

# LOTTE ON

## ONLINE



LOTTE SHOPPING

**LOTTE ON**

**FOR  
OFFLINE**



**LOTTE SHOPPING**

LOTTE ON

#### REPORT OVERVIEW

This annual report is designed to inform readers about LOTTE Shopping's initiatives and achievements in 2018, as well as its plans for the future. It includes information about the company's strategies for changing the future of retail by expanding its online operations, enhancing customers' offline experiences, and offering them the industry's widest range of omnichannel services.

#### UNIQUE FEATURES

The cover of the report is meant to illustrate LOTTE Shopping's O4O strategy visually, graphically, and intuitively, depending on the reader's point of view. We have also added a separate "magazine" section containing information about our digital transformation initiatives and our new technologies and experiential stores. This is completely separate from the "report" section, which contains the company's business reviews and more basic information about its operations.

# LOTTE SHOPPING ON THE MOVE

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ANYTIME, ANYWHERE.  
E-COMMERCE

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EVERYONE IS  
ONLY ONE.  
AI & BIG DATA

## 20 Lotte on New

SHOPPING +  
EXPERIENCE.  
SPECIAL  
STORES

LOTTE Shopping's daring and innovative changes celebrating an exciting new retail future have begun. They include strengthening our omnichannel strategy in order to lead the retail industry of the future through the convergence of advanced technologies with our powerful online and offline capabilities. Our offerings range from the "Lotte ON" online mall that can be accessed anytime and anywhere to specialty offline stores featuring unprecedented new experiences and customized shopping created through our big data analysis system.



LOTTE ON

Lotte on Tomorrow

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Lotte Shopping Annual Report 2018

ANYTIME,  
ANYWHERE  
e-COMMERCE





# DIGITAL TRANSFORMATION

## ONLINE FOR OFFLINE

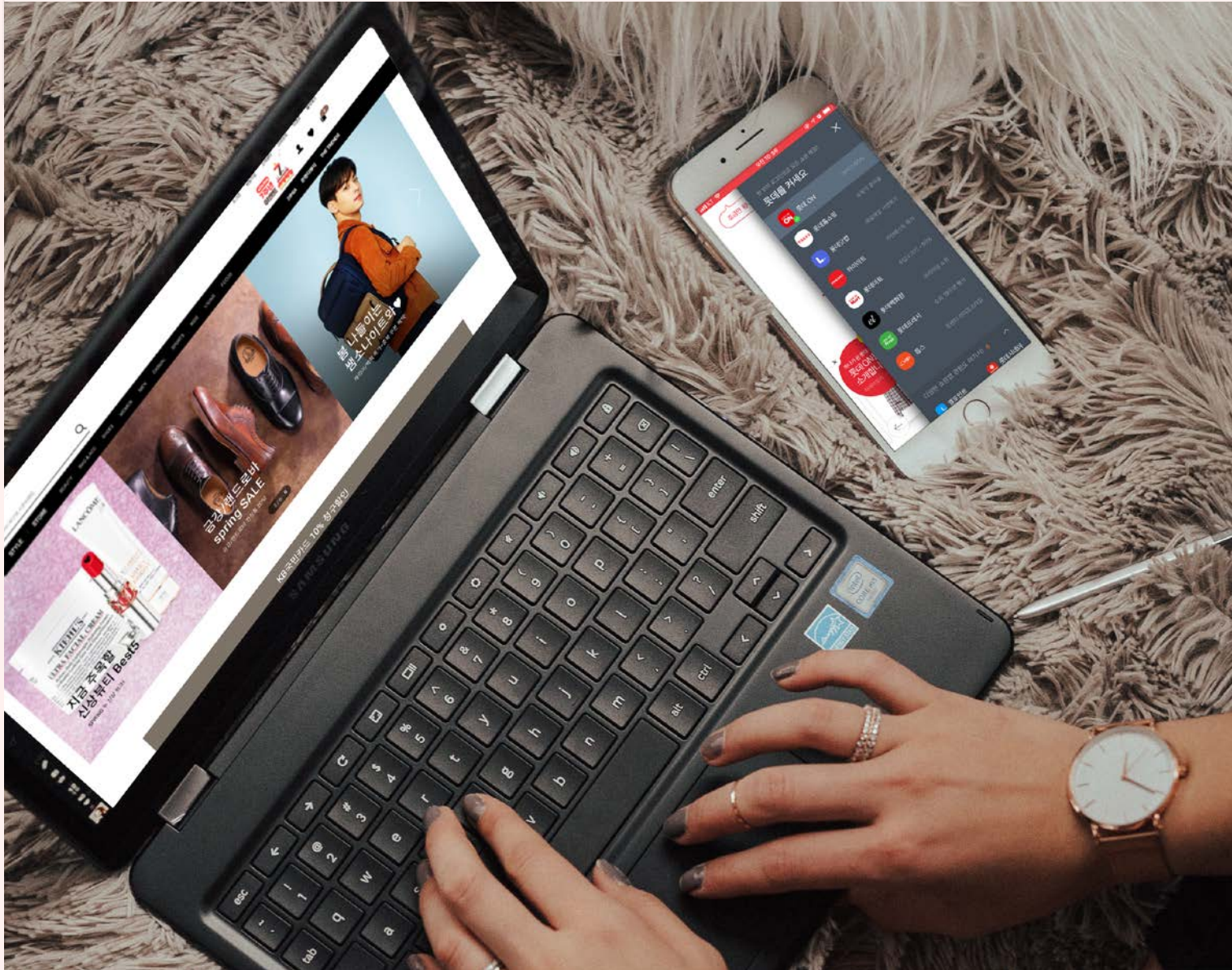
In 2018, LOTTE Shopping announced its strategy for becoming retail's leading player. Its goal is to lead the industry in terms of both offline and online channels by changing its focusing to its online operations. The first step in this strategy will be to integrate the online shopping malls of the company's retail affiliates into a single, unified entity. The second step will involve upgrading its omnichannel offerings into O4O services, eliminating the boundaries separating online and offline.

This omnichannel evolution is already happening. For example, LOTTE Mart is following the lead of LOTTE Department Store by operating smart stores, while LOTTE Cinema has been reborn as a smart multiplex. In addition, LOTTE Department Store has recently introduced "On and the Living" and "On and the Beauty" omnichannel concierge stores and is now preparing for the introduction of premium-level fashion malls. Meanwhile, LOTTE Shopping is developing new types of omnichannel services by merging its online and offline operations.

## LOTTE ON

### "LOTTE ON" INTEGRATED LOGIN SERVICE

LOTTE Shopping's "LOTTE ON" service was launched in March 2019 as the first phase of its e-commerce strategy. It allows customers to access our seven mobile shopping malls, including LOTTE Department Store, LOTTE Mart, LOTTE Himart, LOTTE Super, LOTTE Homeshopping, LOHB's, and LOTTE.com. Shoppers can now take advantage of all our mobile shopping mall services without needing to download an individual mall's app, or even login to its website. This totally integrated app is scheduled to be available across the entire company's ecosystem by 2020.





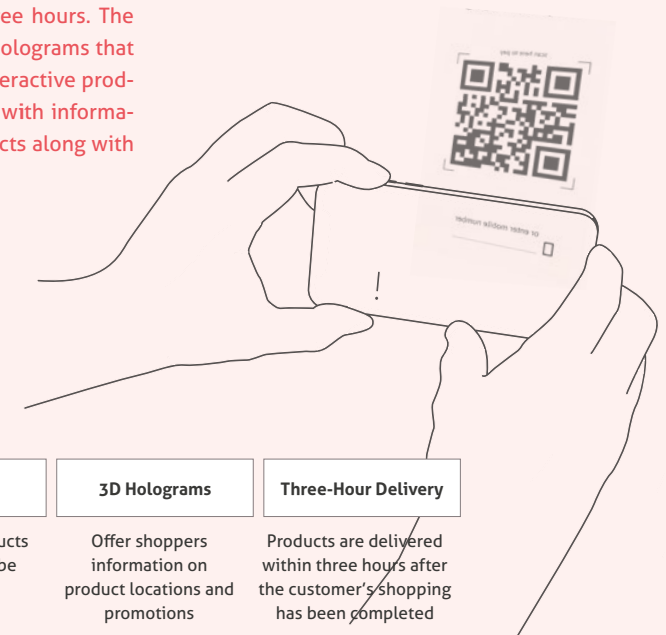


## SMART STORE

### LOTTE Mart Smart Stores

Opened in December 2018, LOTTE Mart Geumcheon was LOTTE Mart's very first smart store. A fourth-generation futuristic facility that combines the best of both online and offline channels, it deploys smart technologies and features a three-hour delivery service, saving shoppers from lugging around a heavy shopping cart.

Product orders and payments are made by accessing the store's "M Coupon App" and then scanning a series of QR codes containing previously-applied electronic shelf labels. After that, customers' purchases are shipped to the address shown on their invoice within three hours. The store also contains more than twenty state-of-the-art 3D holograms that promote products and services and kiosks that serve as interactive product recommendation centers. Shoppers are also provided with information and discount coupons for new and promotional products along with their orders.



### CUSTOMIZED SMART STORES

M Coupon App Scan	QR Code Scan Shopping	Kiosks	3D Holograms	Three-Hour Delivery
Offers product information and discount coupons with customer ID	Purchases and payments are made by scanning a product's QR code	Recommend products shoppers might be interested in	Offer shoppers information on product locations and promotions	Products are delivered within three hours after the customer's shopping has been completed





## SMART MULTIPLEX

### LOTTE Cinema Smart Multiplex

LOTTE Cinema is transforming itself into South Korea's smartest movie theater system. Its digital transformation includes 3D LED screen theaters and other special facilities, as well as a host of services using AI, VR, and other leading-edge technologies.

The Konguk University Theater is a prime example of this change. Re-opened in December 2018 after extensive renovations, it's a smart multiplex facility that deploys a vast array of IT technologies that make it LOTTE Cinema's flagship digital transformation site. They include tablet PC-type smart kiosks embedded with AI speech recognition technology



that allows visitors to buy tickets and make purchases from concession stands using simple voice commands, saving them from having to stand in line and wait. It also boasts an optical character recognition function that provides customers with quick and easy, ID-based product discounts.

