Development Co., Ltd and the asset backed commercial paper (₩200,000,000 thousand of par value in maturing on June 1, 2020) by Lotte Songdo Shopping Town Co., Ltd. Regarding above agreements, the Company will supplement capital if the issuers cannot repay the principal and interest. Regarding When the Company fails to satisfy with the credit ranking maintenance clause in accordance with funds supplementation agreement regarding LOTTE Town Dongtan Co., LTD., the benefit of time may be lost.

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

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

(j) Dividends recognized from related parties during the year ended December 31, 2019 are as follows.

(in millions of Korean won)

Name of related parties		Contractual amount
Subsidiaries :		
Woori Home Shopping & Television Co., Ltd.	₩	23,335
Lotte Himart Co., Ltd.		26,186
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.		895
LHSC Limited		1,876
LOTTE REIT Co., Ltd.		1,825
Subtotal		54,117
Associates :		
Zara Retail Korea Co.,Ltd		2,000
Eunpyeong PFV		686
FRL Korea Co., Ltd.		29,400
Subtotal		32,086
Total	₩	86,203

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

(in millions of Korean won)

Classification		Contractual amount	Used amount	Repayment	Unsettled amount
In the perspective of user	₩	240,000	2,762,821	2,770,188	-

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

39. Lease

The Company adopted K-IFRS No.1116, which is revised retrospectively effective on January 1, 2019, but its separate financial statements of previous year is not restated in a manner permitted by the transitional provisions of the Standards. Accordingly, reclassification and adjustment under the amended lease standard was recognized in the beginning balance of financial statements as of January 1, 2019.

(a) Adjustments recognized in accordance with the adoption of K-IFRS No.1116 'Lease'

In accordance with K-IFRS No.1116, the Company recognized lease liabilities related to leases that were classified as 'operating leases' with respect to the principles of K-IFRS No.1017. The according lease liability is measured at the present value of the remaining lease payments discounted at the incremental borrowing rate of the lessee as of January 1, 2019. As of January 1, 2019, the weighted average incremental borrowing interest rate used to measure lease liabilities is around 2.74%.

The future minimum lease payments for irrevocable operating leases as of December 31, 2018 and the lease liabilities recognized as of the initial application date are as follows:

		<u>January 1, 2019</u>
<i>(in millions of Korean won)</i>		
Operating lease commitments as of December 31, 2018	₩	7,320,293
Short-term leases		(14,419)
Discount amount using the lessee's weighted average incremental borrowing interest rate as of the date of initial application		<u>(1,319,759)</u>
Lease liabilities as of January 1, 2019, the date of initial application	₩	<u>5,986,115</u>

Right-of-use assets are measured by adjusting the amount of prepaid or unpaid lease payments in relation to the lease recognized in the separate statement of financial position as of December 31, 2018 at the same amount as the lease liabilities.

As a result of the change in accounting policy at the initial application date, major items in the separate statement of financial position have been adjusted as follows:

		<u>January 1, 2019</u>
<i>(in millions of Korean won)</i>		
Equity as of December 31, 2018	₩	11,572,207
K-IFRS No.1116 initial application		
Financial lease receivable		243,991
Right-of-use assets		6,211,660
Prepaid expenses, etc.		(463,890)
Lease liabilities		5,986,115
Deferred tax liabilities		<u>1,553</u>
Adjustment subtotal		<u>4,093</u>
Restated equity as of January 1, 2019	₩	<u>11,576,300</u>

At the date of initial application, retained earnings amounting to ₩4,093 million has been adjusted.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

39. Lease, continued

(a) Adjustments recognized in accordance with the adoption of K-IFRS No.1116 'Lease', continued

The Company has applied the followings in the initial adoption of K-IFRS No.1116.

