

LOTTE SHOPPING CO., LTD.

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

(With Independent Auditor's Report Thereon)

LOTTE SHOPPING CO., LTD

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of

Lotte Shopping Co., Ltd.

Opinion

We have audited the separate financial statements of Lotte Shopping Co., Ltd. ("the Company"), which comprise the separate statement of financial position as of December 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 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 15, 2021 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

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 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.

Emphasis of Matter

As discussed in Note 2(3) to the separate financial statements, the assumptions and estimates used by the Company for impairment testing of the cash-generating unit containing goodwill are subject to change depending on the duration and severity of COVID-19, which cannot be predicted. The ultimate impact that may arise from the uncertainties from impact of COVID-19 may differ from management's estimates reflected in the accompanying separate financial statements of the Company. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements as of and for the year ended December 31, 2020. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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

As described in Note 14, 16 and 39, as of December 31, 2020 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 ₩9,762,821 million, ₩4,500,732 million, ₩60,293 million, and ₩107,000 million, respectively, and in aggregate, those balances are 57.9% of total assets. Also, the Company recognized the impairment loss amounted to ₩808,571 million in 2020.

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 value 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 of CGUs impairment as a key audit matter.

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

- We have understood the Company's impairment assessment process for each CGU, and tested the management review control over impairment assessment process.
- We assessed the basis of management's judgment to identify the indicators of impairment on each CGU and evaluated whether such basis is in compliance with the 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 valuation specialist engaged by the Company to assess recoverable amount of CGUs.
- We engaged our valuation specialists to assist us in evaluating assumption including the future cash flows and discount rate used in the estimation of value-in-use.

(2) Restructuring accounting

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

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

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

Other matters

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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other



matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

KPMG Samjong Accounting Corp.

Seoul, Korea
March 15, 2021

This report is effective as of March 15, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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, 2020 and 2019

(In Korean won)	Notes		2020	2019
Assets				
Current assets				
Cash and cash equivalents	7,35,40	₩	1,058,444,838,960	726,809,053,877
Trade and other receivables	5,7,38,40		408,933,203,369	631,839,037,873
Other financial assets	6,7,23,40		960,136,008,761	1,194,164,795,756
Inventories	8		445,949,649,888	484,653,820,797
Income tax refund receivables	34		1,085,144,365	-
Other non-financial assets	9		12,978,345,377	32,148,632,363
Assets held for sale	10		827,847,205,169	114,454,796,243
			<u>3,715,374,395,889</u>	<u>3,184,070,136,909</u>
Non-current assets				
Other receivables	5		231,934,594,679	236,661,332,719
Investments in subsidiaries, associates and joint ventures	11,12,13,38		4,201,658,419,615	4,450,542,519,010
Other financial assets	6,7,23,40		1,026,238,955,196	1,104,877,148,258
Property, plant and equipment, net	14		9,762,820,521,625	11,110,901,479,714
Right-of-use assets	14,39		4,500,731,839,479	5,437,509,185,898
Investment property, net	15		1,237,613,960,043	1,116,505,540,511
Goodwill	16		60,292,995,459	224,659,569,852
Intangible assets, net	16		106,999,594,382	54,865,097,617
Other non-financial assets	9		8,296,654,447	8,570,480,824
Defined benefit assets	22		72,243,043,111	35,103,841,570
			<u>21,208,830,578,036</u>	<u>23,780,196,195,973</u>
Total assets		₩	<u>24,924,204,973,925</u>	<u>26,964,266,332,882</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Financial Position, continued
As of December 31, 2020 and 2019

(In Korean won)	Notes		2020	2019
Liabilities				
Current liabilities				
Borrowings and debentures, net of issuance costs	7,18,40	₩	1,846,085,501,595	1,280,452,633,936
Trade and other payables	7,17,40		1,532,241,852,994	1,926,253,938,384
Other financial liabilities	7,23,40		388,525,505,434	604,472,932,958
Lease liabilities	7,39		530,258,247,806	552,513,360,420
Income tax payables	34		-	95,990,295,850
Unearned revenues	19		142,790,586,278	145,319,856,148
Provisions	20		13,771,174,479	6,768,727,456
Other non-financial liabilities	21		879,242,648,647	895,452,935,465
			<u>5,332,915,517,233</u>	<u>5,507,224,680,617</u>
Non-current liabilities				
Borrowings and debentures, net of issuance costs	7,18,40		3,711,796,031,444	3,921,374,600,766
Other financial liabilities	7,23,40		209,385,464,094	155,858,847,687
Lease liabilities	7,39		5,401,988,026,854	5,888,227,475,415
Defined benefit liabilities and other long- term employee benefits	22		24,015,896,724	66,808,950,284
Deferred tax liabilities	34		479,209,033,045	585,502,399,274
Unearned revenues	19		22,428,463,738	25,041,910,544
Provisions	20		143,508,124,006	148,585,646,445
			<u>9,992,331,039,905</u>	<u>10,791,399,830,415</u>
Total liabilities			<u>15,325,246,557,138</u>	<u>16,298,624,511,032</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		8,743,149,333,568	9,688,039,289,185
Accumulated other comprehensive income	27		(57,872,271,204)	63,921,178,242
Total equity			<u>9,598,958,416,787</u>	<u>10,665,641,821,850</u>
Total equity and liabilities		₩	<u>24,924,204,973,925</u>	<u>26,964,266,332,882</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Comprehensive Loss
For the years ended December 31, 2020 and 2019

(In Korean won)	Notes	2020	2019
Sales	29,38	₩ 8,708,083,759,301	9,695,325,161,145
Cost of sales	8,32,38	(4,553,662,568,228)	(4,888,608,517,506)
Gross profit		4,154,421,191,073	4,806,716,643,639
Selling, general and administrative expenses	30,32,38	(4,019,691,527,654)	(4,535,581,492,845)
Reversal of allowance for bad debts(expense)	30,32,40	(721,555,229)	(115,409,723)
Operating profit		134,008,108,190	271,019,741,071
Other income	31	192,982,897,706	198,211,896,867
Other expenses	31	(863,780,052,093)	(1,160,759,792,601)
Finance income - interest income calculated using the effective interest method	33	49,476,343,092	70,801,377,414
Finance income - others	33	338,559,229,674	204,232,560,483
Finance costs	33	(962,569,516,003)	(586,744,645,814)
Other bad debt expenses	31,33	(6,623,285,523)	(5,717,803,836)
Loss before income tax expense		(1,117,946,274,957)	(1,008,956,666,416)
Income tax revenue (expense)	34	85,949,637,602	255,255,356,854
Loss for the period		(1,031,996,637,355)	(753,701,309,562)
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liabilities	22	35,460,758,806	(46,423,257,281)
Fair value gain through other comprehensive income on equity instruments	27	3,840,376,470	36,934,567,425
Income tax effect		32,017,696,723	2,609,389,710
Total items that will never be reclassified to profit or loss		71,318,831,999	(6,879,300,146)
Items that may be subsequently reclassified to profit or loss			
Gain on valuation of debt instrument at fair value through other comprehensive income	27	(7,097,503)	274,089,148
Loss on valuation of derivatives	23,27	2,606,042,871	(4,509,393,976)
Income tax effect		(1,176,113,075)	1,164,708,827
Total items that will be subsequently reclassified to profit or loss		1,422,832,293	(3,070,596,001)
Other comprehensive loss for the period, net of tax		72,741,664,292	(9,949,896,147)
Total comprehensive loss for the period		(959,254,973,063)	(763,651,205,709)
Loss per share	28		
Basic loss per share		₩ (36,504)	(26,660)

See accompanying notes to the separate financial statements

LOTTE SHOPPING CO., LTD. **Separate Statements of Changes in Equity** **As of December 31, 2020 and 2019**

(In Korean won)	Share capital	Capital surplus	Capital adjustment	Retained earnings	Other comprehensive income (loss)	Total equity
₩	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
Change in accounting policy	-	-	-	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 Changes in Equity, continued
As of December 31, 2020 and 2019

(In Korean won)	Share capital	Capital surplus	Capital adjustment	Retained earnings	Other comprehensive income (loss)	Total equity
Balance at January 1, 2020	₩ 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
Comprehensive income (loss) for the period:						
Loss for the period	-	-	-	(1,031,996,637,355)	-	(1,031,996,637,355)
Other comprehensive income (loss):						
Net change in equity instruments at fair value through other comprehensive income	-	-	-	170,956,824,587	(123,216,281,739)	47,740,542,848
Net change in debt instruments at fair value through other comprehensive income	-	-	-	-	(1,255,697)	(1,255,697)
Loss on valuation of derivatives	-	-	-	-	1,424,087,990	1,424,087,990
Remeasurements of defined benefit liabilities	-	-	-	23,578,289,151	-	23,578,289,151
Subtotal	-	-	-	194,535,113,738	(121,793,449,446)	72,741,664,292
Total comprehensive income (loss) for the period	-	-	-	(837,461,523,617)	(121,793,449,446)	(959,254,973,063)
Transactions with owners of the Company recognized directly in equity:						
Dividends	-	-	-	(107,428,432,000)	-	(107,428,432,000)
Total transactions with owners of the Company	-	-	-	(107,428,432,000)	-	(107,428,432,000)
Balance at December 31, 2020	₩ 141,443,775,000	3,590,535,627,005	(2,818,298,047,582)	8,743,149,333,568	(57,872,271,204)	9,598,958,416,787

See accompanying notes to the separate financial statements.

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

(In Korean won)	Notes	2020	2019
Cash flows from operating activities			
Loss for the period	₩	(1,031,996,637,355)	(753,701,309,562)
Adjustments	35	2,163,888,065,471	2,161,506,103,708
Changes in operating assets and liabilities	35	(169,147,604,739)	(212,720,615,558)
Income taxes paid		(82,347,932,806)	(17,813,866,665)
Net cash provided by operating activities		880,395,890,571	1,177,270,311,923
Cash flows from investing activities			
Decrease of short-term financial instruments		825,059,823,031	398,029,500,000
Decrease in short-term loans		6,164,556,000	6,164,556,000
Proceeds from sale of debt instruments at fair value through profit or loss		-	133,363,940
Proceeds from sale of debt instruments at fair value through other comprehensive income		120,500,000	-
Proceeds from sale of investment in subsidiaries, associates and joint ventures		-	100,846,331,531
Proceeds from disposal of property, plant and equipment		321,178,419,848	1,069,125,925,782
Proceeds from disposal of intangible assets		223,083,327	3,137,245
Proceeds from disposal of assets held for sale		217,190,143,233	182,329,026,693
Collection of financial lease receivables		25,209,055,154	22,975,634,425
Cash inflows from settlement of derivatives		11,025,964,994	9,515,854,112
Increase of short-term financial instruments		(735,010,000,000)	(975,161,592,661)
Purchase of debt instrument at fair value through profit or loss		-	(10,000,000)
Purchase of equity instruments at fair value through other comprehensive income		-	(4,719,225,648)
Purchase of debt instruments at fair value through other comprehensive income		(4,229,310,000)	(637,910,000)
Purchase of investments in subsidiaries, associates and joint ventures		(292,018,893,523)	(930,108,234,989)
Acquisition of property, plant, and equipment		(508,736,183,075)	(367,344,326,897)
Acquisition of intangible assets		(956,877,950)	(1,451,567,264)
Interests received		27,746,519,216	39,011,283,944
Dividends received		75,306,601,831	91,516,633,422
Net cash used in investing activities	₩	(31,726,597,914)	(359,781,610,365)

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.
Separate Statements of Cash Flows, continued
For the years ended December 31, 2020 and 2019

(In Korean won)		2020	2019
Cash flows from financing activities			
Proceeds from short-term borrowings	₩	100,000,000,000	-
Proceeds from long-term borrowings		400,000,000,000	-
Proceeds from issuance of debentures		829,136,375,179	908,447,549,406
Repayment of short-term borrowings		-	(150,000,000,000)
Repayment of current portion of long-term borrowings		(150,000,000,000)	(100,000,000,000)
Repayment of debentures		(750,000,000,000)	(856,500,000,000)
Repayment of lease liabilities		(540,172,824,761)	(461,736,912,653)
Interest paid		(286,096,435,430)	(293,670,530,368)
Dividends paid		(107,428,432,000)	(147,007,328,000)
Net cash provided by(used in) financing activities		(504,561,317,012)	(1,100,467,221,615)
Net increase(decrease) in cash and cash equivalents		344,107,975,645	(282,978,520,057)
Cash and cash equivalents at January 1		726,809,053,877	1,005,319,543,648
Effect of exchange rate fluctuation on cash and cash equivalents		(12,472,190,562)	4,468,030,286
Cash and cash equivalents at the end of the year	₩	1,058,444,838,960	726,809,053,877

See accompanying notes to separate financial statements

LOTTE SHOPPING CO., LTD.