Staff members benefit too, deploying a new field management system technology that enables them to respond to customers' needs more efficiently using smart watches and mobile phones. The company is planning to equip its other cinemas with these and other technologies as soon as it can, offering visitors the ultimate in movie-watching convenience and enjoyment.







## ON AND THE LIVING & ON AND THE BEAUTY

### LOTTE Department Store's On and The Living

On and The Living opened in the LOTTE Department Store's Jamsil Branch in 2018. In its role as a custom-tailored advice and information store, the branch features sales associates boasting a wealth of experience and expertise in the placement and use of products for people's home interiors. It includes an "Advice Zone" in which customers can see products that they might want to buy arranged within a virtual apartment, a "Search Zone" where they can conduct searches for both online and offline products, and an "Incubating Zone" where they can field-test new ideas and concepts that they've come up with. Customers can shop for household appliances, furniture, kitchenware, tableware, and other living products, choosing what they really want only after seeing how they look on a 3-D screen and talking about them with one of the associates.

### LOTTE Department Store's On and The Beauty

Opened in 2018 at LOTTE Department Store's Avenuel World Tower Branch, On and The Beauty is a remarkable premium-level beauty shop cum data-based aesthetic care facility. Its many helpful services include offering shoppers product information to help make their purchasing decisions, and then suggesting the best products for them to buy. Shoppers can search for and buy products from both online and offline stores at "Search On", or check out customer reviews, product ingredients, and other information through RFID-attached products at "Touch On". If they go to "Catch On", they can get one-on-one customized advice from one of the very knowledgeable sales associates.

## PREMIUM FASHION MALL

### LOTTE Department Store Premium Fashion Mall

LOTTE Department Store will launch a Premium Fashion Mall in 2019. It will serve as South Korea's first online premium-level fashion mall facility, introducing a wide array of content and products on a fresh and daily basis. Comprising more than 1,500 boutique-type mini-stores, it will feature both regular department store-type brands and premium-level overseas offerings. All its content will be offered in a magazine style deploying user interfaces specially designed for high-fashion shopping malls. Shoppers will also enjoy high-quality packaging and deliveries, advice from a staff of highly-trained sales associates, and the ultimate in O4O services converged with ICT. These O4O services will include reservations for online store visits, QR scan shopping, Smart Pick and Cross Pick, and VR stores.





Lotte on Innovation

Hello, Ann. What are you looking for?

I'm your shopping mate.

Do you need a birthday present for your husband?

May I make recommendations?

EVERYONE IS  
ONLY ONE.  
AI & BIG DATA



# SHOPPING WEARS TECHNOLOGY

LOTTE Shopping is leading the development of South Korea's next-generation retail environment through the merger of AI, big data, robotics, AR, VR, and other-state-of-the-art ICT technologies. This company-wide digital transformation already allows us to provide customers at our on-line shopping malls and offline stores with a wide variety of services enhanced with the ease and convenience inherent in every IT technology. They include a shopping advisor chatbot service, TV home shopping, and voice-activated shopping and payments options.



# LOTTE ON



# AI BECOMES SHOPPING MATE



## CharLOTTE, an AI shopping advisor chatbot

The many functions of LOTTE Shopping's AI chatbot service, which had formerly been shared by LOSA at LOTTE Department Store, Samantha at LOTTE.com, and CharLOTTE at LOTTE Home Shopping, have now been merged into a single shopping advisor called CharLOTTE. CharLOTTE is able to recommend products to customers and provide them with in-depth information about the company's offline stores, communicating with them by voice and text accessed through a mobile app. The service can also gather data about customers' purchasing patterns, as well as their behaviors, interests, and preferred products. It then analyzes the information through the "deep learning" methods integral to all AI technologies, allowing the company to deliver individually customized information by securing data from a host of different areas.

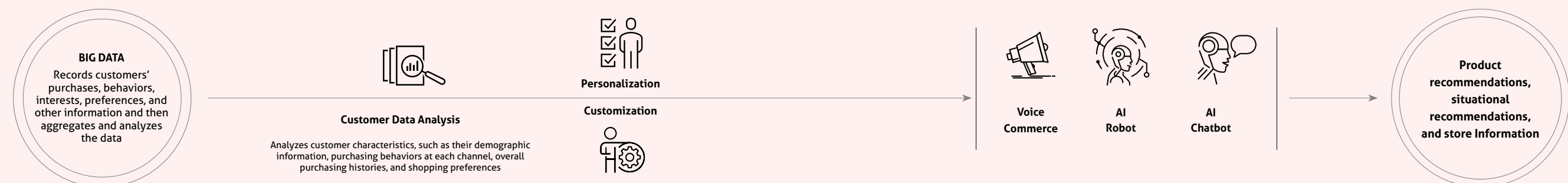
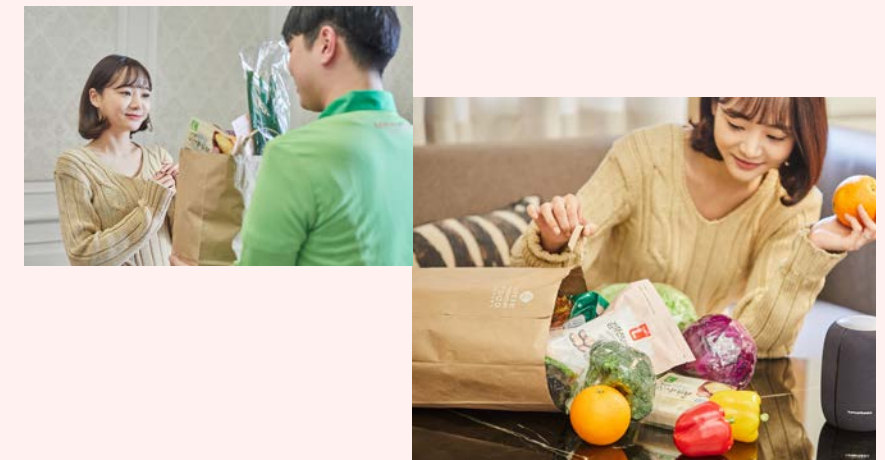
In addition to its own mobile app, the CharLOTTE service is available through SNS, smart speakers, and the "LOTTE ON". It will soon add a feature called CharLOTTE's Voice.



## AI VOICE COMMERCE

LOTTE Shopping offers shoppers a very convenient service called "AI Voice Commerce" which is accessible either through mobile apps or smart speakers, while LOTTE Himart's mobile voice recognition order service lets customers order products using the same kind of technology.

Shoppers there can buy furniture or household appliances by researching them and ordering by voice alone. LOTTE Super offers an "AI Grocery Shopping Service" that allows customers to order products through a "GiGA Genie" AI speaker. Orders, payments, and deliveries can all be made by accessing "GiGA Genie" and then giving commands like "Find", "Put in the cart", and "Order". LOTTE Homeshopping offers a similar service called "Voice Purchase". It allows shoppers to select, order, and pay for products by simple voice commands.







## SMART AI ORGANIZING SYSTEM

### Smart AI Programming System

LOTTE Homeshopping proved its industry leadership in 2018 by introducing a "Smart AI Programming System". It allows the company to optimize its TV home shopping broadcasts by applying algorithms that forecast both the timing and the sales volumes of specific products. After information about a product on a TV home shopping channel has been entered into the system, a programming schedule that says how to maximize its sales is created. If it then proves impossible to broadcast the product on this schedule, the system suggests the best products to replace it. The system can also forecast optimum programming according to time zones, as well as sales forecasts for products with no sales history. The strength of this self-learning system lies in the fact that the more data that is accumulated leads to even more elaborate programming. The system will be soon be upgraded to forecast product life cycles and suggest the best new products to advertise.

### AR VIEW

AR VIEW is a virtual experiential service that arranges the positioning of products that people are interested in by using a 3D screen mounted on a mobile platform. Customers using this augmented reality technology can arrange the placements of furniture or household appliances to see how well they fit into their surroundings, and whether their sizes are appropriate for their placements. One of the system's main strengths is that it can allow for very precise and detailed views to be seen, due to its size measurement and 360-degree rotation functions.

### VR STREET

VR STREET allows customers to look at real shopping mall stores on their mobile platforms through the use of virtual reality technology. Shoppers can browse around a store and make virtual purchases of its products simply by touching their screens. It's both entertaining and informative.