- Applying a single discount rate to a lease portfolio with substantially similar characteristics
- Accounting for operating leases for which the lease period is terminated within 12 months as of the initial application date is in the same manner as the short-term lease
- Opening lease direct costs are excluded in the measurement of right-of-use assets for the initial application date.
- Use hindsight to determine the lease term of the contract with extension option or termination option

In addition, the Company did not revalue whether the contract is subject to lease or inherent in a lease as of initial application date. Instead, the Company applied K-IFRS No.1116 for the contracts entered into before the initial application date to the contracts identified as lease by applying K-IFRS No.1017 and K-IFRS No.2104 'Determining whether an Arrangement contains a Lease.'

(b) Amount recognized in the separate statement of financial position

The items recognized in the separate statement of financial position for the lease are as follows:

<i>(in millions of Korean won)</i>		December 31, 2019	January 1, 2019
Right-of-use assets			
Land	₩	436,651	559,953
Buildings		4,988,633	5,631,292
Vehicles		1,175	2,766
Others		11,050	17,649
Total		<u>5,437,509</u>	<u>6,211,660</u>
Investment property		117,201	129,685
Financial lease receivables:			
Current		28,592	27,203
Non-current		211,295	216,788
Total		<u>239,887</u>	<u>243,991</u>
Financial lease liabilities			
Current		552,513	456,320
Non-current		5,888,228	5,529,795
Total	₩	<u>6,440,741</u>	<u>5,986,115</u>

(c) Amount recognized in the separate statement of comprehensive loss

The items recognized in the separate statement of comprehensive loss for the lease are as follows:

<i>(in millions of Korean won)</i>		2019
Depreciation expense on right-of-use assets		
Land and buildings	₩	610,869
Vehicles		1,488
Others		7,027
Total	₩	<u>619,384</u>
Bad debt expenses on financial lease payments receivables	₩	26
Interest expenses on financial lease liabilities		173,467
Interest income on financial lease receivables		6,543
Gain on lease termination		2,392

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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39. Lease, continued

(c) Amount recognized in the comprehensive income statement, continued

Gain on disposal of right-of-use assets	2,275
Loss on lease termination	574
Loss on disposal of right-of-use assets	4,897
Gain on disposal of sales and leaseback	153,981
Impairment loss on right-of-use assets	970,474
Leases of low-value assets and short-term leases	68,682

(d) Details of right-of-use assets as of January 1, 2019 and December 31, 2019 are as follows:

(in millions of Korean won)

		Property	Vehicles	Others	Total
January 1, 2019	₩	6,191,244	2,766	17,650	6,211,660
Depreciation expenses		(610,869)	(1,488)	(7,027)	(619,384)
Acquisition of right-of-use assets		884,147	675	1,463	886,285
Impairment loss on right-of-use assets		(969,442)	(350)	(682)	(970,474)
Others		(69,796)	(428)	(353)	(70,577)
December 31, 2019	₩	<u>5,425,284</u>	<u>1,175</u>	<u>11,051</u>	<u>5,437,510</u>

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

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	375,702	362,449	670,456	1,860,397	4,431,693	7,700,697
Net minimum lease payments		281,931	270,582	664,855	1,578,511	3,644,862	6,440,741

Total cash outflow of lease liabilities during the year of 2019 is ₩635,204 million.

(f) The contractual maturity of financial lease payments receivables as of December 31, 2019 are as follows:

(in millions of Korean won)

		Less than 6 months	6 months~ 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Total minimum lease payments	₩	14,383	14,109	28,162	76,963	123,281	256,898
Net minimum lease payments		14,529	14,063	26,530	70,037	98,197	223,356

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

39. Lease, continued

(g) Operating lease

The Company entered into and maintains an operating lease agreement to lease property, plant and equipment. The collection plan of lease payments related to the operating lease contract as of December 31, 2019 and 2018 is as follows:

<i>(in millions of Korean won)</i>		2019	2018
Within 1 year	₩	86,190	71,289
Within 1 ~ 5 years		135,666	138,967
Over 5 years		55,599	110,552
Total	₩	277,455	320,808

The lease income related to the operating lease consisting of variable lease payment amounting to ₩991,058 million and fixed lease payment amounting to ₩165,157 million are recognized during 2019 and variable lease payment amounting to ₩1,003,552 million and fixed lease payment amounting to ₩152,493 million are recognized during 2018 by the Company.