Notes to the Separate Financial Statements

As of December 31, 2020 and 2019

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

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”).

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.

(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

(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.

K-IFRS permit the use of significant accounting estimates in preparing separate financial statements and require management to make judgements in applying accounting policies. Refer to Note 4 for details of more complex and higher levels of judgement and significant assumptions and estimates.

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2. Basis of Accounting, continued

(c) Estimates and assumption

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.

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

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

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

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, 2020.

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

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

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

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

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

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application of permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

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

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

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

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

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application of permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

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

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

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

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

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

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4. 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 to K-IFRS No. 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

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

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

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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.

5. 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.

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6. 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. The document also includes methods that will be used to assess the effectiveness of the hedging instrument on offsetting hedging instruments, related hedged items and its relationship at the inception and changes in the fair value or cash flow of the hedged items due to hedging risk at its subsequent period.

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.6 Derivatives, continued

(a) Hedge accounting, continued

(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.

(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.

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4. Significant Accounting Policies and Changes in Disclosure, continued

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:

<u>Classification</u>	<u>Department store</u>	<u>Discount store</u>	<u>Supermarket, etc.</u>	<u>E-commerce</u>
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

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	5

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

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.10 Property, plant and equipment, continued

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.

3.12 Intangible assets

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

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.

	Useful lives(years)
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.

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.13 Investment property, continued

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.

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.

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4. Significant Accounting Policies and Changes in Disclosure, continued

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.

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.

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3. Significant Accounting Policies and Changes in Disclosure, continued

3.18 Current and deferred income taxes, continued

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 rereasurement component related to the net defined benefit liability is recognized in other comprehensive income.

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

(b) Short-term employee benefits

Short-term employee benefits are employee benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. When an employee has rendered service to the 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.

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4. Significant Accounting Policies and Changes in Disclosure, continued

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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5. Significant Accounting Policies and Changes in Disclosure, continued

3.21 Leases

(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.

(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.

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 (lessor) 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

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.

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6. Significant Accounting Policies and Changes in Disclosure, continued

3.21 Leases, continued

(b) Lessee, continued

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

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

Right-of-use assets are depreciated over the period from the commencement of the lease to the end of the useful life of the right-of-use assets or the end of the lease term, whichever is earlier. If it is reasonably certain that the 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.

LOTTE SHOPPING CO., LTD.
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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 8, 2021, and is subject to modification at the shareholder's meeting.

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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.

(i) Provision for restructuring costs

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

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5. Trade and Other Receivables

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

(in millions of Korean won)

		Trade receivables	Other receivables	Lease payments receivable	Total
Current:					
Total carrying amount	₩	210,522	215,563	30,596	456,681
Reduction: Allowance for bad debts		(1,249)	(46,423)	(76)	(47,748)
Net carrying amount		<u>209,273</u>	<u>169,140</u>	<u>30,520</u>	<u>408,933</u>
Non-current:					
Total carrying amount		-	22,891	209,805	232,696
Reduction: Allowance for bad debts		-	(195)	(566)	(761)
Net carrying amount	₩	<u>-</u>	<u>22,696</u>	<u>209,239</u>	<u>231,935</u>

(b) 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		-	(72)	(20)	(92)
Net carrying amount	₩	<u>-</u>	<u>25,366</u>	<u>211,295</u>	<u>236,661</u>

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6. Restricted Deposits

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

(in millions of Korean won)

Account	Description	Depository	2020	2019	Remarks
Other financial assets (current)	Short-term financial instrument	Industrial Bank of Korea and others	₩ 113,000	113,000	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
			7,699	12,973	
	Total	₩	<u>120,714</u>	<u>125,988</u>	

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7. Fair Value of Financial Instruments

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

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Financial assets measured at fair value (*1):			
	Current assets:		
	Short-term financial instruments	₩ 113,000	113,000
Fair value through profit or loss	Non-current assets:		
	Non-current debt instruments	2,221	3,436
	Non-current derivatives assets held for trading	9,724	21,545
	Subtotal	<u>124,945</u>	<u>137,981</u>
	Current debt instruments	8,753	130
Fair value through other comprehensive income	Non-current equity instruments (*3)	60,625	269,417
	Non-current debt instruments	5,890	10,289
	Subtotal	<u>75,268</u>	<u>279,836</u>
	Current derivatives assets held for hedging	1,086	-
Derivatives assets	Non-current derivatives assets held for hedging	-	21,899
	Subtotal	<u>1,086</u>	<u>21,899</u>
	Total financial assets measured at fair value	<u>201,299</u>	<u>439,716</u>
Financial assets not being measured at fair value:			
	Current:		
	Cash and cash equivalents	1,058,445	726,809
	Trade and other receivables	408,933	631,838
	Short-term financial instruments	692,600	782,650
	Short-term loans	6,164	6,165
Financial assets at amortized cost (*2)	Accrued income	2,160	4,807
	Current portion of security deposits	136,372	287,413
	Non-current:		
	Deposits for current account	15	15
	Long-term loans	12,329	18,494
	Long-term account receivables	231,935	236,661
	Security deposit	935,436	841,462
	Subtotal	<u>3,484,389</u>	<u>3,536,314</u>
	Total financial assets not being measured at fair value:	<u>3,484,389</u>	<u>3,536,314</u>
	Total financial assets	<u>₩ 3,685,688</u>	<u>3,976,030</u>

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

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

(*3) During the year 2020, the Company liquidated all of equity instruments for mom.com Inc amounting to ₩81,679 million (See Note 10).

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7. Fair value of Financial Instruments, continued

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

<i>(in millions of Korean won)</i>		2020	2019
Current:			
Short-term financial instruments	₩	805,600	895,650
Short-term loans		6,165	6,165
Accrued income		2,160	4,807
Current portion of security deposits		136,372	287,413
Current debt instruments		8,753	130
Current derivatives assets held for hedging		1,086	-
Total		<u>960,136</u>	<u>1,194,165</u>
Non-current:			
Deposits for current account		15	15
Long-term loans		12,329	18,494
Security deposits		935,436	841,462
Non-current equity instruments		60,625	187,737
Non-current debt instruments		8,110	13,725
Non-current derivatives assets held for hedging		-	21,899
Non-current derivatives assets held for trading		9,724	21,545
Total	₩	<u>1,026,239</u>	<u>1,104,877</u>

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

(i) Equity instruments

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

	2020				2019
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable equity instruments measured at fair value through other comprehensive income:					
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179	48,529	65,446
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	9,971	13,487
momo.com Inc. (*)	-	-	-	-	81,679
Others	-	-	2,736	1,240	1,638
Subtotal			<u>61,162</u>	<u>59,740</u>	<u>162,250</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
Others	-	-	677	885	5,663
Subtotal			<u>61,890</u>	<u>885</u>	<u>107,167</u>
Total			₩ <u>123,052</u>	<u>60,625</u>	<u>269,417</u>

(*) During the year 2019, it was reclassified as asset held for sale and all the shares of momo.com Inc. amounting to ₩81,679 million were liquidated during the year 2020.

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7. Fair value of Financial Instruments, continued

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

(ii) Debt instruments

(in millions of Korean won)

		2020	2019
		Acquisition cost	Carrying amount
National housing bond	₩	14,123	14,643
Urban railway bond		-	-
Total	₩	14,123	14,643

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

(in millions of Korean won)

		2020	2019
Financial liabilities measured at fair value:			
Fair value through profit or loss	Current derivatives liabilities held for trading	₩ 19,967	16,572
	Subtotal	19,967	16,572
Derivatives liabilities	Current derivatives liabilities held for hedging	24,808	6
	Non-current derivatives liabilities held for hedging	41,837	8,664
	Subtotal	66,645	8,670
Total financial liabilities measured at fair value:		86,612	25,242
Financial liabilities not being measured at fair value:			
	Current:		
	Trade payables and other payables	1,532,242	1,926,254
	Short-term borrowings	200,000	100,000
	Current portion of long-term borrowings	444,426	149,873
	Current debentures	1,201,660	1,030,579
	Lease liabilities	530,258	552,513
	Accrued expenses	88,142	129,260
Financial liabilities at amortized cost (*)	Current portion of security deposits	163,991	195,323
	Non-current:		
	Long-term borrowings	388,715	445,347
	Long-term debentures	3,323,081	3,476,028
	Security deposits received	160,910	139,793
	Lease liabilities	5,401,988	5,888,227
	Others	6,638	7,403
	Subtotal	13,442,051	14,040,600
Other financial liabilities	Financial guarantee liabilities	91,618	263,311
Total financial liabilities not being measured at fair value:		13,533,669	14,303,911
Total financial liabilities		₩ 13,620,281	14,329,153

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

<i>(in millions of Korean won)</i>		2020	2019
Current:			
Current derivatives liabilities held for trading	₩	19,967	16,572
Current derivatives liabilities held for hedging		24,808	6
Financial guarantee liabilities		91,618	263,312
Accrued expense		88,142	129,260
Current portion of security deposits		163,991	195,323
Total		<u>388,526</u>	<u>604,473</u>
Non-current:			
Non-current derivatives liabilities held for hedging		41,837	8,663
Security deposits		160,910	139,793
Others		6,638	7,403
Total	₩	<u>209,385</u>	<u>155,859</u>

(f) Fair value hierarchy

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

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

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

(i) December 31, 2020

(in millions of Korean won)

		2020			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	124,945	124,945
Financial assets at fair value through other comprehensive income		59,740	14,643	885	75,268
Derivatives assets held for hedging		-	1,086	-	1,086
Total		59,740	15,729	125,830	201,299
Financial liabilities at fair value through profit or loss		-	13,566	6,400	19,966
Derivatives liabilities held for hedging		-	66,645	-	66,645
Total	₩	-	80,211	6,400	86,611

(ii) December 31, 2019

(in millions of Korean won)

		2019			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩	-	-	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

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, 2020 and 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Beginning of the year	₩	228,576	231,113
Changes in accounting policy		-	-
Total income (loss) for the year		(93,451)	(853)
Gain (loss) included in profit and loss		8,427	(2,811)
Gain (loss) included in OCI		(101,878)	1,958
Purchases		-	8,729
Disposal		<u>(15,696)</u>	<u>(10,413)</u>
End of the year	₩	<u>119,429</u>	<u>228,576</u>

(h) Sensitivity analysis

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

(i) Exchange right

(in millions of Korean won)

		<u>Stock price volatility</u>	
		<u>1% Decrease</u>	<u>1% Increase</u>
Exchange right	₩	(94)	106

(ii) Settlement agreement

(in millions of Korean won)

		<u>Discount rate</u>	
		<u>5% Decrease</u>	<u>5% Increase</u>
Settlement agreement	₩	4	(4)

LOTTE SHOPPING CO., LTD.
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8. Inventories

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

<i>(in millions of Korean won)</i>		2020	2019
Merchandise (*)	₩	394,079	467,023
Valuation allowance		(11,897)	(10,759)
Finished goods		9,233	9,480
Valuation allowance		(0)	(0)
Semi-finished goods		27	254
Raw materials		9,173	7,613
Ingredients		104	103
Supplies		498	322
Materials-in-transit		12,429	9,840
Incomplete building		10,985	-
Land		20,328	-
Packing materials		990	778
Total	₩	<u>445,949</u>	<u>484,654</u>

(*) As of December 31, 2020, inventories expected to be returned of ₩303 million are included (2019: ₩487 million).

(b) For the years ended December 31, 2020 and 2019, 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>		2020	2019
Cost of goods sold:			
Amount of inventories recognized as cost of goods sold	₩	4,528,496	4,842,926
Increase (decrease) in valuation allowance of inventories		1,138	2,149

9. Other Non-financial Assets

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

<i>(in millions of Korean won)</i>		2020	2019
Current:			
Advance payments	₩	7,299	11,941
Prepaid expenses		5,679	20,208
Total		<u>12,978</u>	<u>32,149</u>
Non-current:			
Long-term advance payments		6,545	6,497
Long-term prepaid expenses		1,752	2,073
Total	₩	<u>8,297</u>	<u>8,570</u>

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

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

<i>(in millions of Korean won)</i>		2020	2019
Equity instruments and etc. (*1)	₩	-	82,368
Land, etc. (*2,3)		827,847	32,087
Total	₩	<u>827,847</u>	<u>114,455</u>

(*1) The Company disposed all equity instruments for momo.com Inc, which were classified as assets held for sale. Also, the impairment loss amounting to ₩689 million was recognized for Shenyang SL Cinema Investment Management Co., Ltd.