Lotte on New

# SHOPPING + EXPERIENCE. SPECIAL STORES



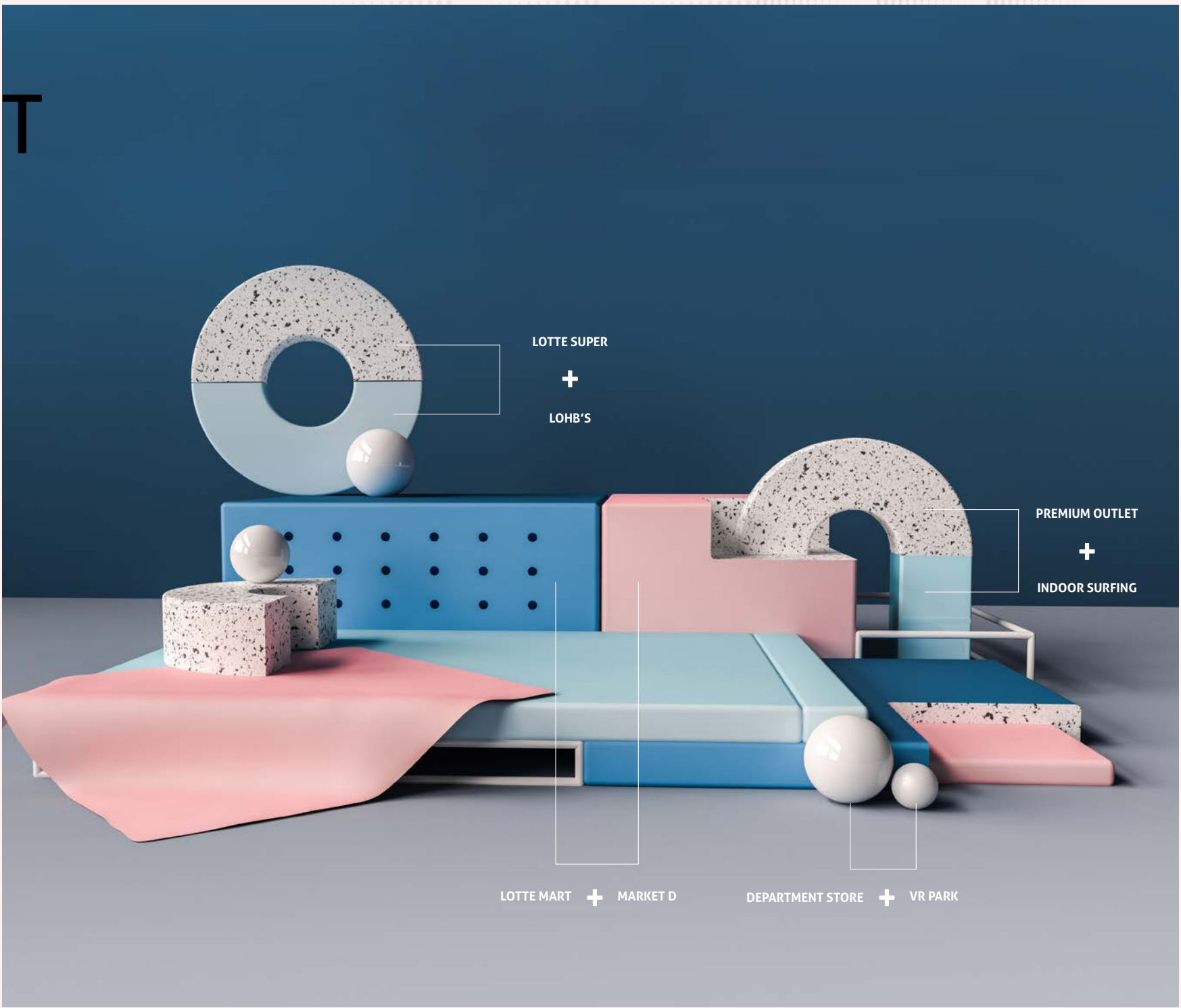
# HYBRID & NEW CONCEPT STORES



**EXCITINGLY  
NEW SHOP-  
PING EXPERI-  
ENCES**

An amazing transformation is happening at every LOTTE Shopping store, including our department stores, outlets, discount stores, supermarkets, and health and beauty stores. For example, LOTTE Super and LOHB's are now one store, and LOTTE Mart stores are selling hypermarket products. They can also enjoy indoor surfing at LOTTE Premium Outlets, or spend time playing at the LOTTE Department Store VR Theme Park. Our stores are no longer just places where people shop, but spaces where they can have fun and relax in the company of their loved ones.

LOTTE Shopping has always been committed to developing new stores and store formats like next-generation experience stores and specialty stores to enhance the competitiveness of its offline stores. In 2018, for example, we created hybrid stores in the form of a shop-in-a-shop by combining LOTTE Super with LOHB's, and LOTTE Himart with LOHB's. LOTTE Mart is also developing a series of specialty stores, while LOTTE Department Store is adding to its menu of hands-on leisure, cultural, and entertainment facilities at its department stores and outlets. They're all new and exciting ways in which customers can enjoy their time in our facilities even more.





## LOTTE SUPER WITH LOHB'S

### HYBRID STORE



#### LOTTE Super with LOHB's

LOTTE Super and LOHB's have created a hybrid store called "LOTTE Super with LOHB's" by combining the advantages of supermarkets and health and beauty stores to form a shop-in-a-shop entity, offering customers fresh foods and a wide choice of daily necessities, along with beauty products and miscellaneous goods. The number of visitors to our Siheung Eunhaeng and Wonju hybrid stores has been surging dramatically, thanks to the convenience of our new shopping experiences.

## PREMIUM OUTLET INDOOR SURFING

### CHAMELE-ZONE



#### Flow House

Visitors to LOTTE Premium Outlets Giheung can go indoor surfing at its custom-designed Flow House. It's an indoor surfing experience center that LOTTE Department Store developed by spending KRW 2 billion on its 463m² site. You can go surfing at a speed of twenty-seven kilometers an hour on artificial waves produced by 113,000 tons of water pouring out every minute. You can even sign up for surfing classes!

## LOTTE MART MARKET D

### CONCEPT STORE

#### Market D

Market D is a one-stop, low-priced shopping center that LOTTE Mart has recently introduced. Its first branch, which opened in Suwon in 2018, focuses on ensuring that customers always enjoy low prices through a combination of discounts, product differentiation and displays, and digitization. Over forty percent of its offerings are either signature products of VIC Market or imported goods. Frugal customers can shop smartly by taking advantage of the store's wholesale club-like displays, electronic shelf labels, and unmanned checkout counters.



## DEPARTMENT STORE VR PARK

### EXPERIENTIAL CONTENTS

#### LOTTE Monster VR

LOTTE Monster VR is South Korea's very first indoor VR experience theme park. Opened by LOTTE Department Store at its Star City branch in 2018, it's filled with over sixty types of VR content. Some of the most exciting examples include "Monster Adventure", featuring rafting and bungee jumping; "Monster Fantasy", offering hot-air balloon and jet rides; "Monster Cinema", where visitors can watch VR movies; and "Monster Café", where they can buy beverages and snacks. It's especially popular with families and young people in their twenties and thirties.





LOTTE ON

THE MOVE

LIFETIME VALUE CREATOR



LOTTE Shopping continues to make online shopping more convenient and enjoyable by deploying the very latest in digital technologies. Our endless quest for bold and innovative changes and experiences has made us South Korea's leader in the future of retail, constantly committed to adding value to our customers' lives.



## ABOUT LOTTE GROUP

### ONE OF THE WORLD’S MOST HIGHLY RESPECTED BUSINESS GROUPS

Lotte Group began with the founding of Lotte Confectionery in 1967. Over the past fifty years, it has grown into one of South Korea’s best-known business groups, expanding its business interests to include food, retail, tourism, petrochemicals, construction, machinery, finance, information and communications, and service operations. The Group is also expanding its operations across Asia and around the globe.

## MISSION

### WE ENRICH PEOPLE’S LIVES BY PROVIDING SUPERIOR PRODUCTS AND SERVICES THAT OUR CUSTOMERS APPRECIATE AND DEPEND ON.

The mission of LOTTE is to establish a foundation and baseline for our business activities. It plays a vital role in strengthening the pride and unity of our employees and motivating them to work for a united cause.



#### RICHNESS

“Richness” is the value that LOTTE has endeavored to provide our customers with since our foundation, and which distinguishes us from our competitors.



#### CONTRIBUTION

The value of “contribution” propels LOTTE forward to become a group that “customers appreciate and depend on, which enriches people’s lives.”



#### EXPANSION

Comprehensive expressions such as “products and services” and “everyone, everywhere” represent LOTTE’s unyielding desire to expand our scope of business.



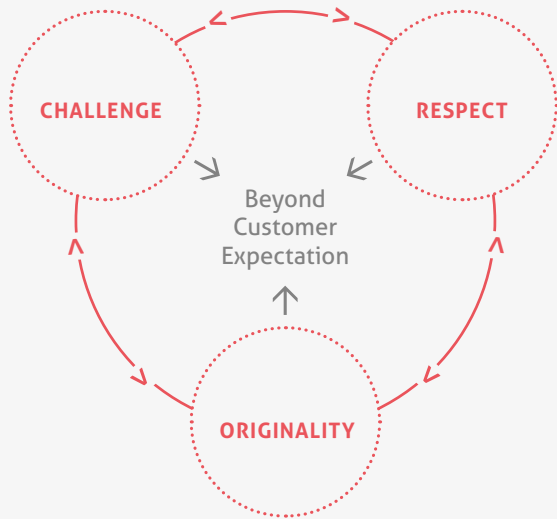
VISION

# Lifetime Value Creator

To promote sustainable growth over the next 50 years, LOTTE has chosen to focus on qualitative growth and declared a new vision. “Lifetime Value Creator” represents our resolution to make LOTTE a brand that provides our customers with the very best value throughout their lives.

CORE VALUE

CORE VALUES ARE THE STANDARDS THAT ALL LOTTE STAFF SHOULD ASPIRE TOWARD SO THAT LOTTE CAN FULFILL ITS MISSION AND VISION.



We do not aim to satisfy customers’ needs, but rather to create value beyond their expectations.

CHALLENGE

We focus on the nature of our task and continue to challenge ourselves to accomplish higher goals.

START

Understand the nature of our task and set a goal to contribute to the outcome of the entire organization.

PROGRESS

Take the initiative to improve work processes and achieve goals.

OUTCOME

Never give up, and set and achieve higher goals.

RESPECT

We respect different opinions, communicate with others and observe general rules to build a bond of trust with our community.

START

Respect when our colleagues and stakeholders have different opinions and actively communicate with them.

PROGRESS

Observe general rules and actively respond to the stakeholders’ demands.

OUTCOME

Behave carefully considering the impact of our action to build trust within our community.

ORIGINALITY

We quickly respond to changes, cooperate with other fields without boundaries, and implement innovations to develop originality inimitable by anyone.

START

Respond quickly to changes and trends in the business environment.

PROGRESS

Pay great attention to various industries and collaborate with them to create greater value.

OUTCOME

Develop creative thoughts and take innovative measures to provide products and services that our competitors cannot easily imitate.



BUSINESS AREAS

FOOD

Lotte Confectionery  
Lotte Chilsung Beverage  
Lotte Liquor  
Lotte Foods  
Lotte-Nestle  
Lotte Asahi Liquor  
Lottelmsc  
Lotte R&D Center  
Lotte GRS

RETAIL

Lotte Department Store  
Lotte Mart  
Lotte Super  
Korea Seven  
Lotte Hi-Mart  
Lotte Home Shopping  
LOHB's  
Lotte Cultureworks  
FRL Korea  
Lotte International

CHEMICAL/

CONSTRUCTION/  
MANUFACTURING

Lotte MCC  
Lotte E&C  
Lotte CM Business Division  
Lotte E&M  
Lotte Aluminum  
Lotte Fine Chemical  
Lotte Advanced Materials  
Lotte Chemical  
Canon Korea Business Solutions  
KP ChemTech  
Fuji Film Korea

TOURISM/SERVICE/

FINANCE

Global Logistics  
Lotte Rental  
Lotte Resort  
Lotte Members  
Lotte Duty Free  
Lotte Foundation for Arts  
Lotte Property & Development  
Lotte Institute of Economy & Business  
Strategy  
Lotte Welfare Foundation  
Lotte Samdong Welfare Foundation  
Lotte Insurance  
Lotte Skyhill CC  
Lotte World  
Lotte Academy  
Lotte Asset Development  
Lotte Giants  
Lotte Scholarship Foundation  
Lotte Data Communication  
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Lotte PS Net  
Lotte Hotel  
Daehong Communications  
EB Card & Mybi  
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Hyundai Information Technology

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# CEO'S MESSAGE



"We will become a lifetime value creator that adds to the fullness of our customers' lives through qualitative growth and the creation of enhanced social values."