40. Risk Management

(a) Management of financial risks

(i) Objectives and policies of the Company

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

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

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk

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

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

① Exposure to credit risk

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

<i>(in millions of Korean won)</i>		2019	2018
Cash and cash equivalent (*1)	₩	715,272	993,219
Trade and other receivables		868,500	589,823
Other financial assets (current)		1,195,444	478,940
Other financial assets (non-current) (*2)		917,139	1,017,095
Total	₩	3,696,355	3,079,077

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

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

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

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

<i>(in millions of Korean won)</i>		2019		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	827,869	0.00%~0.62%	419
0 ~ 3 months past due		8,094	0.00%~25.57%	108
3 ~ 6 months past due		31,977	0.00%~43.38%	296
6 ~ 9 months past due		1,812	0.00%~87.97%	60
9 ~ 12 months past due		326	0.00%~92.11%	20
12 ~ 15 months past due		170	0.00%~100.00%	5
15 months past due		7,955	0.00%~100.00%	8,795
Total	₩	878,203		9,703

There are no impairment loss on other financial assets (current) as of December 31, 2019.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

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

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

(in millions of Korean won)

		2019		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	940,141	0.00% ~ 100.00%	1,000
Total	₩	940,141	-	1,000

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	Probability of default	Allowance for doubtful accounts
Not past due	₩	581,886	0.00%~1.56%	49
0 ~ 3 months past due		1,187	0.00%~17.43%	31
3 ~ 6 months past due		4,074	0.00%~36.24%	119
6 ~ 9 months past due		1,540	0.00%~51.09%	57
9 ~ 12 months past due		411	0.00%~80.01%	255
12 ~ 15 months past due		103	0.00%~100.00%	23
15 months past due		9,580	0.00%~100.00%	8,425
Total	₩	598,781	-	8,959

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk Management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

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

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

(in millions of Korean won)

		2018		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	484,048	0.00%~100.00%	5,108
Total	₩	484,048	0.00%~100.00%	5,108

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

(in millions of Korean won)

		2018		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	1,018,120	0.00%~100.00%	1,025
Total	₩	1,018,120	0.00%~100.00%	1,025

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

(in millions of Korean won)

		2019	2018
Beginning Balance	₩	8,959	5,566
Provision		5,842	1,237
Reversal of impairment loss		(9)	(34)
Write-offs		(5,114)	(1,861)
Changes due to spin-off		-	(2,714)
Merger		-	6,765
Others		25	-
Ending balance	₩	9,703	8,959

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

(in millions of Korean won)

		2019	2018
Beginning Balance	₩	5,108	34
Provision		-	5,108
Write-offs		(5,108)	-
Changes due to spin-off		-	(34)
Ending balance	₩	-	5,108

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk management, continued

(a) Management of financial risks, continued

(ii) Credit risk, continued

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

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

<i>(in millions of Korean won)</i>	<u>2019</u>	<u>2018</u>
Beginning Balance	₩ 1,025	2,950
Merger	-	25
Write-offs	-	-
Changes due to spin-off	-	(1,950)
Others	(25)	-
Ending balance	₩ <u>1,000</u>	<u>1,025</u>

③ Payment guarantees

As of December 31, 2019, the Company has provided financial guarantees to subsidiaries, associates and joint ventures. Should the Company be liable for payment upon defaults of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩740,887 million.