(*2) The Company classified 4 department stores (₩480,081 million), 8 discount stores (₩332,438 million), and 2 supermarkets (₩15,173 million) as assets held for sale during the year 2020 upon decisions made on discontinued operations, disposal of assets, and decision to lease-back.

(*3) 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 are ₩30,504 million.

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11. Investments in Associates

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

(in millions of Korean won)

Company	Location	Major operation	2020		Book value
			Percentage of ownership (%)		
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
Coralis S.A. (*1)	Luxembourg	Holding company	45.00		20,804
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		2,000
Prototype	Korea	Service	20.00		-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52		6,400
Lotte Card Co. Ltd.	Korea	Credit finance business, etc.	20.00		325,239
Total				₩	474,864

(in millions of Korean won)

Company	Location	Major operation	2019		Book value
			Percentage of ownership (%)		
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
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	Korea	Service	20.00		-
Lotte-KDB Open Innovation Fund	Korea	Investment on new technology	25.52		6,400
Lotte Card Co. Ltd.	Korea	Credit finance business, etc.	20.00		325,239
Total				₩	494,953

(*1) The Company performed an impairment test for the investee companies based on external valuation agency and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2020 and 2019 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)

	2020	2019
Coralis S.A.	₩ 20,689	32,242
Lotte Europe Holdings B.V. (*)	-	6,809
	₩ 20,689	39,051

(*) Disposal was completed during the year 2019.

(*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.

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

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

(in millions of Korean won)

2020				
Company	Location	Major operation	Percentage of ownership (%)	Carrying amount
STL Co., Limited	Korea	Import and selling of clothing	50.00	₩ 1,784
LOTTE JTB Co., Ltd. (*1)	Korea	Travel business	50.00	896
				₩ 2,680

(in millions of Korean won)

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

(*1) The Company performed an impairment test for the investee companies based on external valuation agency and, as a result of the impairment test, recognized impairment loss for the years ended December 31, 2020 and 2019 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)

	2020	2019
LOTTE JTB Co., Ltd.	₩ 11,946	-

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13. Investments in Subsidiaries

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

Name of entity	Location	Major operation	2020	
			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	54,582
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	100.00	213,563
Lotte GFR Co., Ltd. (*2)	Korea	Apparel manufacturing and selling	99.93	56,385
CS Mart Co., Ltd. (*2)	Korea	Distribution	99.95	111,678
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	441,646
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. (*2,5)	Singapore	Holding company	20.00	12,910
Lotte Ulsan Development Co., Limitd	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. (*2)	Korea	Cinema	86.37	234,589
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 REIT Co., Ltd.	Korea	Real estate development	50.00	274,694
LOTTE Town DongTan Co., Ltd.	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	100.00	101,894
LOTTE SHOPPING RUS LTD. (*2)	Russia	Real estate development	100.00	-
Lotte Department Store (Shenyang) Co., Ltd (*2,6)	China	Department Store	100.00	-
Lotte Department Store (Chengdu) Co., Ltd (*2,6)	China	Department Store	100.00	-
				₩ 3,724,115

LOTTE SHOPPING CO., LTD.
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14. Investments in Subsidiaries, continued

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

(in millions of Korean won)

Name of entity	Location	Major operation	2019	
			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. (*2)	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. (*2,5)	Singapore	Holding company	20.00	14,185
Lotte Ulsan Development Co., Limited	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. (*2)	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 REIT Co., Ltd.	Korea	Real estate development	50.00	274,694
LOTTE Town DongTan Co., Ltd.	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 LTD. (*2)	Russia	Real estate development	100.00	80
				₩ <u>3,940,964</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, 2020 and 2019 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.

- The calculation of value in use 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.

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15. Investments in Subsidiaries, continued

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

- 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Lotte Suwon Station Shopping Town Co., Ltd.	₩	11,895	-
Lotte GFR Co., Ltd.		15,974	-
CS Mart Co., Ltd.		5,992	46,973
Lotte Shopping Holdings (Hong Kong) Co., Ltd.		189,491	35,142
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		18,655	70,990
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.		1,275	-
LOTTE PROPERTIES (CHENGDU) HK LIMITED		-	29,297
Lotte Cultureworks Co., Ltd.		252,027	-
Lotte Shopping Rus LLC.		3,342	-
Lotte Department Store (Shenyang) Co., Ltd.		9,617	-
Lotte Department Store (Chengdu) Co., Ltd.		-	-
Total	₩	508,268	182,402

(*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, 2020 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 & Television Co., Ltd., a subsidiary of the Company, owns 79.81% of common shares.

(*5) LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD., subsidiary of the Company, owns 40.00% of the common shares.

(*6) The common shares of Lotte Department Store (Shenyang) Co., Ltd and Lotte Department Store (Chengdu) Co., Ltd retained by Lotte Shopping Holdings (Hong Kong) Co., Limited were purchased during the year 2020.

(b) The fair value of marketable shares in subsidiaries as of December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
LOTTE Himart Co., Ltd.	₩	479,812	475,961
Lotte Real Estate Investment Trust Co.,Ltd.		460,017	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, 2020 and 2019 are summarized as follows:

(in millions of
Korean won)

		2020				2019			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	5,754,806	-	-	5,754,806	6,317,410	-	-	6,317,410
Buildings		4,682,471	(1,895,439)	(11)	2,787,021	5,408,238	(2,013,626)	(11)	3,394,601
Structures		317,231	(140,631)	(28,937)	147,663	332,118	(135,275)	(9,982)	186,861
Machinery		101,379	(50,076)	(15,294)	36,009	97,964	(44,476)	(853)	52,635
Vehicles		4,467	(3,901)	(274)	292	5,015	(4,314)	(283)	418
Display fixtures		58,613	(58,592)	(7)	14	65,094	(64,888)	(6)	200
Tools and equipment		3,530,327	(2,891,492)	(210,589)	428,246	3,591,150	(2,826,603)	(183,073)	581,474
Construction-in-progress		617,609	-	(8,840)	608,769	577,302	-	-	577,302
Total	₩	<u>15,066,903</u>	<u>(5,040,131)</u>	<u>(263,952)</u>	<u>9,762,820</u>	<u>16,394,291</u>	<u>(5,089,182)</u>	<u>(194,208)</u>	<u>11,110,901</u>

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

(in millions of Korean won)

		2020						
		Beginning balance	Acquisitions	Held for sale	Depreciation	Impairment	Disposals	Ending balance
Land	₩	6,317,410	14	(408,789)	-	-	(243,013)	5,754,806
Buildings		3,394,601	3,325	(408,689)	(126,702)	-	(57,288)	2,787,021
Structures		186,861	608	(10,446)	(10,415)	(19,002)	(296)	147,663
Machinery		52,635	2,111	-	(6,465)	(15,197)	(367)	36,009
Vehicles		418	45	-	(152)	(19)	-	292
Display fixtures		200	-	-	(68)	(1)	(117)	14
Tools and equipment		581,474	76,973	(19)	(201,942)	(53,835)	(18,568)	428,246
Construction-in-progress		577,302	401,155	-	-	(9,085)	(837)	608,769
Total	₩	<u>11,110,901</u>	<u>484,231</u>	<u>(827,943)</u>	<u>(345,744)</u>	<u>(97,139)</u>	<u>(320,486)</u>	<u>9,762,820</u>

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

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, 2019 are as follows:

(in millions of Korean won)

(in millions of Korean won)

		2019							
		Beginning balance	Acquisitions	Held for sale	Depreciation	Impairment	Disposals	Others(*)	Ending balance
Land	₩	7,002,991	-	(23,067)	-	-	(415,677)	(246,837)	6,317,410
Buildings		3,957,125	27	(8,893)	(144,290)	-	(364,659)	(44,709)	3,394,601
Structures		197,445	2	-	(12,631)	(6,273)	(2,780)	11,098	186,861
Machinery		58,755	1,093	-	(7,129)	(84)	-	-	52,635
Vehicles		643	163	-	(291)	(97)	-	-	418
Display fixtures		283	-	-	(77)	(6)	-	-	200
Tools and equipment		647,515	169,889	(286)	(260,517)	(53,528)	(3,859)	82,260	581,474
Construction-in-progress		510,793	190,372	-	-	-	(2,121)	(121,742)	577,302
Total	₩	12,375,550	361,546	(32,246)	(424,935)	(59,988)	(789,096)	(319,930)	11,110,901

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

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, 2020 and 2019 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 my management.

(in millions of Korean won)

(in millions of Korean won)

		2020				
		Department stores	Discount stores	Supermarkets	Others	Total
Impairment loss on property, plant and equipment	₩	27,492	63,466	2,271	3,909	97,138
Impairment loss on right-of-use assets		238,248	276,943	17,034	8,468	540,693
Impairment loss on intangible assets (excluding goodwill)		169	256	-	6,112	6,537
Impairment loss on goodwill		135,872	-	66	28,265	164,203
Impairment loss on other non-current assets		-	360	-	-	360
Total	₩	401,781	341,025	19,371	46,754	808,931

(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

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 1% (2019: 0%~1.5%).
- Weighted average cost of capital in 2020 for peer industry was applied as the discount rate of 5.50% (2019:5.51%) 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, 2020 are as follows:

<i>(in millions of Korean won)</i>		2020			
Pledged assets		Book amount	Guaranteed amount	Type of borrowings	Guarantee recipient
Buildings	₩	66,088	50,362	Security deposit for lease	Shinhan Bank and others
Land		86,326	3,559	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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Capitalized borrowing costs	₩	5,305	4,096
Capitalization interest rates		2.43%	2.57%

LOTTE SHOPPING CO., LTD.
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15. Investment Property

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

(in millions of Korean won)

		2020				2019			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	637,398	-	-	637,398	570,730	-	-	570,730
Buildings		685,353	(216,804)	(1)	468,548	591,417	(162,841)	(1)	428,575
Right-of-use assets		199,732	(28,067)	(39,997)	131,668	146,605	(11,393)	(18,011)	117,201
Total	₩	<u>1,522,483</u>	<u>(244,871)</u>	<u>(39,998)</u>	<u>1,237,614</u>	<u>1,308,752</u>	<u>(174,234)</u>	<u>(18,012)</u>	<u>1,116,506</u>

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

(in millions of Korean won)

		2020					
		Beginning balance	Acquisition	Depreciation	Disposal	Others (*)	Ending balance
Land	₩	570,730	-	-	-	66,668	637,398
Buildings		428,575	-	(15,693)	-	55,667	468,549
Right-of-use assets		117,201	-	(12,387)	-	26,853	131,667
Total	₩	<u>1,116,506</u>	<u>-</u>	<u>(28,080)</u>	<u>-</u>	<u>149,188</u>	<u>1,237,614</u>

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

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

(in millions of Korean won)

		2019					
		Beginning balance	Changes in accounting policy	Acquisition	Depreciation	Disposal	Ending balance
Land	₩	531,082	-	-	-	-	570,730
Buildings		460,706	-	-	(14,107)	-	428,575
Right-of-use assets		-	129,686	-	(11,618)	-	117,201
Total	₩	<u>991,788</u>	<u>129,686</u>	<u>-</u>	<u>(25,725)</u>	<u>-</u>	<u>1,116,506</u>

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

(d) Income and expense from investment property

The details of income and expense from investment property for the years ended December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020	2019
Rental income	₩	124,027	87,319
Direct operating expense (including maintenance and repair expenses)		51,074	39,908

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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15. Investment Property, continued

(e) Fair value of investment property as of December 31, 2020 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.	₩	1,237,614	2,500,543

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

16. Goodwill and Intangible Assets

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

(in millions of Korean won)

		2020				2019			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	597,701	-	(537,408)	60,293	639,017	-	(414,358)	224,659
Industrial property rights		7,709	(6,817)	(435)	457	7,501	(6,450)	(222)	829
Rights to use facility		39,364	(37,628)	(608)	1,128	40,183	(37,740)	(578)	1,865
Membership		16,296	-	(1,978)	14,318	16,492	-	(1,808)	14,684
Other intangible assets		161,848	(64,653)	(6,099)	91,096	88,384	(50,864)	(32)	37,488
Total	₩	822,918	(109,098)	(546,528)	167,292	791,577	(95,054)	(416,998)	279,525

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

(in millions of Korean won)

		2020						
		Beginning balance	Acquisitions	Amortization	Impairment	Disposals	Others(*)	Ending balance
Goodwill	₩	224,660	-	-	(164,202)	(164)	-	60,294
Industrial Property rights		829	187	(370)	(213)	-	23	456
Rights to use facility		1,865	-	(663)	(74)	-	-	1,128
Membership		14,683	-	-	(169)	(195)	-	14,319
Other Intangible assets		37,488	639	(19,612)	(6,082)	(344)	79,008	91,097
Total	₩	279,525	826	(20,645)	(170,740)	(703)	79,031	167,294

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

(c) 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	Ending balance
Goodwill	₩	234,870	-	86	-	(10,254)	(42)	224,660
Industrial Property rights		927	-	196	(428)	(19)	-	829
Rights to use facility		160,741	(157,287)	-	(1,085)	(570)	-	1,865
Membership		15,114	-	-	-	(380)	(21)	14,683
Other Intangible assets		24,325	(1,451)	1,466	(7,434)	(805)	(150)	37,488
Total	₩	435,977	(158,738)	1,748	(8,947)	(12,028)	(213)	279,525

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

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17. Goodwill and Intangible Assets, continued

(d) Details of the goodwill allocated to the Company of cash-generating units as of December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Department stores	₩	56,956	192,828
Supermarkets		3,337	3,567
Others		-	28,265
Total	₩	60,293	224,660

The impairment losses on goodwill are recognized because part of book value of cash generating unit exceeded recoverable amount during the year 2020 and 2019.