Dear Valued Customers and Shareholders:

First of all, I want to thank you for the steadfast support you have always shown us.

Although South Korea's retail industry experienced sluggish growth in 2018 due to a prolonged economic downturn and rapid changes in its operating environment, LOTTE Shopping was still able to forge ahead with a series of bold growth initiatives in all of its business sectors. Our primary focus was on expanding our online operations by launching LOTTE e-commerce while also strengthening the competitiveness of our offline stores. We also added more omnichannel services combining both online and offline channels, and continued with our ongoing commitment to openness and transparency and our corporate social responsibilities. Now I want to tell you about our performance in 2018 and our plans for 2019.

## 2018 Review

### STRENGTHENED CORE COMPETENCIES AND EXPANDED INTO e-COMMERCE MARKET

Growth in South Korea's retail industry continued to slow in 2018 due to reduced consumer confidence, constantly tightening government regulations, intensifying competition, and higher personnel costs. Despite this, some sectors of the industry were presented with dramatically enhanced opportunities for growth. They included an increasing number of single-person households, a rapidly aging society, a trend towards small-quantity, neighborhood-based purchases and value-conscious shopping, a rising interest in health- and environment-related products, and a continuing polarization in terms of consumption. Online providers enjoyed particularly healthy growth due to the ease and convenience of the services they provide.

LOTTE Shopping adopted a number of efforts to add to its bottom line while also adapting to dramatic changes in its management environment. They included opening new stores, renovating existing ones, diversifying their formats, innovating their product lines, launching LOTTE e-commerce, and launching more omnichannel services. We also withdrew our LOTTE Mart business from China and concentrated our energies on increasing sales and enhancing our profitability. Despite all these steps, however, our sales and operating profit fell from the previous year to KRW 17.82 trillion and KRW 597.0 billion, respectively. The primary factors contributing to this were reduced sales in our offline stores and rising costs associated with our new slate of investments.

In the department store sector, we opened a new multipurpose shopping mall called LOTTE Mall Gunsan and an outlet facility called Premium Outlets Giheung. We also made significant improvements to the competitiveness of our products. This included launching a line of independently-developed brands in our offline stores and introducing differentiated content stores like living PB stores, one-item-only stores, omnichannel stores staffed by extremely knowledgeable and professional sales associates, and a VR Theme Park. We also made our online shopping malls more convenient by launching a new app called the LOTTE Department Store App and revamping our eLOTTE online shopping mall.

We also made improvements to our discount store business, increasing our number of customer experience stores and opening specialty ones like low-cost Market D one-stop shopping centers and smart stores. We also added to the quality of our fresh foods and enhanced their competitiveness with home meal replacements and "Only Price" PB products from overseas.

In the area of consumer electronics, we enhanced our online business, made our offline stores more competitive, and introduced Himart-style omni-stores with the convenience of online and the friendliness of hands-on. We also diversified our products and added more premium-level PB products, global brands and Home Care services

Last, but not least, we made a number of changes to our supermarket sector, developing new formats and transforming existing stores into premium-quality and customized-market operations. We also strengthened our online business, including building an online delivery base and offering dawn deliveries in selected areas.

178,208

2018 Sales (in KRW 100 millions)

5,970

2018 Operating Profit (in KRW 100 millions)

We also added to the competitiveness of our various home shopping channels, including at-home TV shopping, online shopping, and data broadcasting. This included launching a new line of PB brands and offering a wide variety of useful and convenient services using AI chatbot, voice shopping, and other ICT technologies.

LOTTE Cultureworks celebrated the opening of a number of new cinemas both at home and abroad. We also entered into the online content distribution business in an effort to enhance its sustainability. We are especially proud to have ranked first in terms of number of viewers among all the nation's distribution players.

Our efforts in terms of our health and beauty stores sector included diversifying their formats and continuously opening new ones. In addition to enhancing the competitiveness of their products by adding more PB and exclusive brand items, we increased our number of online business and omnichannel services.

We launched LOTTE e-commerce in August, capitalizing on the high quality of our human resources at LOTTE.com and its affiliates to enhance our digital prowess. We are also planning to develop a fully-integrated app, build more e-commerce infrastructures, and introduce more next-generation technologies.



AIMING FOR QUALITATIVE GROWTH WHILE STRENGTHENING OUR FOUNDATIONS FOR FUTURE DEVELOPMENT

Personal consumption is forecast to show only moderate growth in 2019. The retail industry will also experience lower growth, except in some business types such as online shopping. This will be due to sluggish sales within traditional offline channels, constantly increasing governmental regulations, intensifying competition, dramatic demographic changes, and an increasing trend toward value-conscious purchasing. Changes within the industry will accelerate even more with the spread of AI, robotics, big data, IoT, and other technologies. Growth in new retail channels, such as SNS and one-person broadcasts and markets will also impact it negatively.

LOTTE Shopping will aim for high-quality, profit-oriented growth, establishing solid foundations for sustainable growth by adapting to this changing environment in ways that are both effective and efficient. This will include continuing to change our offline stores into experiential spaces by revamping them and giving them new formats. We will also add to our online operations, led by our LOTTE e-commerce.

We will also enhance the competitiveness of our products and services, increase our use of AI voice commerce and other convergence services by combining them with advanced ICT, and develop omnichannel services into O4O services that sever the boundaries between online and offline channels. Our overseas interests will also be strengthened, particularly in Vietnam and Indonesia.

In the department store sector, we will increase our number of online businesses and omnichannel services by enhancing the competitiveness of our offline stores. This will include redefining them, upgrading their product mixes, and increasing their amount of frequently-used content. We will also innovate the merchandising structure of our discount stores, expand our mobile-based online platform business, and enhance the competitiveness of their products.

In terms of consumer electronics, we will strengthen our online businesses, reposition our offline stores, increase sales of premium and differentiated products, and add more Home Care services. In the supermarket sector, we will build more online automation infrastructures such as LOTTE Auto-Refresh centers, reposition our stores, and enhance our performance by innovating our organizational structure.

We will grow our home shopping business by enhancing its products and content, increasing the competitiveness of its channels, and introducing more personalized services. LOTTE Culturworks

will add to its number of new future growth engines, reposition its cinemas, strive for more operational efficiencies, and augment its sales of supplementary facilities. Our health and beauty store business will grow by revamping its existing stores, establishing new ones based on product differentiation, and enhancing the competitiveness of its products.

LOTTE e-commerce will pursue numerous operational strategies to broaden its appeal. This will include establishing an AI real-time utilization system and an AI voice commerce platform, introducing and innovating data-based logistics, enhancing its electronic IT systems, and launching the fully-integrated "LOTTE ON" app service.

Another of our main priorities will be fulfilling our corporate social responsibilities. This will include achieving mutually beneficial growth with our business partners, the communities in which we operate, and the small- and medium-sized merchants with whom we deal. We will also help to resolve such pressing societal issues as youth unemployment, South Korea's low birthrate, and improving the environment. Finally, we will continue working to create enjoyable shopping experiences for our customers and safe workplaces for our employees.

LOTTE Shopping's growth into a global retail player has always been based on its capacity to overcome crises and trials. We will continue to do so in the future, using the current challenging management environment as a springboard for new opportunities and a new leap forward. I look forward to your unwavering trust and support.

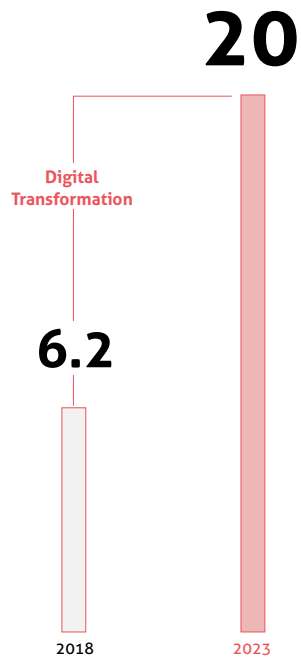
Thank you.



Kang Hee-tae, President and CEO

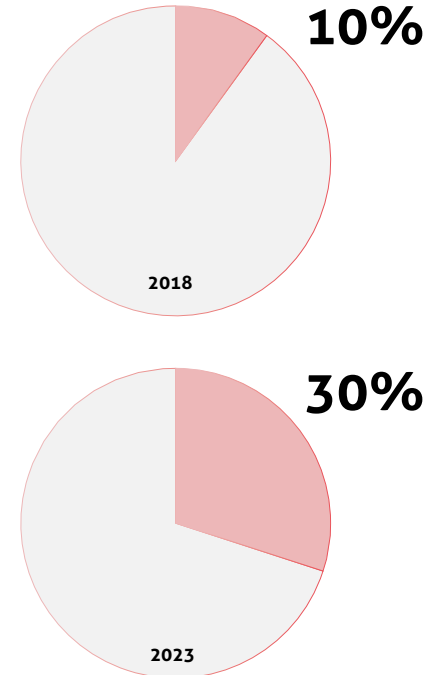
e-COMMERCE STRATEGY

TARGETED SALES OF ONLINE OPERATIONS (IN TRILLIONS OF KRW)



\* Based on gross merchandise volume and the total of seven online channels (LOTTE Department Store, LOTTE Mart, LOTTE Super, LOHB's, LOTTE e-commerce, LOTTE Homeshopping and LOTTE Himart)

TARGETED SALES OF ONLINE OPERATIONS TO TOTAL SALES



e-commerce strategy for expanding online operations

South Korea's total e-commerce market volume in 2018 was KRW 111.894 trillion, up 22.6% from the previous year and proof of the growing popularity of online shopping over the past few years. Online shopping transactions made up 18.5% of the country's total retail market volume, up 2.3% points from 2018. The sector is expected to grow to around KRW 130 trillion in 2019, and make up as much as 37% of the total by 2028.