(iii)Liquidity risks

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

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

Also, the Company currently deposits a considerable amount with financial institutions with superior credit ratings to make proper provisions for potential liquidity risks. The Company maintains a credit line for overdraft and general loans with various financial institutions, and can raise funds through the domestic and foreign financial markets based on superior credit ratings (Domestic: AA0, Foreign: Baa3, BBB-). The management of the Company believes that it is possible to redeem liabilities using cash flows from operating activities and cash in-flow from financial assets.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk management, continued

(a) Management of financial risks, continued

(iii) Liquidity risks, continued

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

(in millions of Korean won)

		2019			
		3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year
Borrowings and debentures (current) (*1)(*2)	₩	858,099	342,434	110,659	-
Trade payables and other payables		1,926,254	-	-	-
Other financial liabilities (current)		259,857	4,093	20,019	-
Borrowings and debentures (non-current) (*1)(*2)		23,949	23,788	47,471	5,048,975
Other financial liabilities(non-current)		11	35	120	177,678
Acceptances and guarantees (*2)		740,887	-	-	-
Total	₩	3,809,057	370,350	178,269	5,226,653

(*1) Interest expenses are included.

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

(*3) Aggregate maturities of lease liabilities are presented in Note 39.

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

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Company's return.

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

① Currency risk

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

The Company enters into currency swap transactions with financial institutions to hedge currency risks of foreign currency denominated borrowings and debentures. When the Company needs foreign currencies, the Company enters into a forward exchange contract with major financial institutions to avoid the risks of exchange rate fluctuations. The Company is hedging currency risks for borrowings and debentures in foreign currency as of December 31, 2019 except for the borrowings of JPY 10 billion from Lotte Co., Ltd. (Japan).

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

Assets and liabilities denominated in foreign currencies other than the Company's functional currency as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019		2018	
		Assets	Liabilities	Assets	Liabilities
USD	₩	130,020	850,983	119,698	933,148
EUR		439	-	-	-
JPY		-	106,347	-	101,318
IDR		1,267	-	778	-
CNY		57	-	152	-
VND		215	-	268	-
Total	₩	131,998	957,330	120,896	1,034,466

The average rates for the years ended December 31, 2019 and 2018, and the closing rates as of December 31, 2019 and 2018 are as follows:

(in Korean won)

		Average rate		Closing rate	
		2019	2018	2019	2018
USD	₩	1,165.65	1,100.30	1,157.80	1,118.10
EUR		1,304.81	1,298.63	1,297.43	1,279.16
JPY		10.6976	9.9627	10.6347	10.1318
IDR		0.0824	0.0774	0.0831	0.0768
CNY		168.58	166.40	165.74	162.76
VND		0.0502	0.0478	0.0500	0.0482

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

(in millions of Korean won)

		2019		2018	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	13,002	(13,002)	11,970	(11,970)
EUR		44	(44)	-	-
JPY		(10,635)	10,635	(10,132)	10,132
IDR		127	(127)	78	(78)
CNY		6	(6)	15	(15)
VND		21	(21)	27	(27)
Total	₩	2,565	(2,565)	1,958	(1,958)

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk management, continued

(a) Management of financial risks, continued

(iv) Market risk, continued

① Currency risk, continued

The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Company's functional currency, as of December 31, 2019 of the Company entities in Korea.

② Interest rate risk

Interest rate risk is the risk of changes in interest income and expense from deposits and borrowings due to fluctuations in the market interest rate. Interest rate risk of the Company arises on variable interest rate financial instruments and borrowings. The purpose of interest rate risk management is to minimize value fluctuation of financial assets and liabilities that occur from uncertainty caused by changes in interest rates.

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

The book value of the Company's variable interest-bearing financial instruments as of December 31, 2019 and 2018 are as follows.

<i>(in millions of Korean won)</i>		<u>2019</u>	<u>2018</u>
Financial assets	₩	71,076	35,823
Financial liabilities		1,057,035	1,084,465

The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Company's interest income and expense that would incur in relation to the deposits and borrowings for the years ended December 31, 2019 and 2018. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant. Borrowings and debentures for which the Company has entered into interest rate swap transactions are not included.