<i>(in millions of Korean won)</i>		2020	2019
Department Store	₩	135,872	-
Discount stores		-	2,293
Supermarkets		66	7,961
Others		28,265	-
Total	₩	164,203	10,254

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).

18. Trade and Other Payables

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

<i>(in millions of Korean won)</i>		2020	2019
Trade payables	₩	328,302	332,741
Other payables		1,203,940	1,593,513
Total	₩	1,532,242	1,926,254

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19. Borrowings and Debentures

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

(in millions of Korean won)

		2020	2019
Current:			
Short-term borrowings	₩	200,000	100,000
Current portion of long-term borrowings		444,426	150,000
Discount on short-term borrowings		-	(127)
Current portion of long-term debentures		1,215,680	1,053,600
Current portion of discount on long-term debentures		(1,689)	(2,203)
Current portion of debentures redemption premium		7,681	7,681
Exchange rights adjustment		(20,013)	(28,499)
Subtotal		1,846,085	1,280,452
Non-current:			
Long-term borrowings		400,000	445,347
Discount on long-term borrowings		(11,286)	-
Long-term debentures		3,330,200	3,480,983
Discount on debentures		(7,119)	(4,955)
Subtotal		3,711,795	3,921,375
Total	₩	5,557,880	5,201,827

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

(in millions of Korean won)

Lender	Details	Annual interest rate (%)		2020	2019
Shinhan Bank (*)	Financial note	CD(91)+0.30% ~ CD(91)+0.50%	₩	200,000	100,000

(*) For the year 2020, CD (91): 0.66%

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

(in millions of Korean won)

Lender	Details	Annual interest rate(%) (*)		2020	2019
Lotte Co., Ltd. (Japan)	Foreign currency	3M Tibor (*) +1.23%	₩	105,426	106,347
DB Financial Investment Co., Ltd.	Local currency	2.46%		-	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
Daishin Securities	Local currency	2.16%		200,000	-
Korea Development Bank	Local currency	2.06%		200,000	-
Subtotal				844,426	595,347
Less: Discount on borrowings				(11,286)	(127)
Subtotal				833,140	595,220
Less: Current portion of long-term borrowings, net of discount				(444,426)	(149,873)
Total			₩	388,714	445,347

(*) For the year 2020, 3M Tibor: 0.079%

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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18. Borrowings and Debentures, continued

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

(in millions of Korean won)

Description	Maturity	Annual interest rate		2020	2019
65-1st placed	2020-03-03	2.26%	₩	-	160,000
65-2nd placed	2022-03-03	2.45%		240,000	240,000
66-1st placed	2020-06-23	2.40%		-	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
70-2nd placed	2021-04-04	2.02%		170,000	170,000
70-3rd placed	2026-04-04	2.48%		70,000	70,000
72-1st placed	2020-01-23	1.94%		-	240,000
72-2nd placed	2022-01-23	2.36 %		160,000	160,000
73-1st placed	2020-06-15	2.11%		-	110,000
73-2nd placed	2022-06-15	2.50%		150,000	150,000
73-3rd placed	2024-06-15	2.69%		100,000	100,000
74th placed	2022-06-29	2.48%		50,000	50,000
75th placed	2024-08-07	2.74%		150,000	150,000
76-1st placed (foreign currency)	2021-05-21	3M USD Libor		108,800	115,780
76-2nd placed (foreign currency)	2021-05-21	3M USD Libor+0.95%		190,400	202,615
77-1st placed	2021-05-28	2.64%		160,000	160,000
77-2nd placed	2023-05-30	2.96%		310,000	310,000
77-3rd placed	2028-05-30	3.47%		100,000	100,000
78-1st placed (foreign currency)	2021-08-17	3M USD Libor		174,080	185,248
78-2nd placed (foreign currency)	2021-08-28	3M USD Libor + 0.95%		108,800	115,780
79th placed	2033-08-07	3.55%		70,000	70,000
80th placed	2038-08-29	3.40%		30,000	30,000
81st placed (foreign currency)	2022-01-28	3M USD Libor		108,800	115,780
82-1st placed	2022-01-28	2.09%		110,000	110,000
82-2nd placed	2024-01-30	2.29%		150,000	150,000
82-3rd placed	2029-01-30	2.73%		140,000	140,000

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19. Borrowings and Debentures, continued

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

(in millions of Korean won)

Description	Maturity	Annual interest rate		2020	2019
83-1st placed	2024-08-29	1.59%	₩	100,000	100,000
83-2nd placed	2026-08-28	1.67%		70,000	70,000
83-3rd placed	2029-08-29	1.80%		110,000	110,000
84th placed (foreign currency)	2022-11-29	3M USD Libor		108,800	115,780
85th placed	2023-04-28	2.33%		350,000	-
86-1st placed	2025-07-18	2.20%		30,000	-
86-2nd placed	2030-07-19	2.58%		20,000	-
87-1st placed (foreign currency)	2023-08-18	3M USD Libor+1.40%		108,800	-
87-2nd placed (foreign currency)	2023-08-21	3M USD Libor+1.30%		54,400	-
87-3rd placed (foreign currency)	2023-08-28	3M USD Libor+2.10%		54,400	-
88-1st placed	2025-09-23	2.07%		135,000	-
88-2nd placed	2030-09-23	2.55%		60,000	-
Exchangeable bonds (*1)	2023-04-04	-		303,600	303,600
Subtotal				4,545,880	4,534,583
Less: Discount on debentures				(8,807)	(7,158)
Debentures redemption premium				7,681	7,681
Less: Exchange rights adjustment				(20,013)	(28,499)
Total book value				4,524,741	4,506,607
Less: Current portion of debentures				(1,201,660)	(1,030,579)
Total			₩	3,323,081	3,476,028

(*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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20. Borrowings and Debentures, continued

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

(in millions of Korean won)

		2020		
		Borrowings	Debentures	Total
2021.01.01 ~ 2021.12.31	₩	444,426	1,215,680	1,660,106
2022.01.01 ~ 2022.12.31		200,000	977,600	1,177,600
2023.01.01 ~ 2023.12.31		200,000	877,600	1,077,600
2024.01.01 ~ 2024.12.31		-	500,000	500,000
After 2025.01.01		-	975,000	975,000
Total	₩	844,426	4,545,880	5,390,306

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19. Unearned Revenues

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

<i>(in millions of Korean won)</i>		2020	2019
Current:			
Membership points (*)	₩	10	45
Other points (*)		49,263	47,258
Unearned rental income		5,249	4,269
Deferred income (*)		88,269	93,748
Subtotal		142,791	145,320
Non-current:			
Unearned rental income		22,428	25,042
Subtotal		22,428	25,042
Total	₩	165,219	170,362

(*) Deferred income for the year of 2020 and 2019 include contract liabilities described in Note 29.

20. Provisions

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

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	Ending balance
Current:					
Provision for bonus payable	₩	-	33,901	(33,901)	-
Provision for sales return		1,352	891	(1,352)	891
Provision for restoration		2,885	-	(124)	2,761
Provisions for litigation		2,336	2,000	(2,100)	2,236
Other provisions		195	9,234	(8,427)	1,002
Provision for restructuring (*)		-	27,411	(20,530)	6,881
Total		6,768	73,437	(66,434)	13,771
Non-current:					
Provision for restoration		148,586	34	(5,111)	143,509
Total	₩	148,586	34	(5,111)	143,509

(*) The Company announced the detailed formal plan for the restructuring. The provision amount of ₩6,881 million was recognized in relation to compensation expense for the stores.

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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20. Provisions, continued

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

<i>(in millions of Korean won)</i>		Beginning balance	Increase	Utilization	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	₩	<u>15,007</u>	<u>45,592</u>	<u>(53,831)</u>	<u>6,768</u>
Non-current:					
Provision for restoration		-	148,586	-	148,586
Total	₩	<u>-</u>	<u>148,586</u>	<u>-</u>	<u>148,586</u>

21. Other Non-financial Liabilities

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

<i>(in millions of Korean won)</i>		2020	2019
Current:			
Withholdings	₩	13,437	16,386
Withholdings of value added tax		61,880	99,900
Advances received		803,926	779,167
Total		<u>879,243</u>	<u>895,453</u>

LOTTE SHOPPING CO., LTD.
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22. Employee Benefits

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

<i>(in millions of Korean won)</i>		2020	2019
Present value of defined benefit obligations	₩	705,326	689,972
Fair value of plan assets		(777,569)	(725,076)
Defined benefit assets	₩	(72,243)	(35,104)

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

<i>(in millions of Korean won)</i>		2020	2019
Present value of other long-term employee benefits	₩	24,016	66,809

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

<i>(in millions of Korean won)</i>		2020	2019
Beginning balance	₩	689,972	591,984
Current service cost		105,995	79,749
Interest costs		15,557	15,032
Remeasurements:			
Actuarial loss from change in demographic assumptions		(88)	-
Actuarial loss from change in financial assumptions		(24,929)	21,345
Actuarial loss from experience adjustments		(15,414)	18,643
Subtotal		(40,431)	39,988
Benefit payments		(73,103)	(44,359)
Others		7,335	7,578
Ending balance	₩	705,325	689,972

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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22. Employee Benefits, continued

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

<i>(in millions of Korean won)</i>		2020	2019
Beginning balance	₩	725,076	638,969
Return on plan assets		17,676	17,996
Remeasurements		(4,970)	(6,435)
Employer contribution		95,700	103,500
Benefit payments		(58,140)	(31,590)
Others		2,227	2,636
Ending balance	₩	<u>777,569</u>	<u>725,076</u>

The estimated contributions to the plan for the next annual reporting period are ₩82,984 million.

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

<i>(in millions of Korean won)</i>		2020	2019
Principal guaranteed insurance policies	₩	777,548	725,051
Contributions to the National Pension Fund		22	25
Total	₩	<u>777,570</u>	<u>725,076</u>

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

<i>(in millions of Korean won)</i>		2020	2019
Current service costs	₩	105,995	79,749
Interest costs		15,557	15,032
Return on plan assets		(17,676)	(17,996)
Contributions to defined contribution plans		2,749	2,627
Long-term employee benefits		(34,690)	15,722
Total	₩	<u>71,935</u>	<u>95,134</u>

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22. Employee Benefits, continued

(g) Defined benefit obligation

① Actuarial assumptions

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

	<u>2020</u>	<u>2019</u>
Discount rate	1.44~3.04%	2.07 ~ 2.96%
Expected rate of promotion	1.25~2.54%	1.43 ~ 2.94%
Expected rate of increase in salaries	0.21~10.07%	0.80 ~ 11.43%

② Sensitivity analysis

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

<i>(in millions of Korean won)</i>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement) ₩	(54,276)	62,183
Expected rate of promotion (1% movement)	60,288	(55,595)
Expected rate of increase in salaries (1% movement)	62,129	(41,518)

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, 2020, is as follows:

<i>(in millions of Korean won)</i>		<u>Less than 1 year</u>	<u>Between 1-2 years</u>	<u>Between 2-5 years</u>	<u>Between 5-10 years</u>	<u>Over 10 years</u>
Benefits payment ₩		57,056	65,524	215,313	454,354	1,192,243

The weighted average duration of the defined benefit obligation is 8.11 years.

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23. Derivatives

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

Purpose	Type	Description
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures 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 (*)	Cash flows of an investor in beneficiary are exchanged with contracted cash flows.
	Currency forward	The principal amount in KRW is exchanged based on agreed exchange rate at the maturity date.