LOTTE Shopping is maximizing its online and offline synergies and adding to its online operations through sustained investments. Our e-commerce business will be treated as an important new growth engine with an extremely high potential for profitability and for growing into an industry leader in terms of both online and offline channels. Our strategy for achieving this end is to unify our online shopping malls.

This will make us a true industry leader, with sales of about KRW 20 trillion expected by 2023. LOTTE e-commerce has been placed in exclusive charge of the e-commerce business.

LOTTE e-commerce launched a "LOTTE ON" service in March 2019. It allows customers to use our mobile app services with a single login. We are also planning to open an integrated shopping platform called "LOTTE One App" by March 2020. Once it is in place, our seven online shopping malls can be accessed by using only one app. We will continue strengthening our e-commerce ecosystem, optimizing our retail platforms and enhancing their efficiency through the adoption of AI, big data, and other ICT technologies en route to becoming a true e-commerce leader both online and offline.

\* Source: Statistics Korea



# COMPANY PROFILE

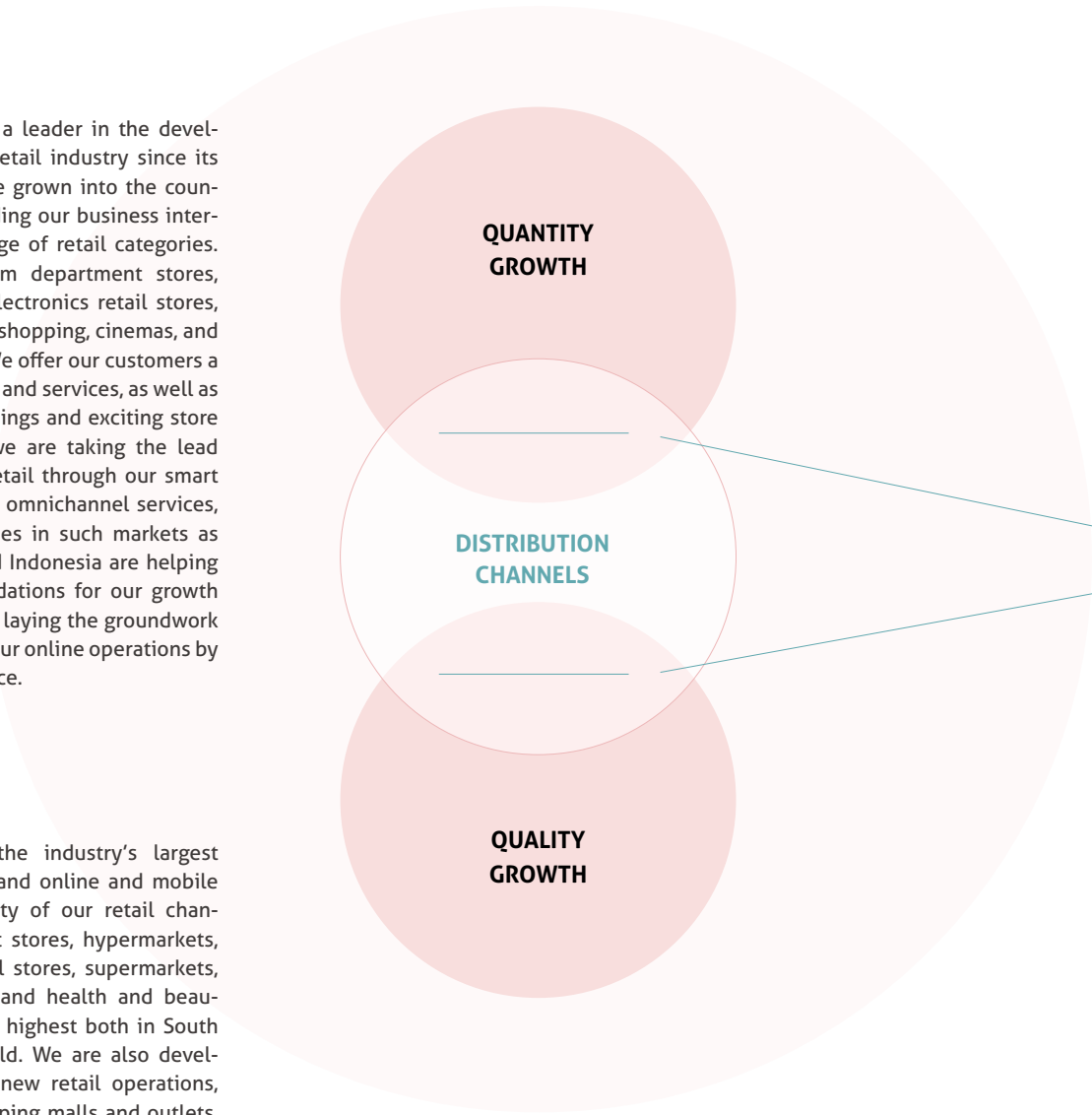
## SOUTH KOREA'S LEADING RETAILER

### Company Overview

LOTTE Shopping has been a leader in the development of South Korea's retail industry since its founding in 1979. We have grown into the country's top retailer by expanding our business interests to include a wide range of retail categories. Our businesses range from department stores, hypermarkets, consumer electronics retail stores, and supermarkets to home shopping, cinemas, and health and beauty stores. We offer our customers a host of innovative products and services, as well as continuous new store openings and exciting store renovations. In addition, we are taking the lead in creating the future of retail through our smart shopping environment and omnichannel services, while our overseas activities in such markets as Russia, China, Vietnam, and Indonesia are helping us to strengthen the foundations for our growth even more. In 2018, we are laying the groundwork for the total integration of our online operations by launching LOTTE e-commerce.

### Retail Channels

LOTTE Shopping boasts the industry's largest portfolio of offline stores and online and mobile shopping malls. The variety of our retail channels, including department stores, hypermarkets, consumer electronics retail stores, supermarkets, home shopping, cinemas, and health and beauty stores, ranks among the highest both in South Korea and around the world. We are also developing a large number of new retail operations, such as multipurpose shopping malls and outlets, smart stores, omni-stores, premium food markets, and T-commerce. Going forward, we will present tomorrow's shoppers with a never-before-experienced retail culture through a combination of innovative omnichannel services and the very latest in ICT technologies, consolidating the strengths of our offline stores and the competitiveness of our online operations by focusing on the development of mobile platforms.



### DEPARTMENT STORES

Lotte Department Store  
Avenuel  
Young Plaza  
Lotte Outlets  
Lotte Premium Outlets  
eLotte online mall  
eCUBE

### DISCOUNT STORES

Lotte Mart  
VIC Market  
Lotte Mart Mall online shopping mall  
Market D

### SUPERMARKETS

Lotte Super  
Lotte My Super  
Lotte Market 999  
Lotte Fresh online shopping mall  
Lotte Premium Food Market  
Lotte Freezia  
Lotte Super with LOHB's

### HEALTH & BEAUTY STORES

LOHB's  
LOHB's Mall online shopping mall

### HOME SHOPPING

Lotte Home Shopping  
Lotte i-Mall  
Lotte OneTV  
Studio Shop  
Catalogue

### SPECIALTY STORES

Lotte Himart  
Toys "R" Us  
Pet Garden  
Babies "R" Us

### CINEMAS

Lotte Cinema

### NEW CORE VALUES

BEYOND CUSTOMER EXPECTATION

CHALLENGE

RESPECT

ORIGINALITY

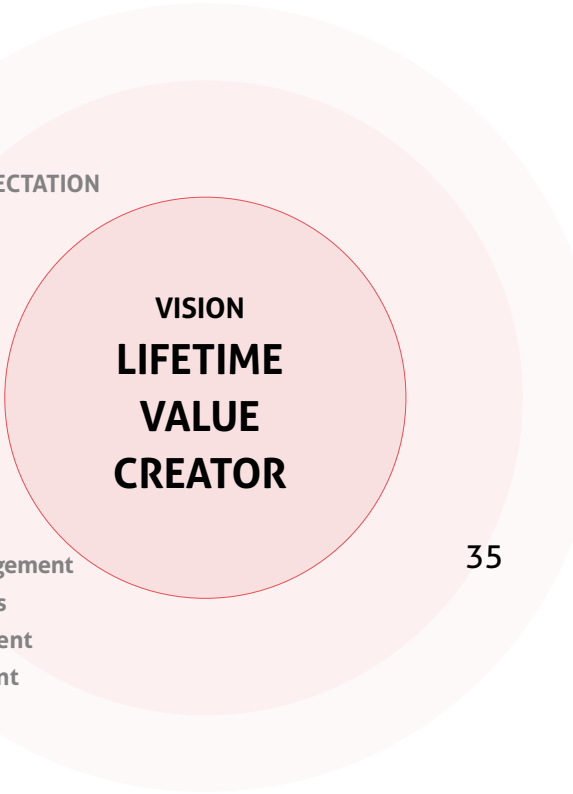
### MANAGEMENT POLICY

Ensure transparent management

Enhance core capabilities

Practice value management

Offer on-site management



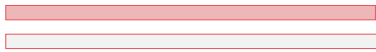


# FINANCIAL HIGHLIGHTS

SALES

178,208

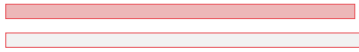
2018 178,208  
2017 179,261



GROSS PROFIT

75,077

2018 75,077  
2017 76,269



OPERATING PROFIT

5,970

2018 5,970  
2017 8,010



NET PROFIT

(4,650)

2018 (4,650)  
2017 (206)