<i>(in millions of Korean won)</i>		<u>2019</u>		<u>2018</u>	
		<u>100bps increase</u>	<u>100bps decrease</u>	<u>100bps increase</u>	<u>100bps decrease</u>
Interest income	₩	711	(711)	358	(358)
Interest expenses		1,063	(1,063)	1,013	(1,013)

③ Price risk

The Company is exposed to fluctuations of price in equity instrument at fair value through other comprehensive income. The book value of the marketable equity instrument at fair value through other comprehensive income as of December 31, 2019 and 2018 are ₩162,250 million and ₩127,273 million, respectively. Assuming that other variables remain the same and the prices of the equity instruments fluctuate by 10%, the effects of the fluctuation to the other comprehensive income in 2019 and 2018 are ₩16,225 million and ₩12,727 million, respectively.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
As of December 31, 2019 and 2018

40. Risk management, continued

(b) Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)

		2019	2018
Liabilities (A)	₩	16,298,625	10,290,230
Equity (B)		10,665,642	11,572,207
Financial instruments (C)		1,610,922	1,312,229
Borrowings (D)		5,201,827	5,340,617
Liabilities to equity ratio (A/B)		152.81%	88.92%
Net borrowings to equity ratio ((D-C)/B)		33.67%	34.81%

41. Subsequent Event

The spread of coronavirus infections-19 (COVID-19) after the reporting period has led the world to face uncertainty. Since the impact to the Group from the situation caused by the mentioned uncertainty is not predictable, the effect of this uncertainty on the Group is not reflected in the separate financial statements of the current term.

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2019 and the audit of internal accounting control system pursuant to Article 8-7 of the Act on External Audit for Joint-stock Companies of the Republic of Korea.

Independent Auditors' Report on Internal Control over Financial Reporting

English Translation of a report originally issued in Korean

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

Opinion on Internal Control over Financial Reporting

We have audited Lotte Shopping Co., Ltd.'s (the Company) internal control over financial reporting ("ICFR") as of December 31, 2019 based on the criteria established in the Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the separate financial statements of the Company, which comprise the separate statement of financial position as of December 31, 2019, the separate 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, and our report dated March 19, 2020 expressed an unmodified opinion on those separate financial statements.

Basis for Opinion

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting 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.

Responsibilities of Management and Those Charged with Governance for the Internal Control over Financial Reporting

The Company's management is responsible for designing, operating and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Operating Status of Internal Control over Financial Reporting.

Those charged with governance are responsible for overseeing the Company's internal control over financial reporting.

Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with KSAs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.



Definition and Limitations of Internal Control over Financial Reporting

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with K-IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

KPMG Samjong Accounting Corp.

Seoul, Korea
March 19, 2020

This report is effective as of March 19, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the internal control over financial reporting. 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.

ICFR Operating Status Report by CEO

To the Shareholders, Board of Directors, and Auditor (Audit Committee) of LOTTE SHOPPING CO., LTD

We, as the Chief Executive Officer (or President, etc which means the representative director of the Company) and the Internal Accounting Manager of LOTTE SHOPPING CO., LTD (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting (“ICFR”) for the year ending December 31, 2019.

Design and operation of ICFR is the responsibility of the Company’s management, including the Chief Executive Officer and the Internal Accounting Manager (collectively, “We”, “Our” or “Us”).

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’ issued by the Operating Committee of Internal Control over Financial Reporting in Korea (the “ICFR Committee”) as the criteria for design and operation of the Company’s ICFR. And we conducted an evaluation of ICFR based on the ‘Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting’ issued by the ICFR Committee.

Based on our assessment, we concluded that the Company’s ICFR is designed and operated effectively as of December 31, 2019, in all material respects, in accordance with the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

February 7th 2020

Kang Hee Tae (Signature)

Chief Executive Officer

Chang Ho Joo (Signature)

Internal Accounting Manager

English Translation of Report Originally Issued in Korean