(*) Total return swaps of the Company as of December 31, 2020 are as follows:

(in millions of Korean won)

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

LOTTE SHOPPING CO., LTD.
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23. Derivatives, continued

(b) Hedge accounting

As of December 31, 2020, 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, 2020 are as follows:

(in thousands of Korean won, full foreign currency)

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	1,136.00	3M USD Libor	2.46%	2021.08.17	The Bank of Tokyo-Mitsubishi UFJ
	78-2nd placed (foreign currency)	USD 100,000,000	1,122.00	3M USD Libor+0.95	2.27%	2021.08.28	The Development Bank of Singapore
	81 placed (foreign currency)	USD 100,000,000	1,128.00	3M USD Libor	2.24%	2022.01.28	The Bank of Tokyo-Mitsubishi UFJ
	84 placed (foreign currency)	USD 100,000,000	1,177.00	3M USD Libor	1.87%	2022.11.29	The Bank of Tokyo-Mitsubishi UFJ
	87-1st placed (foreign currency)	USD 100,000,000	1,193.80	3M USD Libor+1.40	2.26%	2023.08.18	Kookmin Bank
	87-2nd placed (foreign currency)	USD 50,000,000	1,193.80	3M USD Libor+1.30	1.47%	2023.08.21	KEB Hana Bank
	87-3rd placed (foreign currency)	USD 50,000,000	1,190.50	3M USD Libor+2.10	2.16%	2023.08.28	Credit Agricole
Interest rate swap	Short term borrowings	KRW 200,000,000	Not applicable	91 days CD rate +0.50%	1.62%	2023.03.17	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, 2020 are as follows:

(in millions of Korean won)

Purpose	Type	Amount	Remarks
Cash flow hedge	Currency swaps	₩ (81,395)	Profit or loss (*1)
		3,593	Other comprehensive income (*2)
	Interest swaps	(987)	Other comprehensive income (*2)
Trade	Embedded derivatives	2,428	Profit or loss
	Total return swap	(608)	Profit or loss
	Stock options	7,744	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, 2020 are ₩14,100 million. The Company recognized accumulated other comprehensive loss of ₩10,688 million (less tax effects of ₩3,412 million).

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24. Share capital and Capital Surplus

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

<i>(in millions of Korean won, except for number of shares)</i>		2020	2019
Authorized shares (shares)		60,000,000	60,000,000
Par value per share (in thousands of Korean won)	₩	5	5
Number of shares issued (shares)		28,288,755	28,288,755
Share capital	₩	141,444	141,444

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

<i>(in millions of Korean won)</i>		2020	2019
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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Legal reserves	₩	241,885	231,142
Voluntary reserves		9,320,052	10,220,052
Unappropriated deficit		<u>(818,788)</u>	<u>(763,155)</u>
	₩	<u>8,743,149</u>	<u>9,688,039</u>

(b) The appropriation of retained earnings for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Unappropriated retained earnings carried over from prior year	₩	18,674	20,110
Adjustment of beginning balance (changes in accounting policies)		-	4,093
Remeasurements of net defined benefit liabilities		23,578	(33,657)
Gain/Loss from sale of equity instruments at fair value through other comprehensive income		170,957	-
Gain (Loss) for the period		<u>(1,031,997)</u>	<u>(753,701)</u>
		<u>(818,788)</u>	<u>(763,155)</u>
Transfers such as voluntary reserves		<u>950,000</u>	<u>900,000</u>
Appropriation of retained earnings			
Legal reserve		7,916	10,743
Dividends (Cash dividend %):			
Common stock: 2,800 in Korean won (56%) in 2020 and 3,800 in Korean won (76%) in 2019		<u>79,158</u>	<u>107,428</u>
		<u>87,074</u>	<u>118,171</u>
Unappropriated retained earnings to be carried forward	₩	<u>44,138</u>	<u>18,674</u>

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27. Accumulated Other Comprehensive Income (loss)

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

(in millions of Korean won)

		2020				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Ending balance
Fair value gain (loss) through other comprehensive income	₩	76,033	3,833	(170,957)	43,906	(47,185)
Cash flow hedge		(12,112)	2,606	-	(1,182)	(10,688)
	₩	63,921	6,439	(170,957)	42,724	(57,873)

(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	-	(10,233)	76,033
Cash flow hedge		(8,842)	(5,436)	926	1,240	(12,112)
	₩	40,215	31,773	926	(8,993)	63,921

28. Earnings (losses) per Share

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

(in Korean won, except for number of shares)

	2020	2019
Loss for the year attributable to the owners of the Company	₩ (1,031,996,637,355)	₩ (753,701,309,562)
Weighted average number of common shares for diluted earnings per share (in shares)	28,270,640	28,270,640
Diluted loss per share	₩ (36,504)	₩ (26,660)

(b) Diluted earnings (losses) per share

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

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29. Sales

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

<i>(in millions of Korean won)</i>			2020	2019
Revenue from contracts with customers	Sales of merchandise	₩	12,720,518	14,455,368
	Sales of products		627,945	488,879
	Other sales (*)		227,081	316,867
	Total sales		13,575,544	15,261,114
	Sales discounts and sales returns		(963,779)	(862,859)
	Provision for sales return and deferred sales		(157,880)	(204,649)
	Cost of specific sales		(4,889,035)	(5,820,669)
	Total sales deduction		(6,010,694)	(6,888,177)
Revenue from other sources: rental revenue			1,143,234	1,322,388
Total			₩ 8,708,084	9,695,325

(*) Due to COVID-19, other sales include government grant of ₩5,871 million received from Korea Argo-Fisheries & Food Trade Corporation and Korea Fisheries Association to promote agricultural consumption.

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

<i>(in millions of Korean won)</i>			2020	2019
Contract assets				
Inventory expected for return			303	487
Total			₩ 303	487
Contract liabilities				
Customer loyalty program			86,098	89,700
Gift vouchers			815,358	778,085
Other			24,486	43,293
Total			₩ 925,942	911,078

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

<i>(in millions of Korean won)</i>			2020	2019
Revenue				
Customer loyalty programs			89,700	62,898
Others			42,655	40,843
Total			₩ 132,355	103,741
Collected				
Gift vouchers			405,035	474,643
Total			₩ 405,035	474,643

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29. Sales, continued

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

(in millions of Korean won)

	<u>Book amount</u>	<u>1 year</u>	<u>Between 1-5 years</u>	<u>Over 5 years</u>
₩	815,358	428,167	383,657	3,534

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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, 2020 and December 31, 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Salaries and bonuses	₩	856,632	918,968
Retirement benefits		106,941	78,624
Long-term employee benefits		(34,158)	15,529
Employee benefits		159,966	171,325
Training expenses		4,839	8,842
Travel expenses		9,608	14,968
Vehicles maintenance expenses		1,323	1,517
Insurance premium		8,556	10,999
Taxes and dues		150,163	157,714
Entertainment expenses		1,303	1,920
Supplies expenses		35,652	42,819
Publication expenses		828	847
Communication expenses		9,319	10,973
Utility expenses		204,824	231,751
Repairs and maintenance		29,956	26,105
Paid rents		111,920	117,387
Depreciation		881,304	1,060,655
Amortization		20,627	8,928
Commission expenses		448,309	540,733
Service commission expenses		713,216	765,140
Advertising expenses		89,699	114,223
Samples expenses		190	176
Sales commissions		98,798	108,298
Sales promotion expenses		62,099	84,278
Decoration expenses		8,125	7,615
Bad debt expense		722	115
Transportation expenses		28,932	25,344
Research and development expenses		219	199
Compensation expenses		12,859	7,822
Provisions		(3,213)	(20)
Others		855	1,903
Total	₩	<u>4,020,413</u>	<u>4,535,697</u>

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31. Other Income and Expenses

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

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Other income:			
Gain on foreign currency transactions	₩	2,191	1,295
Gain on foreign currency translation		84	170
Gain on disposal of property, plant and equipment		16,451	159,910
Gain on disposal of intangible assets		-	3
Gain on termination of financial lease		110,309	2,392
Gain on disposal of right-of-use assets		25,500	2,275
Gain on disposal of assets held for sale		3,351	3,179
Miscellaneous gains		35,096	28,988
Total	₩	<u>192,982</u>	<u>198,212</u>
Other expenses:			
Loss on foreign currency transactions	₩	2,054	1,207
Loss on foreign currency translation		627	70
Loss on disposal of property, plant and equipment		15,842	5,583
Impairment loss on right-of-use assets		540,693	970,474
Impairment loss on property, plant and equipment		97,139	59,988
Loss on disposal of intangible assets		503	227
Impairment loss on intangible assets and goodwill		170,740	12,028
Loss on termination of lease		3,178	574
Loss on disposal of right-of-use assets		16,356	4,897
Loss on disposal of assets held for sale		295	-
Impairment loss on assets held for sale		-	30,504
Impairment loss on other non-current assets		360	1,911
Donations		6,829	12,329
Other bad debt expenses		6,623	5,718
Miscellaneous losses		9,163	60,966
Total	₩	<u>870,402</u>	<u>1,166,476</u>

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32. Nature of Expenses

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

<i>(in millions of Korean won)</i>		2020	2019
Purchase of inventories	₩	4,450,655	4,793,685
Changes in inventories		41,470	7,982
Employee benefits		1,101,606	1,197,765
Paid rents		114,656	120,522
Depreciation and amortization		910,220	1,078,991
Sales commissions		98,798	108,298
Sales promotion expenses		62,099	84,278
Commission expenses		448,458	540,845
Service expenses		731,011	783,039
Advertising expenses		89,699	123,586
Utility expenses		207,311	234,360
Taxes and dues		150,363	157,909
Others		167,730	193,046
Total of cost of goods sales and selling, general and administrative expenses	₩	<u>8,574,076</u>	<u>9,424,306</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, 2020 and 2019 are as follows:

(in millions of Korean won)

		<u>2020</u>	<u>2019</u>
Finance income:			
Interest income according to the effective interest rate method	₩	49,476	70,801
Dividend income		75,853	92,497
Gain on foreign currency transactions		-	9,710
Gain on foreign currency translation		80,583	1,920
Gain on disposal of debt instrument at fair value through profit or loss		4	77
Gain on valuation of debt instrument at fair value through profit or loss		69	492
Gain on valuation of derivatives held for hedging		-	24,220
Gain on valuation of derivatives held for trading		9,679	5,476
Gain on transaction of derivatives held for hedging		-	6,820
Gain on transaction of derivatives held for trading		817	557
Gain on disposal of investments in subsidiaries, associates and joint ventures		-	989
Reversal of financial guarantee liabilities		171,554	61,476
Total	₩	<u>388,035</u>	<u>275,035</u>
Finance costs:			
Interest expense according to the effective interest rate method	₩	304,674	311,268
Loss on foreign currency transactions		-	9,496
Loss on foreign currency translation		19,861	32,236
Loss on valuation of debt instrument at fair value through profit or loss		1,284	1,132
Loss on disposal of debt instrument at fair value through profit or loss		-	2
Loss on valuation of derivatives held for hedging		81,395	1,920
Loss on valuation of derivatives held for trading		13,682	7,811
Loss on transaction of derivatives held for hedging		-	120
Loss on transaction of derivatives held for trading		82	468
Loss on disposal of investments in subsidiaries, associates, and joint ventures		-	839
Impairment loss on investments in subsidiaries, associates, and joint ventures		540,903	221,453
Impairment loss on assets held for sale		689	-
Total	₩	<u>962,570</u>	<u>586,745</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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020							
		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	₩	15,839	33,637	-	-	-	-	-	-
Interest expense		-	-	-	-	-	-	(304,674)	-
Dividend income		-	-	-	6,236	-	-	-	-
Valuation/Disposal		-	-	(1,211)	-	(3,268)	(81,395)	-	-
Impairment		-	(7,345)	-	-	-	-	-	-
Exchange differences		-	61	(1,646)	72,220	-	-	(10,319)	-
Reversal of financial guarantee liabilities		-	-	-	-	-	-	-	171,554
Subtotal		15,839	26,353	(2,857)	78,456	(3,268)	(81,395)	(314,993)	171,554
Recognized in other comprehensive income (loss)									
Fair value gain through other comprehensive income (*)		-	-	-	(167,124)	-	-	-	-
Gain on valuation of derivatives (*)		-	-	-	-	-	2,606	-	-
Subtotal		-	-	-	(167,124)	-	2,606	-	-
Total	₩	15,839	26,353	(2,857)	(88,668)	(3,268)	(78,789)	(314,993)	171,554

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

(in millions of Korean won)

		2019							
		Cash and cash equivalents	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivatives assets and liabilities held for trading	Derivatives assets and liabilities held for hedging	Financial liabilities at amortized cost	Other financial liabilities
Recognized in profit or loss									
Interest income	₩	26,194	44,608	-	-	-	-	-	-
Interest expense		-	-	-	-	-	-	(311,268)	-
Dividend income		-	-	2,518	3,776	-	-	-	-
Valuation/Disposal		-	-	(565)	-	(2,246)	29,000	-	-
Impairment		-	(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)									
Fair value gain through other comprehensive income (*)		-	-	-	37,208	-	-	-	-
Gain on valuation of derivatives (*)		-	-	-	-	-	(4,510)	-	-
Subtotal		-	-	-	37,208	-	(4,510)	-	-
Total	₩	30,662	38,330	1,953	40,919	(2,246)	24,490	(345,169)	61,488

(*) The gain or 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Current income taxes	₩	(10,498)	104,576
Deferred tax due to temporary differences (*)		<u>(106,293)</u>	<u>(362,053)</u>
Total income tax effect		(116,791)	(257,477)
Income tax charged directly to equity		<u>30,842</u>	<u>2,221</u>
Income tax expense (income)	₩	<u>(85,949)</u>	<u>(255,256)</u>

(*) The income tax rate changed from 27.5% to 24.2%.