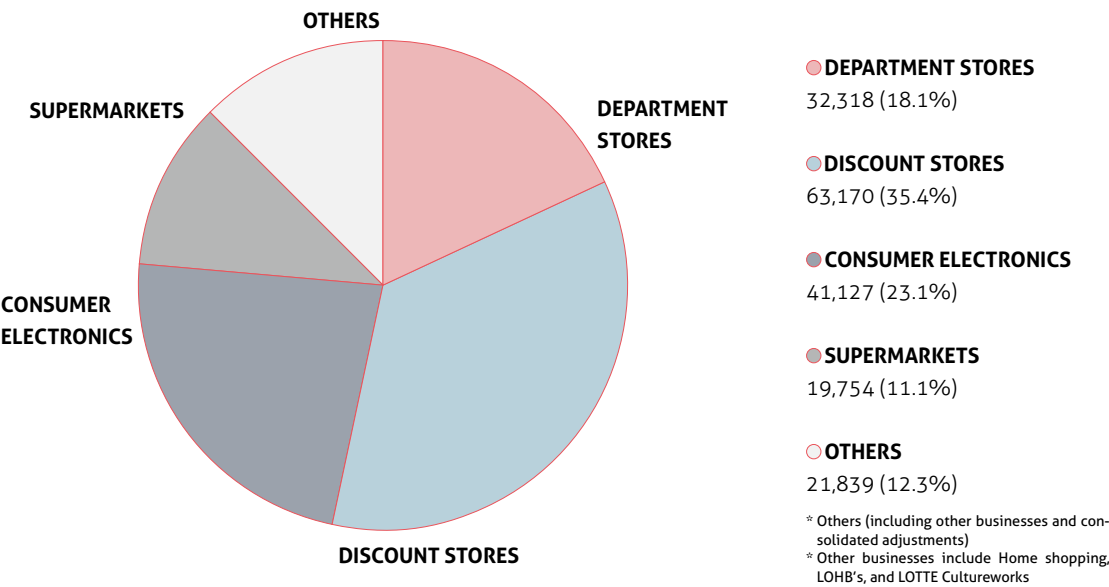
CONDENSED CONSOLIDATED  
FINANCIAL POSITION STATEMENTS

(Based on K-IFRS and consolidated  
financial statements, in KRW 100 millions)

	2018	2017
<b>Assets</b>	<b>262,593</b>	279,485
Current assets	57,084	62,953
Non-current assets	205,510	216,532
<b>Liabilities</b>	<b>138,319</b>	145,971
Current liabilities	66,037	85,445
Non-current liabilities	72,282	60,526
<b>Shareholders' equity</b>	<b>124,274</b>	133,514
Controlling shareholders' equity holdings	117,054	126,586
Capital stock	1,414	1,406
Capital surplus	35,742	35,057
Hybrid bonds	-	2,691
Capital adjustments	(29,098)	(29,044)
Retained earnings	109,916	117,303
Accumulated other comprehensive income	(920)	(827)
Non-controlling shareholders' equity holdings	7,220	6,928

LOTTE Shopping took a series of steps to enhance its earnings and secure new growth engines in 2018, even though South Korea's retail industry as a whole suffered from sluggish growth due to the effects of a prolonged recession. In 2019, we will add to our online operations and enhance the competitiveness of our offline stores, strengthening our reputation as a true leader of the country's retail industry.

REVENUES BY BUSINESS DIVISION



CONDENSED CONSOLIDATED  
COMPREHENSIVE INCOME STATEMENTS

(Based on K-IFRS and consolidated  
financial statements, in KRW 100 millions)

	2018	2017
Sales	178,208	179,261
Cost of sales	(103,131)	(102,992)
Gross profit	75,077	76,269
Selling and administrative expenses	(69,117)	(68,256)
Operating profit	5,970	8,010
Profit before income tax	(939)	2,540
Net profit	(4,650)	(206)



# BOARD OF DIRECTORS

ENHANCING OUR ENTERPRISE VALUE AND INCREASING THE PUBLIC’S TRUST BY STRENGTHENING OUR COMMITMENT TO TRANSPARENCY, COMPLIANCE, AND OUR CORPORATE SOCIAL RESPONSIBILITIES

LOTTE Shopping’s Board of Directors is composed of nine directors, all of whom are elected at a yearly General Shareholders' Meeting. Five of them must come from outside the company. The Board also has three sub-committees--the Audit Committee, the Outside Director Nominating Committee, and the Internal Transactions Committee. The Board is tasked with enhancing the company’s enterprise value by establishing transparent, accountable, and responsible management programs and policies.



Shin, Dong Bin  
Chairman, Lotte Group



Lee, Won Joon  
Vice Chairman Lotte Group



Kang, Hee Tae  
President and CEO, Lotte Shopping



Yoon, Jong Min  
Head of Management Strategy Office, LOTTE Corporation

## Inside Directors

Name	Position	Board Responsibilities
Shin, Dong Bin	Chairman, Lotte Group	Inside Director
Lee, Won Joon	Vice Chairman, Lotte Group	Representative Director, Board Chair, Outside Director Nomination Committee Chair
Kang, Hee Tae	President and CEO, Lotte Shopping	Representative Director, Internal Transaction Committee Chair
Yoon, Jong Min	Head of Management Strategy Office, LOTTE Corporation	Inside Director

## Outside Directors

Name	Position	Board Responsibilities
Kang, Hye Ryun	Professor, Ewha School of Business, Ewha Womans University	Outside Director Nominating Committee
Lee, Jae Won	Lawyer, Yulchon LLC	Internal Transaction Committee
Bahk, Jae Wan	President, Hansun Foundation for Peace and Prosperity on the Korean Peninsula	Outside Director Nomination Committee, Audit Committee
Choi, Seok Young	Advisory Group Member, UN Central Emergency Response Fund	Audit Committee Chair
Lee, Jae Sool	Vice Chairman, Glosfer	Audit Committee, Internal Transaction Committee



Kang, Hye Ryun  
Professor, Ewha School of Business, Ewha Womans University



Lee, Jae Won  
Lawyer, Yulchon LLC



Bahk, Jae Wan  
President, Hansun Foundation for Peace and Prosperity on the Korean Peninsula



Choi, Seok Young  
Advisory Group Member, UN Central Emergency Response Fund



Lee, Jae Sool  
Vice Chairman, Glosfer

# CORPORATE GOVERNANCE

## ENHANCING SHAREHOLDER VALUE THROUGH A COMMITMENT TO OPEN, HONEST, AND TRANSPARENT DECISION-MAKING

**Board operations and decision-making**  
LOTTE Shopping's Board of Directors makes decisions regarding matters set forth in the company's articles of incorporation, as well as issues assigned to it at the General Shareholders' Meeting and matters relating to the company's basic managerial policies and operations. It met eighteen times in 2018.

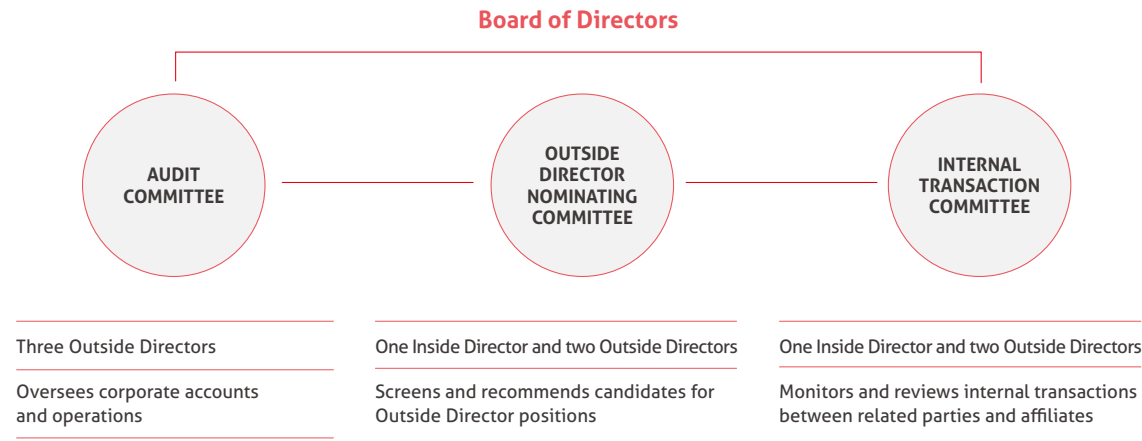
**Board Committees**  
The Board operates three committees: the Audit Committee, the Outside Director Nominating Committee, and the Internal Transactions Committee. Their composition, authority, and operations are determined by rules and regulations established by the Board.

**Audit Committee** : This committee is composed of three outside directors. It is responsible for auditing the company's accounts and operations, and provides oversight and support to assist the company's executive team in managing its operations. It met six times in 2018.

**Outside Director Nominating Committee** : Composed of one inside and two outside directors, this committee is tasked with ensuring managerial transparency by recommending Outside Director candidates to represent the interests of shareholders. It met twice in 2018.

**Internal Transactions Committee** : Composed of one inside and two outside directors, this committee is tasked with ensuring that the company always engages in free and fair trade practices. It also reviews and approves all contracts between the company's affiliates. It met three times in 2018.

Composition of Board (as of the end of 2018)



# ETHICAL MANAGEMENT

## EARNING THE TRUST OF SOCIETY THROUGH EXHAUSTIVE OPEN, HONEST, AND PRINCIPLED MANAGEMENT PRACTICES

**Focusing on Integrity**  
LOTTE Shopping's ethical management rules and regulations ensure that its employees act in a transparent, ethical, and principled manner and with honesty, fairness, and sincerity. The company has also established a "LOTTE Code of Ethical Conduct" that outlines the basic standards required of its employees in their workplaces. In addition, company employees can access webtoons and a guidebook containing detailed guidelines regarding specific employment situations. The company's two-track approach to investigations and prevention is carried out by an Ethics Improvement Team and an Ethics Planning Team. Both of them operate under the aegis of the Ethical Management Division.

**Ethical Management System**  
The goal of LOTTE Shopping's ethical management system is to ensure that ethical management practices occur in all facets of its operations. To this end, we have set up an ethical management website and a mobile hotline that make it easier for employees to report violations of our ethics guidelines by their colleagues or members of our partner companies. Each LOTTE Department Store also has an Ethical Management Officer whose job is to receive feedback from our employees. We also operate a "Clean Center" where employees can report and return gifts, money, or other valuables received from any of our partner firms.

**Reducing the Incidence of Unethical Behavior**  
LOTTE Shopping has established a number of programs to reduce the incidence of unethical behavior among its employees and executives. They include classes showing how their jobs and positions might lead to the possibility of unethical behavior, as well as "principled holiday campaigns" and "principled vacation campaigns". We also require all of our employees and executives to sign an annual pledge of compliance regarding ethical management and behavior, and sign a "mutual ethical dealing contract" whenever we enter into agreements with a partner company.