(b) Details of income tax expense recognized directly to equity for the years ended December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Fair value loss through other comprehensive income	₩	43,906	(10,232)
Gain (loss) on valuation of derivatives		(1,182)	1,240
Remeasurements of defined benefit liabilities		(11,882)	12,766
Effect of changes in accounting policy		<u>-</u>	<u>(1,553)</u>
Income tax charged directly to equity	₩	<u>30,842</u>	<u>2,221</u>

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 2020 and 2019, statutory to actual effective tax rates are reconciled as follows:

<i>(in millions of Korean won)</i>		2020	2019
		<hr/>	<hr/>
Loss before income tax expense	₩	(1,117,946)	(1,008,957)
Income tax using statutory tax rate		(270,543)	(277,463)
Adjustment:		184,593	22,208
Tax effects on non-taxable income		(4,412)	(8,616)
Tax effects on non-deductible expense		15,490	5,794
Tax credit		-	(971)
Adjustment for prior periods		(12,374)	21,036
Changes in temporary differences that are not realizable		130,938	15,301
Changes in deferred income tax due to change in tax rate		50,053	-
Others		4,898	(10,336)
Income tax expense (income)	₩	<hr/> (85,950) <hr/>	<hr/> (255,255) <hr/>
Effective tax rate (*)		-	-

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

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

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34. Income Taxes, continued

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

(in millions of Korean won)

		2020			
		Beginning balance	Profit or loss	Equity	Ending balance
Investments in subsidiaries and associates	₩	(3,954)	-	-	(3,954)
Depreciation		52,435	(9,984)	-	42,451
Allowance for bad debt		(128)	9,552	-	9,424
Accrued income		(1,399)	876	-	(523)
Losses on valuation of inventories		2,939	(634)	-	2,305
Provision for sales return		243	(100)	-	143
Property, plant and equipment (capitalization of borrowing costs)		(10,899)	977	-	(9,922)
Land		36,987	-	-	36,987
Land (asset revaluation)		(1,044,981)	9,225	-	(1,035,756)
Accrued expense		11,529	(3,327)	-	8,202
Gain (loss) on foreign currency translation		1,767	(212)	-	1,555
Construction-in-progress		1,634	(263)	-	1,371
Impairment loss on intangible assets		36,148	(6,408)	-	29,740
Security deposits for leases		13,026	43,714	-	56,740
Goodwill		(47,496)	32,989	-	(14,507)
Exchangeable bonds		(7,837)	2,994	-	(4,843)
Fair value loss through other comprehensive income		(28,840)	-	43,906	15,066
Gain(loss) on valuation of derivatives		5,339	322	(1,182)	4,479
Salaries and retirement benefits		20,580	(4,767)	(11,882)	3,931
Right-of-use assets and lease liabilities		324,635	(36,230)	-	288,405
Loss carried forward		-	19,639	-	19,639
Others		52,772	17,088	-	69,860
Total	₩	(585,500)	75,451	30,842	(479,207)

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34. Income Taxes, continued

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

(in millions of Korean won)

		2019			
		Beginning balance	Profit or loss	Equity	Ending balance
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)

- (f) Temporary differences not recognized as deferred tax assets related to investments in associates and subsidiaries as of December 31, 2020 and 2019 are ₩3,945,842 million and ₩3,484,840 million, respectively.
- (g) As of December 31, 2020 and 2019, 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)

		2020	2019
Deferred tax assets	₩	2,094,521	2,364,639
Deferred tax liabilities		2,573,730	2,950,141
Current tax assets		2,961	13,824
Current tax liabilities		1,876	109,815

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

35. Separate Statements of Cash Flows

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

<i>(in millions of Korean won)</i>		2020	2019
Cash	₩	9,472	11,537
Deposits		25,609	29,985
Other cash equivalents		1,023,363	685,287
Total	₩	<u>1,058,444</u>	<u>726,809</u>

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

(i) Adjustments

<i>(in millions of Korean won)</i>		2020	2019
Income tax revenue	₩	(85,950)	(255,255)
Retirement benefits		103,876	76,785
Long-term employee benefits		(34,690)	15,722
Depreciation		889,575	1,070,044
Amortization		20,645	8,947
Impairment loss on property, plant and equipment		97,139	59,988
Impairment loss on intangible assets and goodwill		170,740	12,028
Impairment loss on asset held for sale		689	30,504
Impairment loss on right-of-use assets		540,693	970,474
Loss on foreign currency translation		20,488	32,306
Loss on foreign currency transactions		-	9,496
Loss on disposal of property, plant and equipment		15,842	5,583
Loss on disposal of intangible assets		503	227
Loss on disposal of right-of-use assets		16,356	4,897
Loss on disposal of assets held for sale		295	-
Loss on valuation of debt instrument at fair value through profit or loss		1,284	1,132
Loss on disposal of debt instrument at fair value through profit or loss		-	2
Bad debt expenses		722	115
Other bad debt expenses		6,623	5,718
Impairment loss on other non-current assets		360	1,911
Loss on valuation of derivatives		95,076	9,731
Loss on transactions of derivatives		82	588
Rental expenses (amortization of discount on deposit, etc.)		265	1,074
Loss on lease termination		3,178	574
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	839
Impairment loss on investments in subsidiaries, associates and joint ventures		540,903	221,453
Interest expense		304,674	311,268
Miscellaneous losses		3,249	13,211
Transfer of other provision		8,650	-

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

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, 2020 and 2019 are as follows:, continued

(i) Adjustments, continued

<i>(in millions of Korean won)</i>		2020	2019
Other expenses without cash outflows	₩	-	220
Reversal of other provision		(26)	-
Reversal of provision for restoration		(3,187)	-
Reversal of financial guarantee costs		(171,554)	(61,476)
Gain on foreign currency translation		(80,667)	(2,090)
Gain on foreign currency transactions		-	(9,710)
Gain on disposal of property, plant and equipment		(16,451)	(159,910)
Gain on valuation of debt instrument at fair value through profit or loss		(68)	(492)
Gain on valuation of derivatives		(9,679)	(29,696)
Gain on transactions of derivatives		(817)	(7,377)
Gain on lease termination		(110,309)	(2,392)
Gain on disposal of right-of-use assets		(25,500)	(2,275)
Gain on disposal of investments in subsidiaries, associates and joint ventures		-	(989)
Gain on disposal of debt instrument at fair value through profit or loss		(4)	(77)
Gain on disposal of assets held for sale		(3,351)	(3,179)
Gain on disposal of intangible assets		-	(3)
Rental income		(5,829)	(5,113)
Interest income		(49,476)	(70,800)
Dividends income		(75,853)	(92,497)
Miscellaneous gains		(4,607)	-
Total	₩	2,163,889	2,161,506

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

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, 2020 and 2019 are as follows:, continued

(ii) Changes in operating assets and liabilities

<i>(in millions of Korean won)</i>		2020	2019
Decrease of trade receivables	₩	153,856	50,703
Decrease (increase) of other receivables		59,777	(14,025)
Decrease (increase) in other financial assets		66,931	(66,723)
Decrease of inventories		70,017	7,074
Decrease (increase) in other non-financial assets		(2,462)	11,693
Increase (decrease) of trade payables		(4,449)	6,502
Decrease of other payables		(343,752)	(216,509)
Increase (decrease) of other financial liabilities		(57,660)	17,242
Increase in other non-financial liabilities		6,854	104,406
Increase (decrease) of deferred income		(3,813)	18,949
Decrease of provisions		(1,397)	(10,248)
Payment of other long-term employee benefits		(6,339)	(5,517)
Payment of defined benefit assets		(68,555)	(43,479)
Increase in plan assets		(38,156)	(72,789)
Total	₩	(169,148)	(212,721)

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

<i>(in millions of Korean won)</i>		2020	2019
Other payables for acquisition of property, plant and Equipment	₩	(32,507)	(16,586)
Acquisition of right-of-use assets		69,083	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, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020			
		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	₩	-	1,280,452	3,921,375	6,440,741
Net cash flow from financing activities		-	(50,000)	479,136	(540,172)
Non-cash flows					
Transfer to current portion		1,086	652,550	(663,471)	30,875
Foreign currency translation		-	(46,465)	(26,730)	-
Others		-	9,548	1,485	803
Ending balance	₩	1,086	1,846,085	3,711,795	5,932,247

(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
Net cash flow from financing activities		-	(1,106,500)	908,448	(461,737)
Non-cash flows					
Transfer to current portion		318	913,827	(851,423)	917,834
Foreign currency translation		-	6,820	(21,111)	-
Others		-	9,062	2,087	(1,471)
Ending balance	₩	-	1,280,452	3,921,375	6,440,741

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:

Year	Emission (tCO₂-eq)
2018	810,303
2019	759,093
2020	679,878

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

(b) Emission liabilities

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

37. Contingencies and Commitments

(a) As of December 31, 2020, the Company has the following credit facility commitments with financial institutions:

(in millions of Korean won, full foreign currency)

	Currency	Credit line	Amount used under credit facility
General loan	KRW	614,000	539,000
Discount of bill	KRW	450,000	400,000
Buyer's credit	KRW	240,000	-
Bank overdraft	KRW	45,000	-
Letter of credit and others	USD	28,000,000	6,345,928

(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, 2020, the Company is involved in 23 lawsuits as a plaintiff with damage claims totaling ₩46,486 million and is involved in 24 lawsuits as a defendant with damage claims totaling ₩93,587 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 8 lawsuits as a defendant with damage related to victims of humidifier disinfectant totaling of ₩23,487 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, 2020.

(d) As of December 31, 2020, the Company has entered into loan agreements securing trade receivables with Industrial Bank of Korea and others amounting to ₩392,000 million.

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

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

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, 2020. 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) As of December 31, 2020, the Company has designated the Company or a third party that requires the purchase of the entire credit loan receivable with respect to Lotte Capital Co., LTD. and KEB Hana bank in connection with the new collateral plan (₩50.8 billion, maturing on March 24th, 2022) of KORAMCO Specialty Investment Private Property Investment Trust No. 57.
- (h) The administrative lawsuit is in place currently as the Company was fined by the Fair Trade Commission in connection with the promotion cost of the discount store business unit. At this time, the Company cannot reliably estimate the impact from the result of the litigation. The imposed fine was fully recognized as an expense during the year 2019.
- (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 operation of Hangdong store was discontinued during the year 2020.

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 operation of Lotte Mart Guro store was discontinued during the year 2020.

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.

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, 2020 and 2019

37. Contingencies and Commitments, continued

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.