**Encouraging a Culture of Ethical Management**  
Our efforts to encourage a culture of ethical behavior extend to society in general. This includes encouraging our employees to practice ethical behavior at all times, both at work and in their private lives. We are also helping to create a fair market environment through our membership in the Fair Players Club, a public- and private-sector anti-corruption project organized by the Global Compact Network Korea, and have provided a wide range of ethical management instructional materials that were included in a series of Business Ethics Briefs produced by the Anti-Corruption and Civil Rights Commission of Korea. Finally, we operate a "clean sharing" program, encouraging our employees to donate any fees they might receive for outside speaking engagements and similar activities to a charity of their choice.

**Awards for Ethical Management**  
The company won a number of awards for ethical management in 2018. They included the Grand Prix at the Korea Ethical Management Awards from the Korean Association of Business Education in recognition of our commitment to ethical management. We were particularly proud to have received an appreciation plaque from the British Foreign Office in recognition of our participation in anti-corruption activities organized by the United Nations Global Compact in 2017.

### The Lotte Code of Ethical Conduct

01. Customer safety is our number one priority.
02. Always keep company information confidential.
03. Do not play golf with employees of partner companies.
04. Do not go drinking with employees of partner companies.
05. Always pay the bill when dining with employees of partner companies.
06. Do not accept gifts of money, valuables, entertainment, or other favors.
07. Avoid all instances of nepotism, influence peddling, and all requests for favors.
08. Do not use company funds for personal purposes.
09. Do not abuse or harass other people, either verbally, sexually, or physically.
10. Do not give gifts to fellow employees, or accept gifts from them.



# BUSINESS STRATEGIES BY REGION

## DOMESTIC



South Korea's retail industry will experience more sluggish growth in 2019, due to lowered consumption, governmental regulations regarding such issues as store openings and hours of operation, intensifying competition, and rising wages. Demographic changes, such as a rapidly aging society, will also play a role. LOTTE Shopping will achieve healthy growth in 2019 by establishing strategies to cope with this situation in an effective and efficient manner. They will include strengthening the competitiveness of our stores and products, our online operations and omnichannel services, and our digital operations.

### 1. Enhancing the competitiveness of our offline stores

The company is constantly working to enhance the competitiveness of its offline stores. This includes diversifying their formats, transforming their operations to better match the nature and characteristics of the customers and the neighborhoods in which they operate, opening new stores with a pronounced focus on channels with a high potential for growth, and expanding the number of experiential and specialized stores. We will also boost our efficiency by making improvements to our income structure and reducing our costs.



### 2. Adding more differentiated products and content

Differentiated products and content play a key role in attracting new customers and retaining repeat ones. We will continue to add more low-cost PB goods to our product mix and increase our portfolio of specialty products by launching more independently-developed brands that are exclusive to our operations. In addition, we will develop more of the unique content that can only be found at LOTTE Shopping's stores and online channels.

### 3. Expanding online operations

LOTTE Shopping is expanding its online presence in all its business areas, led by the new LOTTE e-commerce operating division. This includes making dramatic changes to how our customers can access all our retail services through a single, fully-integrated app. We are also introducing a variety of O4O services that sever the traditional boundaries between online and offline channels by reinforcing our omnichannel services. Finally, we are making increased use of AI, AR, robotics, big data, IoT, and other ICT technologies.

## DOMESTIC

### KOREA

1,452

Department Stores <sup>1)</sup>	35
Outlets	22
elCube	3
Discount Stores <sup>2)</sup>	124
Consumer Electronics	463
Supermarkets <sup>3)</sup>	557
H&B Stores <sup>4)</sup>	122
Cinemas	120
Home Shopping	6

### KOREA

\* As of the end of 2018

1) Includes two Young Plaza stores and two stores that are managed under contract

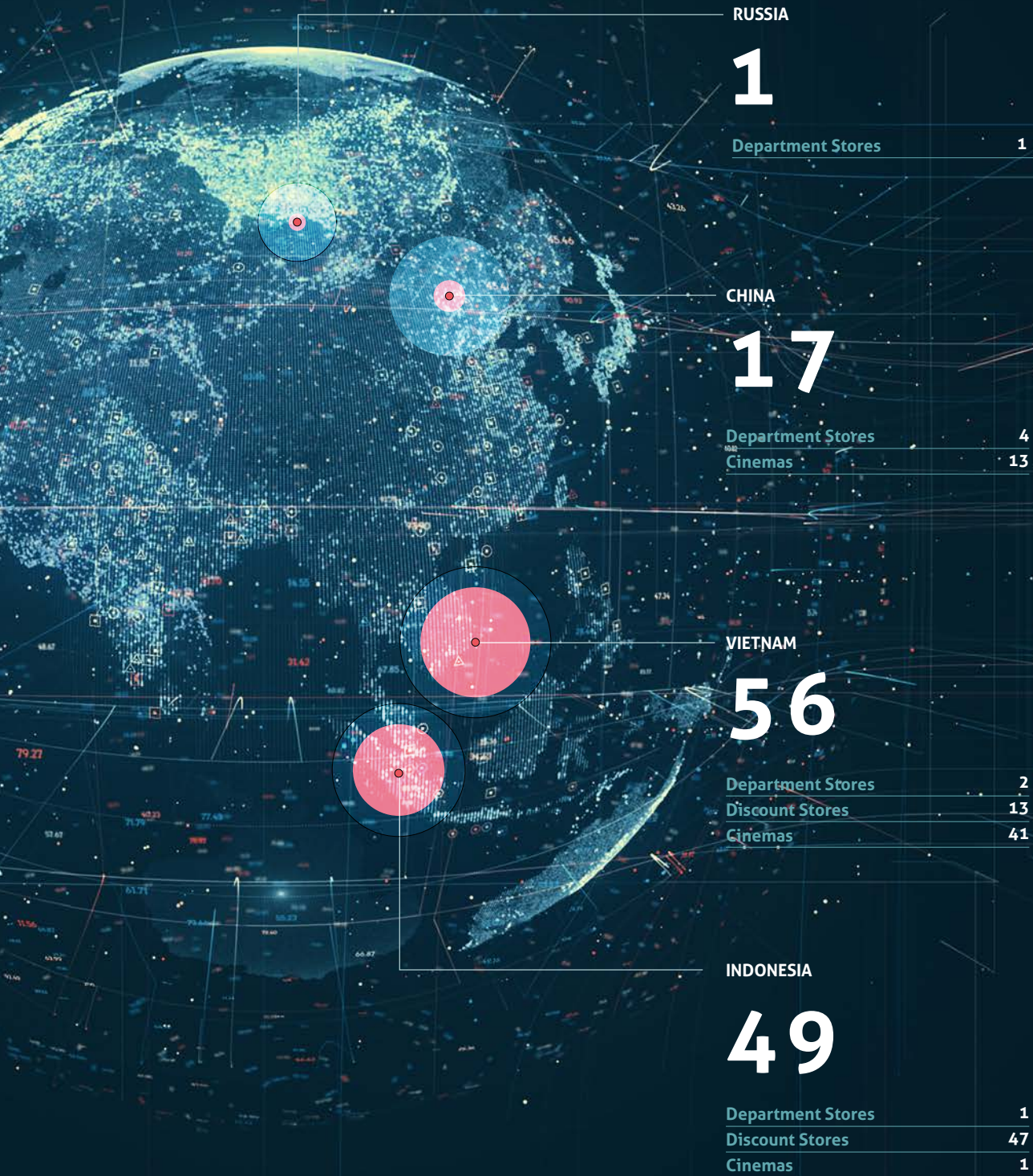
2) Includes five VIC Mart stores

3) Lotte Super (leased, owned, and merchant stores) + Market 999 (leased and merchant stores) + CS Retail (leased and owned stores)

4) Excludes two Lotte Super with LOHB's stores



OVERSEAS



OVERSEAS

LOTTE Shopping is constantly augmenting its operations in such high-growth areas as Indonesia and Vietnam. Indonesia boasts a population of over 260 million people, a wealth of resources, political stability, a prosperous economy, and low unemployment, while Vietnam's high potential for growth is due to its large number of young people, a stable political base, and rapidly growing incomes. We will continue providing the people of both countries with a full menu of high-quality products and services at our department and discount stores and through our cinema businesses.



**1. Making products more competitive**  
LOTTE Department Store and LOTTE Mart provide a wide range of high-quality products and services to the people living in Indonesia and Vietnam. LOTTE Mart is enhancing its competitiveness in the area of fresh foods by doing more overseas sourcing and engaging in direct transactions with production centers. It is also strengthening its product portfolio and enhancing the quality of its PB products.

**2. Identifying new growth engines**  
LOTTE Department Store and LOTTE Mart are increasing their ability to identify and attract new growth engines. LOTTE Department Store is opening new stores by entering into M&As with other well-positioned retail stores, while LOTTE Mart is adding to its online and B2B capabilities for the same reason. Our focus in Indonesia will be on expanding the B2B operations of our wholesale stores and the O2O services of our retail ones. In Vietnam, we are providing a Korean-style quick order and delivery service through the "Speed L" mobile app that we launched in 2018.





# 2018 NEWS HIGHLIGHTS

## January

1

### Opened LOTTE Himart Omni-store Guri

LOTTE Himart opened LOTTE Himart Guri Station, its first Himart-style omni-store, in January 2018. Omni-stores offer shoppers premium-level products and feature a search, order, and payment system that shoppers can access through an Omni-App. These stores also combine online convenience with the friendliness of offline shopping. Although we have sharply reduced the number of products that we sell in these stores, we have made up for it by adding a number of rest and relaxation spaces, such as a bookstore cum café and a health and beauty zone. LOTTE Himart had built a total of twelve omni-stores by the end of 2018.



## March

3

### Opened LOTTE Mart Fresh Quality Innovation Center

LOTTE Mart opened its Fresh Quality Innovation Center in Jeungpyeong-gun, Chungcheongbuk-do in March 2018 as part of its strategy to enhance the quality of its fresh foods. It includes an agricultural products distribution center and a meat center equipped with low-temperature warehouses and other cutting-edge facilities. It also manages the entire range of its production processes, from inspecting and screening raw materials to their storage, packaging, and eventual sale.