- (j) As of December 31, 2020, the Company has provided investment commitments (LOC, LOA, LOU) to SC Bank and others in relation to loan agreements for the following subsidiaries; Lotte Songdo Town, PT. LOTTE SHOPPING INDONESIA, LOTTE CINEMA VIETNAM CO., LTD., LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY, LOTTE PROPERTIES HANOI CO., LTD. However, the investment commitment is not considered as payment guarantees.
- (k) Lotte Cultureworks Co., Ltd., a subsidiary of the Group, issued common shares of 7,687,456 in exchange for common shares of 1,860,000 as in-kind contributions from INNOCEAN WORLDWIDE INC. in 2019. At the issuance date, Lotte Cultureworks agreed to purchase all shares issued to the new owner with cash if the Company didn't disclose the company information within a certain period of time based on agreement with the new owner. The Company didn't oppose performance of such obligation unless it violated the law.
- (l) 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, 2020 and 2019

38. Related Party Transactions

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

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

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

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
Woori Home Shopping & Television Co., Ltd.	53.03	-	53.03
Lotte GFR	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.	100.00	-	100.00
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., Ltd.	100.00	-	100.00
Lotte Department Store (Shenyang) 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 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

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

38. Related Party Transactions, continued

(a) Details of the Company's major shareholders as of December 31, 2020 are as follows:, continued

Subsidiaries	Percentage of ownership (%)		
	Company	Subsidiaries	Total
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
As of December 31, 2020 and 2019

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, 2020 and 2019 are as follows:

(in millions of Korean won)		2020				
Name of related parties		Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income (*1,4)	Other expenses (*4)
Shareholders:						
Lotte Corporation	₩	2,318	-	-	-	21,162
Hotel Lotte Co., Ltd.		57,392	8,900	42	38	39,318
Hotel Lotte Pusan Co., Ltd.		4,695	-	189	92	8,554
Subtotal		64,405	8,900	231	130	69,034
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd.		5,385	-	-	-	32,665
Lotte Himart Co., Ltd. (*2)		58,360	-	33	858	25
Lotte Cultureworks Co., Ltd.		40,194	-	-	1,379	179
Lotte Suwon Station Shopping Town Co., Ltd.		7,234	-	-	5	17,159
CS Mart Co., Ltd.		5,766	155	-	38	656
Lotte Incheon Development Co., Ltd.		24,109	13	-	1,256	420
LOTTE REIT Co., Ltd.		-	-	15	-	17,521
Others		25,966	-	3,747	4,889	6,258
Subtotal		167,014	168	3,795	8,425	74,883
Associates:						
FRL Korea Co., Ltd.		24,248	-	-	-	13
Zara Retail Korea		9,548	-	-	-	-
LOTTE CARD Co., Ltd.		3,050	-	-	409	114,103
Subtotal		36,846	-	-	409	114,116
Others (*3):						
Lotte Confectionery Co., Ltd.		4,225	58,910	-	-	6,156
Lotte Chilsung Beverage Co., Ltd.		7,381	44,932	-	42	175
Lotte Data Communication Company		1,084	11	25,694	93	101,872
Korea Seven Co., Ltd.		2,530	82	-	656	547
Lotte GRS Co., Ltd.		9,348	-	-	22	2,877
LOTTE ASSET DEVELOPMENT CO., LTD.		21,897	-	1,033	3,999	12,066
LOTTE Property&Development		23,439	-	-	66	31,468
LOTTE STATION B/D. Co. Ltd.		11,311	-	-	-	305
LOTTE INTERNATIONAL CO., LTD.		240	117,096	-	9	11
Lotte Engineering & Construction Co., Ltd.		296	-	64,349	-	522
LOTTE FOOD CO., LTD.		3,258	93,748	-	-	7,334
LOTTE ALUMINIUM CO., LTD.		26	5,238	836	-	6,199
LOTTE Global Logistics Co., Ltd.		1,516	1,038	177	328	235,863
Others		7,218	4,238	431	101	62,939
Subtotal		93,769	325,293	92,520	5,316	468,334
Total	₩	362,034	334,361	96,546	14,280	726,367

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

(*2) The Company sold the LOTTE Himart Co., Ltd. gift voucher for a total of ₩622 million for the year ended December 31, 2020.

(*3) 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.

(*4) 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, 2020 are included in other income and expenses.

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

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, 2020 and 2019 are as follows:, continued

(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.		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.		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 B/D. CO., LTD.		8,280	-	-	293	469
LOTTE INTERNATIONAL 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.

(*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
As of December 31, 2020 and 2019

38. Related Party Transactions, continued

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

<i>(in millions of Korean won)</i>		2020		2019		
Name of related parties		Cash contribution	Stock purchase (*1)	Cash contribution and others	Stock purchase	Stock sale
Shareholders:						
Lotte Corporation (*2)	₩	-	-	-	255,507	-
Hotel Lotte Co., Ltd. (*3)		-	-	-	26,067	(42,808)
Hotel Lotte Pusan Co., LTD (*4)		-	-	-	16,593	-
Subtotal		-	-	-	298,167	(42,808)
Subsidiaries:						
LOTTE REIT Co., Ltd (*5)		-	-	274,694	-	-
Lotte Shopping Holdings (Singapore)		-	-	106,743	-	-
Lotte Shopping Holdings (Hong Kong) Co., Limited		189,491	9,617	35,142	-	-
LOTTE SHOPPING RUS.LTD		3,262	-	-	-	-
LHSC Limited		-	-	-	-	(426)
Lotte Incheon Development (*6)		-	-	-	14,937	-
Lotte Cultureworks Co., Ltd. (*7).		-	-	-	-	(55,050)
Subtotal		192,753	9,617	416,579	14,937	(55,476)
Associates:						
Lotte start-up fund No. 1		600	-	600	-	-
Lotte KDB open innovation fund		-	-	6,400	-	-
Coralis S.A.		-	-	19,141	-	-
Subtotal		600	-	26,141	-	-
Others:						
LOTTE Property & Development (*8)		-	-	-	107,325	-
LOTTE STATION B/D. CO. (*9)		-	-	-	104,403	-
LOTTE Engineering & Construction Co., Ltd. (*10)		-	-	-	66,254	-
LOTTE ASSET DEVELOPMENT CO.,LTD. (*11)		-	-	-	49,603	(3,802)
Lotte Europe Holdings B.V.(*12)		-	-	-	80	-
LOTTE CAPITAL Co., Ltd. (*13)		-	-	-	74,659	-
Subtotal		-	-	-	402,324	(3,802)
Total	₩	193,353	9,617	442,720	715,428	(102,086)

(*1) The company purchased common shares amounting to ₩9,616 million of Lotte Department Store (Shenyang) Co., Ltd and Lotte Department Store (Chengdu) Co., Ltd from Lotte Shopping Holdings (Hong Kong) Co., Ltd.

(*2) 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.

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

(*3) 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.

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

(*5) During the year 2019, 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.

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

(*7) During the year 2019, 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.

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

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

(*10) 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.

(*11) 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.

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

(*13) 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
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38. Related Party Transactions, continued

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

(in millions of Korean won)

Name of related parties	2020					
	Receivables			Payables		
	Trade receivables	Other receivables	Financial lease receivables	Trade payables	Other payables(*3)	Lease liabilities
Shareholders:						
Lotte Corporation	₩ 5	171	-	-	37	33,584
Hotel Lotte Co., Ltd.	1,660	48,966	-	-	33,207	323,613
Hotel Lotte Pusan Co., Ltd.	-	20,035	-	-	1,585	28,127
Subtotal	1,665	69,172	-	-	34,829	385,324
Subsidiaries:						
Woori Home Shopping & Television Co., Ltd. (*2)	31,310	170	-	-	3,796	-
Lotte Himart Co., Ltd.	1,823	1,490	9,716	-	12,331	-
Lotte Cultureworks Co., Ltd.	1,068	335	48,342	-	123,789	-
Lotte Suwon Station Shopping Town Co., Ltd.	-	720	-	-	777	278,134
CS Mart	10,612	4,292	-	-	1,370	2,895
Lotte Incheon Development	5,741	2,114	-	-	4,367	46
LOTTE REIT Co., Ltd.	-	74,390	-	-	6,921	685,770
Others	1	11,944	-	-	10,873	81,214
Subtotal	50,555	95,455	58,058	-	164,224	1,048,059
Associates:						
FRL Korea Co., Ltd.	852	-	-	-	12,159	-
Zara Retail Korea Co., Ltd.	-	-	-	-	3,504	-
Lotte Card Co., Ltd. (*2)	16,835	125	96	-	13,837	-
Subtotal	17,687	125	96	-	29,500	-
Others (*1):						
Lotte Confectionery Co., Ltd.	237	236	-	5,690	1,025	-
Lotte Chilsung Beverage Co., Ltd.	725	3,951	-	3,602	9,832	476
Lotte Data Communication Company	-	18,071	-	-	12,570	1,630
Korea Seven Co., Ltd.	10	109	5	25	2,693	4,622
Lotte GRS Co., Ltd.	21	310	927	-	6,189	-
LOTTE ASSET DEVELOPMENT CO., LTD.	-	14,391	135,028	-	15,890	1,771
LOTTE Property&Development	-	2,074	-	-	4,887	497,068
Lotte Station B/D Co., Ltd.	2,518	8,390	-	-	6,243	8,875
Lotte International Co., Ltd.	-	752	-	8,202	136	-
Lotte Engineering & Construction Co., Ltd.	1	4,011	-	-	11,202	1,176
LOTTE FOOD CO., LTD.	-	1,217	-	7,112	12,208	854
LOTTE ALUMINIUM CO., LTD.	-	6	-	550	1,815	-
Lotte Global Logistics Co., Ltd.	22	288	-	76	24,798	13
Others (*3)	173	5,978	170	380	113,607	2,495
Subtotal	3,707	59,784	136,130	25,637	223,095	518,980
Total	₩ 73,614	224,536	194,284	25,637	451,648	1,952,363

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

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

(*3) Borrowings in foreign currency from Lotte Co., Ltd. (Japan) amounting ₩105,426 million is included.

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

38. Related Party Transactions, continued

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

(in millions of Korean won)

Name of related parties	2019					
	Receivables			Payables		
	Trade receivables	Other receivables	Financial lease receivables	Trade payables	Other payables(*3)	Lease liabilities
Shareholders:						
Lotte Corporation	₩ 40	221	-	-	243	29,089
Hotel Lotte Co., Ltd.	1,023	49,007	-	-	35,420	272,997
Hotel Lotte Pusan Co., Ltd.	-	20,090	-	-	4,627	28,427
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 B/D Co., Ltd.	3,077	8,936	-	-	6,526	10,038
Lotte International 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	11,465	1,042
LOTTE ALUMINIUM CO., LTD.	107	14	-	421	1,600	-
Others (*3)	52	9,052	658	567	144,777	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, 2020 and 2019

38. Related Party Transactions, continued

- (e) The amount of lease payments receivable collection and lease liability payment as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

Name of related parties	2020	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	2,207
Hotel Lotte Co., Ltd.	-	79,605
Hotel Lotte Pusan Co., LTD	-	14,066
Subtotal	-	95,878
Subsidiaries:		
Lotte Cultureworks Co., Ltd.	5,872	100
Lotte Himart Co., Ltd.	2,976	6
Lotte Suwon Station Shopping Town Co., Ltd.	-	23,859
Lotte Songdo Shopping Town Co., Ltd.	-	6,612
Lotte REIT Co., Ltd.	-	78,616
Others	-	524
Subtotal	8,848	109,717
Associates:		
LOTTE CARD Co.,ltd	68	-
Subtotal	68	-
Others (*1):		
LOTTE ASSET DEVELOPMENT CO.,LTD	14,157	366
Lotte Data Communication Company	-	4,164
LOTTE Property & Development	-	37,932
LOTTE STATION B/D. CO.	-	1,578
LOTTE Rental Co., Ltd.	6	1,325
Others	362	3,417
Subtotal	14,525	48,782
Total	₩ 23,441	254,377

(*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.

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

The amount of lease payments receivable collection and lease liability payment as of December 31, 2020 and 2019 are as follows:, continued

(in millions of Korean won)

Name of related parties	2019	
	Collection of lease payments receivable (*2)	Payment of lease liabilities (*3)
Shareholders:		
Lotte Corporation	₩ -	2,142
Hotel Lotte Co., Ltd.	-	76,793
Hotel Lotte Pusan Co., LTD	-	14,133
Subtotal	-	93,068
Subsidiaries:		
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
Associates:		
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, 2020 and 2019 are as follows:

(in millions of Korean won)

Classification	2020	2019
Short-term salary	₩ 26,559	33,177
Retirement benefits	4,347	2,529
Other long-term benefits	(249)	276
Total	₩ 30,657	35,982

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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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, 2020 are as follows, and no collateral and payment guarantees are provided by the related parties:

(in full foreign currency)

Name of company	Guaranteed by	Guaranteed amount	Guarantee period	Remarks
Subsidiaries:				
Lotte Department Store (Chengdu) Co., Ltd.	KEB Hana Bank	CNY 228,000,000	May 29, 2020 ~ May 28, 2021	Payment Guarantee
		CNY 20,000,000	May 29, 2020 ~ May 28, 2021	
PT. Lotte Mart Indonesia	SC Bank	IDR 300,000,000,000	April 13, 2020~ April 13, 2021	
	HSBC	IDR 250,000,000,000	April 14, 2020~ April 14, 2021	
	JP Morgan	USD 30,000,000	May 23, 2020 ~ May 23, 2021	
Lotte Cinema Vietnam Co., Ltd.	SC Bank	USD 10,000,000	April 13, 2018~ April 13, 2021	
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Kookmin Bank	USD 165,000,000	March 13, 2020 ~ March 12, 2021	
	NongHyup Bank	USD 60,000,000	March 13, 2020 ~ March 12, 2021	
	Shinhan Bank	USD 30,000,000	Nov 17, 2020~ Nov 16, 2021	
	Woori Bank	USD 30,000,000	Nov 17, 2020~ Nov 16, 2021	
	Industrial and Commercial Bank of China	USD 30,000,000	Nov 17, 2020~ Nov 16, 2021	
Joint ventures:				
International Business Center Company Limited	DBS	USD 6,000,000	April 2, 2020 ~ April 1, 2021	
	The Export-Import Bank of Korea	USD 6,000,000	April 3, 2020 ~ April 2, 2021	

(h) The Company entered into and maintain an agreement to jointly provide financial support for Suwon Landmark 3rd Co., Ltd., LIT 2nd Co., Ltd., KS 1st Co., Ltd., and Mars L D 1st, LLC., SIncheon Development 1st Co., Ltd 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 (₩200,000,000 thousand of par value in maturing on February 26, 2021) issued by Lotte Incheon Town Co., Ltd., the asset backed commercial paper (₩60,000,000 thousand of par value in maturing on April 22, 2021) 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 (₩90,000,000 thousand of par value in maturing on June 25, 2021) by Lotte Incheon Development 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, 2020 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.		15,403
LOTTE REIT Co., Ltd.		22,183
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.		4,928
Subtotal		65,849
Associates :		
Lotte Card		5,710
Zara Retail Korea Co.,Ltd.		2,000
Subtotal		7,710
Total	₩	73,559

(k) Details of purchasing card transactions with Lotte Card Co., Ltd as of December 31, 2020 are as follows:

(in millions of Korean won)

Classification		Contractual amount	Used amount	Repayment	Unsettled amount
In the perspective of user	₩	240,000	2,299,506	2,299,506	-

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

(a) 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>		2020	2019
Right-of-use assets			
Land	₩	387,117	436,651
Buildings		4,107,416	4,988,633
Vehicles		2,013	1,175
Others		4,186	11,050
Total		<u>4,500,732</u>	<u>5,437,509</u>
Investment property		131,668	117,201
Financial lease receivables:			
Current		30,520	28,592
Non-current		209,239	211,295
Total		<u>239,759</u>	<u>239,887</u>
Financial lease liabilities			
Current		530,258	552,513
Non-current		5,401,988	5,888,228
Total	₩	<u>5,932,246</u>	<u>6,440,741</u>

(b) 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>		2020	2019
Depreciation expense on right-of-use assets			
Land and buildings	₩	508,837	610,869
Vehicles		1,233	1,488
Others		5,681	7,027
Total	₩	<u>515,751</u>	<u>619,384</u>
Bad debt expenses on financial lease payments receivables		617	26
Interest expenses on financial lease liabilities		168,967	173,467
Interest income on financial lease receivables		6,448	6,543
Gain on lease termination		110,309	2,392
Gain on disposal of right-of-use assets		25,500	2,275
Loss on lease termination		3,178	574
Loss on disposal of right-of-use assets		16,356	4,897
Gain on disposal of sales and leaseback		-	153,981
Impairment loss on right-of-use assets		540,693	970,474
Leases of low-value assets and short-term leases		65,885	68,682

The Company uses a practical expedient that does not assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Accordingly, the Company recognized ₩1,114 million in profit or loss during the year ended December 31, 2020, to reflect changes in lease payments that arise from a rent concession to which the lessee has applied the practical expedient.

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

39. Lease, continued

(c) Details of right-of-use assets as of January 1, 2020 and December 31, 2020 are as follows:

(in millions of Korean won)

		Property	Vehicles	Others	Total
January 1, 2020	₩	5,425,284	1,175	11,051	5,437,510
Depreciation expenses		(508,837)	(1,233)	(5,681)	(515,751)
Acquisition of right-of-use assets		65,214	3,027	842	69,083
Impairment loss on right-of-use assets		(528,047)	(291)	(12,354)	(540,692)
Others		40,919	(665)	10,328	50,582
December 31, 2020	₩	<u>4,494,533</u>	<u>2,013</u>	<u>4,186</u>	<u>4,500,732</u>

(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, 2020 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	₩	344,456	339,156	676,246	1,805,977	3,831,658	6,997,493
Net minimum lease payments		267,347	262,912	597,691	1,572,843	3,231,453	5,932,246

Total cash outflow of lease liabilities during the year of 2020 is ₩540,173 million.

(f) The contractual maturity of financial lease receivables as of December 31, 2020 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	₩	17,695	15,939	30,207	79,768	102,579	246,188
Net minimum lease payments		16,013	14,507	29,398	77,865	101,976	239,759

LOTTE SHOPPING CO., LTD.
Notes to the Separate Financial Statements
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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, 2020 and 2019 is as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Within 1 year	₩	80,626	86,190
Within 1 ~ 5 years		157,839	135,666
Over 5 years		33,405	55,599
Total	₩	<u>271,870</u>	<u>277,455</u>

The lease income related to the operating lease consisting of variable lease payment amounting to ₩825,666 million and fixed lease payment amounting to ₩164,836 million are recognized during 2020 and variable lease payment amounting to ₩991,058 million and fixed lease payment amounting to ₩165,157 million are recognized during 2019 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.

(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.

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

40. Risk Management, continued

(a) Management of financial risks, continued

① Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		2020	2019
Cash and cash equivalent (*1)	₩	1,048,973	715,272
Trade and other receivables		640,868	868,500
Other financial assets (current)		960,136	1,195,444
Other financial assets (non-current) (*2)		965,614	917,139
Total	₩	3,615,591	3,696,355

(*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, 2020 are as follows:

<i>(in millions of Korean won)</i>		2020		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	671,677	0.00%~0.62%	35,022
0 ~ 3 months past due		2,121	0.00%~25.57%	82
3 ~ 6 months past due		1,749	0.00%~43.38%	192
6 ~ 9 months past due		640	0.00%~87.97%	207
9 ~ 12 months past due		213	0.00%~92.11%	80
12 ~ 15 months past due		594	0.00%~100.00%	543
15 months past due		12,383	100%	12,383
Total	₩	689,377		48,509

There is no impairment loss on other financial assets (current) as of December 31, 2020.

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

<i>(in millions of Korean won)</i>		2020		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	966,649	0.00% ~ 100.00%	1,036

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

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

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

(in millions of Korean won)

(in millions of Korean won)

		2019		
		Total carrying amount	Probability of default	Allowance for doubtful accounts
Not past due	₩	827,869	0.00%~0.62%	1,260
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		171	0.00%~100.00%	5
15 months past due		7,955	100%	7,955
Total	₩	878,204		9,704

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

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

(in millions of Korean won)

(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

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

(in millions of Korean won)

		2020	2019
Beginning Balance	₩	9,703	8,959
Provision		39,044	5,842
Reversal of impairment loss		-	(9)
Write-offs		(237)	(5,114)
Others		-	25
Ending balance	₩	48,510	9,703

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

(in millions of Korean won)

		2020	2019
Beginning Balance	₩	-	5,108
Write-offs		-	(5,108)
Ending balance	₩	-	-

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40. Risk Management, 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, 2020 and 2019 are as follows:

<i>(in millions of Korean won)</i>		<u>2020</u>	<u>2019</u>
Beginning Balance	₩	1,000	1,025
Provision		36	-
Others		-	(25)
Ending balance	₩	<u>1,036</u>	<u>1,000</u>

③ Payment guarantees

As of December 31, 2020, the Company has provided financial guarantees to subsidiaries, associates and joint ventures, amounting to ₩483,272 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). 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.
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40. Risk Management, continued

(iii) Liquidity risks, continued

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

(in millions of Korean won)

		2020			
		3 months or less	3 ~ 6 months	6 months ~ 1 year	More than 1 year
Borrowings and debentures (current) (*1, 2)	₩	509,711	799,484	564,122	-
Trade payables and other payables		1,532,242	-	-	-
Other financial liabilities (current) (*3)		422,917	137,524	329,356	-
Borrowings and debentures (non-current) (*1, 2)		20,479	20,465	40,916	3,972,687
Other financial liabilities(non-current)(*3)		1,342	1,320,296	2,719	5,632,706
Acceptances and guarantees (*2)		483,272	-	-	-
Total	₩	2,969,963	2,277,769	937,113	9,605,393

(*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) It includes lease liabilities.

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

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

40. Risk management, continued

(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.

Assets and liabilities denominated in foreign currencies other than the Company's functional currency as of December 31, 2020 and 2019 are as follows:

(in millions of Korean won)

		2020		2019	
		Assets	Liabilities	Assets	Liabilities
USD	₩	332,116	1,019,613	130,020	850,983
EUR		-	31	439	-
JPY		-	105,426	-	106,347
IDR		105	-	1,267	-
CNY		107	-	57	-
VND		-	-	215	-
Total	₩	332,328	1,125,070	131,998	957,330

LOTTE SHOPPING CO., LTD.
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40. Risk management, continued

① Currency risk, continued

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

		Average rate		Closing rate	
		2020	2019	2020	2019
USD	₩	1,180.05	1,165.65	1,088.00	1,157.80
EUR		1,345.99	1,304.81	1,338.24	1,297.43
JPY		11.0507	10.6976	10.5426	10.6347
IDR		0.0813	0.0824	0.0774	0.0831
CNY		170.88	168.58	166.96	165.74
VND		0.0508	0.0502	0.0471	0.0500

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.

		2020		2019	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	16,658	(16,658)	13,002	(13,002)
EUR		(3)	3	44	(44)
JPY		-	-	(10,635)	10,635
IDR		10	(10)	127	(127)
CNY		11	(11)	6	(6)
VND		-	-	21	(21)
Total	₩	16,676	(16,676)	2,565	(2,565)

The above sensitivity analysis was based on monetary assets and liabilities denominated in foreign currencies other than functional currencies as the end of the reporting period.

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, 2020 and 2019 are as follows:

		2020	2019
Financial assets	₩	18,494	71,076
Financial liabilities		1,120,213	1,057,035

LOTTE SHOPPING CO., LTD.
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40. Risk management, continued

② Interest rate risk, continued

The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Company's interest income and expense that would incur in relation to the deposits and borrowings for the years ended December 31, 2020 and 2019. The analysis is based on the assumption that the interest rate has increased/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.

(in millions of Korean won)		2020		2019	
		100bps increase	100bps decrease	100bps increase	100bps decrease
Interest income	₩	185	(185)	711	(711)
Interest expenses		-	-	1,063	(1,063)

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, 2020 and 2019 are ₩59,740 million and ₩162,250 million, respectively. Assuming that other variables remain the same and the prices of the equity instruments fluctuate by 10%, the effects of the fluctuation to the other comprehensive income in 2020 and 2019 are ₩5,974 million and ₩16,225 million, respectively.

(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, 2020 and 2019 are as follows:

(in millions of Korean won)		2020	2019
Liabilities (A)	₩	15,325,247	16,298,625
Equity (B)		9,598,958	10,665,642
Financial instruments (C)		852,700	1,610,922
Borrowings (D)		5,557,882	5,201,827
Liabilities to equity ratio (A/B)		159.66%	152.81%
Net borrowings to equity ratio ((D-C)/B)		49.02%	33.67%

41. Subsequent Event

On January 14, 2021, the Company decided to participate in capital increase by issuing new stocks for Lotte REIT CO., LTD. during the board meeting.

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2020 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, 2020 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, 2020, 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 statements of financial position as of December 31, 2020 and 2019, 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, and our report dated March 15, 2021 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 ICFR section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the ICFR 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 ICFR and for its assessment of the effectiveness of ICFR, 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 ICFR 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 ICFR was maintained in all material respects.

An audit of ICFR involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of ICFR and testing and evaluating the design and operating effectiveness of ICFR based on the assessed risk.

Definition and Limitations of Internal Control over Financial Reporting

A Company's ICFR 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 ICFR 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, ICFR 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 15, 2021

This report is effective as of March 15, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the 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 4th 2021

Kang Hee Tae (Signature)

Chief Executive Officer

Choi Young Joon (Signature)

Chief Financial Officer

English Translation of Report Originally Issued in Korean