### Opened LOHB's Itaewon

The LOBH's health and beauty chain opened its one hundredth location in Itaewon, Seoul in March 2018. Set up as a new-concept store with a vast amount of hands-on content, it offers customers a wide variety of beauty brands, including SNS-issue brands, department store brands, and beauty accessories. In addition to being equipped to deal with the wants and needs of non-Koreans, it features a variety of beauty products that people can buy for their pets. Customers can also attend instructional lectures at a "Beauty Lab" and a "Makeup Studio".



## April

4

### Opened LOTTE Mall Gunsan

LOTTE Department Store opened LOTTE Mall Gunsan in April 2018. Comprising downtown outlets and a LOTTE Cinema, it has a total floor space of 89,000 square meters and was developed to function as a multipurpose shopping mall that includes shopping, culture, dining, and leisure facilities. It boasts a total of 166 brands, including fashion, miscellaneous goods, food, and household appliances, as well as a large bookstore and the first-ever cultural center located in a LOTTE Outlets complex.

## May

5

### Opened "Market D" at LOTTE Mart Suwon

LOTTE Mart opened a "Market D", a low-cost, one-stop shopping space, at LOTTE Mart Suwon in May 2018. It focuses on beating its competitors' prices through a combination of deep discounts, product differentiation and displays, and digitization. Over forty percent of its offerings are either VIC Market signature products or imported goods. Frugal customers can shop smartly by taking advantage of the store's wholesale club-like displays, electronic shelf labels, and unmanned checkout counters.

## June

6

### Launched LOTTE Cultureworks

LOTTE Shopping's Cinema Business Division was renamed and launched as a fully independent corporation named LOTTE Cultureworks last June. Its mandate is to strengthen the competitiveness of the other businesses under its corporate umbrella, including LOTTE Cinema and LOTTE Entertainment. It will also seek to enter into business arrangements with other global and domestic operators and tap into the Over The Top platform to fulfill its goal of becoming a fully comprehensive entertainment company.





# 2018 NEWS HIGHLIGHTS

## July

7

### Opened LOTTE Super with LOHB's

The focus of LOTTE Super and LOHB's on the development of refreshingly new and exciting store formats was evidenced in July 2018 when they combined to open LOTTE Super with LOHB's Siheung Eunhaeng, combining the most salient features of supermarkets and health and beauty stores. Operating as a shop-within-a-shop, the facility allows customers to browse for fresh foods, household items, beauty products, and other goods under a capacious, single roof. It especially appeals to customers in their forties and fifties, as well as younger people in their twenties and thirties.



## August

8

### Launched LOTTE e-commerce

LOTTE e-commerce was launched as a fully independent corporation in August 2018, with a mandate to integrate and promote all the company's e-commerce operations. It will achieve this goal by consolidating the human resources of LOTTE.com and LOTTE Group in charge of IT, UX, and R&D into a single organization and then recruiting new people into the fold. The organization's overall business strategy will be to develop integrated apps including the "LOTTE ON" service and the "LOTTE One App", to continue building more powerful and extensive digital infrastructures, and to keep abreast of the entire range of next-generation technologies.



# Awards

LOTTE Shopping was once again recognized for its accomplishments in 2018, winning a number of awards both at home and abroad.



Ranked first in department store category for twenty-first consecutive year, and in consumer electronics retail category for thirteenth consecutive year in **Korea Brand Power Index (K-BPI) survey**

Ranked first in department store category for sixteenth consecutive year, and in hypermarket category for eighth consecutive year in **National Customer Service Index (NCSI) survey**

Ranked first in department store category for sixteenth consecutive year, and in consumer electronics retail category for third consecutive year in **National Brand Competitiveness Index (NBCI) survey**

Ranked first in department store category for sixth consecutive year, in premium outlet category for fifth consecutive year, and in hypermarket category for second consecutive year in **Korea Customer Satisfaction Index (KCSI) survey**

Ranked first in department store category for third consecutive year and in premium outlet category for second consecutive year in **Korean Standard Service Quality Index (KS-SQI) survey**



## December

12

### Opened LOTTE Premium Outlets Giheung

LOTTE Department Store opened LOTTE Premium Outlets Giheung in the city of Yongin in December 2018. Created on a 150,00 square meter site, it offers shoppers a choice of about three hundred brands, including luxury goods, fashions, and personal living items. It also provides them with a wide range of rest and relaxation facilities, including a large garden where they can have picnics, a forest adventure playground, a Golf Zone Market, and a Flow House where they can go indoor surfing.

### Opened LOTTE Mart Smart Store Geumcheon

LOTTE Mart Geumcheon became the first LOTTE Mart smart store in December 2018. Operating as a fourth-generation futuristic shopping complex, it allows shoppers to use next-generation smart technologies not found in other hypermarkets. They can also have their purchases delivered within a three-hour time period by scanning the M Coupon App and the QR codes displayed on their merchandise, and then paying at a display stand with their smartphones. The store also features cutting-edge 3D holograms filled with information on store products and special events, as well as kiosks that act as interactive product recommendation centers.



# REVIEW OF OPERATIONS

LOTTE Shopping continued with its strategy of pursuing qualitative growth in 2018. The strategy included the creation of customized stores, adding to the competitiveness of its products, and developing more omnichannel services based on ICT technologies. We also focused on securing future growth engines.





Review of Operations

LOTTE

Major Businesses

LOTTE Department Store

AVENUEL/YOUNG PLAZA

DEPART-

LOTTE Department Store took a number of steps to add to its presence in 2018. They included opening new stores, making improvements to the way its products were presented, strengthening its online operations, and adding more omnichannel services. Both its sales and its operating profit grew as a result.

LOTTE Outlets/LOTTE Premium Outlets

eLOTTE Online Mall

M E N T

The company will enhance its competitiveness even more in 2019, taking advantage of the key locations of its stores, upgrading the quality of its products, and stressing their unique content. It will also make adjustments to its online business and omnichannel strategies and continue with its pursuit of profit-centered, high-quality growth.

S T O R E

eLCUBE

NUMBER OF STORES IN SOUTH KOREA

Lotte Department Store

35\*

Outlet

22

eLCUBE

3

\* Includes two Young Plaza stores and two others that are managed under contract

NUMBER OF STORES OVERSEAS

Russia

1

China

4

Indonesia

1

Vietnam

2

SALES (K-IFRS CONSOLIDATED BASIS)

(In KRW 100 millions)

2018	32,318
2017	32,042

OPERATING PROFIT (K-IFRS CONSOLIDATED BASIS)

(In KRW 100 millions)

2018	4,248
2017	3,956





## 2018 Review

South Korea's department stores enjoyed increased sales in 2018 despite a very challenging operating environment that included a prolonged economic slowdown, increased governmental regulations regarding store openings and opening hours, and a decline in sales at offline stores. LOTTE Department Store's response to this situation included opening new stores, making improvements to the way its products were presented, strengthening its online operations, and adding more omnichannel services. Sales increased slightly from the previous year to KRW 3,231.8 billion, with operating profit rising by 7.4% to KRW 424.8 billion.

LOTTE Department Store opened a number of new stores, with multipurpose shopping malls and outlets leading the way. This included LOTTE Mall Gunsan in April, where we made shopping, dining, and cultural services available to shoppers in a single space centering on downtown outlets. This was followed by LOTTE Premium Outlets Giheung in the city of Yongin, a major commercial district in southern Gyeonggi-do Province. Combining shopping and leisure facilities, it tempts even the most jaded shoppers with more than three hundred brands and extensive rest and leisure spaces. Finally, LOTTE Department Store Ansan was reborn

as a personal lifestyle department store. It underwent many innovative changes, including drastically changed store layouts and a wealth of rest and relaxation spaces.

We also innovated our products and content to enhance the competitiveness of our offline stores. This included strengthening our PB brand by opening "Sallim Sharp (#)", a PB store that specializes in personal care products at very reasonable prices. It is located in our Jamsil branch. We also opened some "One Item Only" stores that specialize in unique, single items. They include the Cashmere House, the Golf Shoe Gallery, and the industry-leading "NEON" platform, where customers can sample products and content inspired by SNS influencers. We also brought a number of hands-on experiential stores into being. They include HOBBY PLACE TOBBYS, a café featuring plastic models and figurines, a MARVEL and DC COMICS STORE at LOTTE Outlets Gwangmyeong, a LEGEND HEROES sports-themed store at LOTTE Department Store Busan, and a LOTTE MONSTER VR theme park at LOTTE Department Store Star City.

We also made improvements to our online businesses and provided more tailor-made customer

services through digitalization. This included launching the LOTTE Department Store App, which replaces the Smart Coupon Book, MODI, and the Publicity App, and making dramatic improvements to the content of our eLOTTE online shopping mall.

We also introduced a brand-new "Charlotte" AI shopping guide that provides assistance to shoppers through voice conversations, increasing its number of service channels to include SNS and smart speakers to provide information to more customers. We also introduced a pair of new omnichannel (O4O) stores. They include an "On and The Living" consultation store in our Jamsil branch, and an "On and The Beauty" personal care store at our Avenuel World Tower branch.

Our overseas operations followed a strategy of profit-centered management, including augmenting our business portfolios and managing our expenses more closely. We also gave up our presence in China entirely, strengthened our revenue bases, and added to the competitiveness of our stores in Vietnam and Indonesia.

## 2019 Outlook and Plans

The South Korean department store industry will face more difficulties in 2019, including governmental rules regarding store openings and opening hours, intensifying competition, and sluggish online sales. The trend towards the polarization of consumption will likely deepen, helping its growth slightly.

LOTTE Department Store will continue taking the fullest possible advantage of its high-quality store locations, opening an Incheon Terminal branch and renovating its main

We will strengthen our e-commerce business by accentuating the differences between our various online malls. This will include revamping our "eLOTTE" online shopping mall, and opening new, premium-level fashion malls. We will also digitize our operations even more, especially including services that affect our customers, our products, and our brands. Our omnichannel (O4O) stores will also be enhanced, particularly by the deployment of well-trained and very knowledgeable sales associates. We will also increase the efficiency of our investments and reposition our stores, while also making dramatic improvements to their operating structure.



Review of Operations

LOTTE  
MART

Major Businesses

LOTTE MART

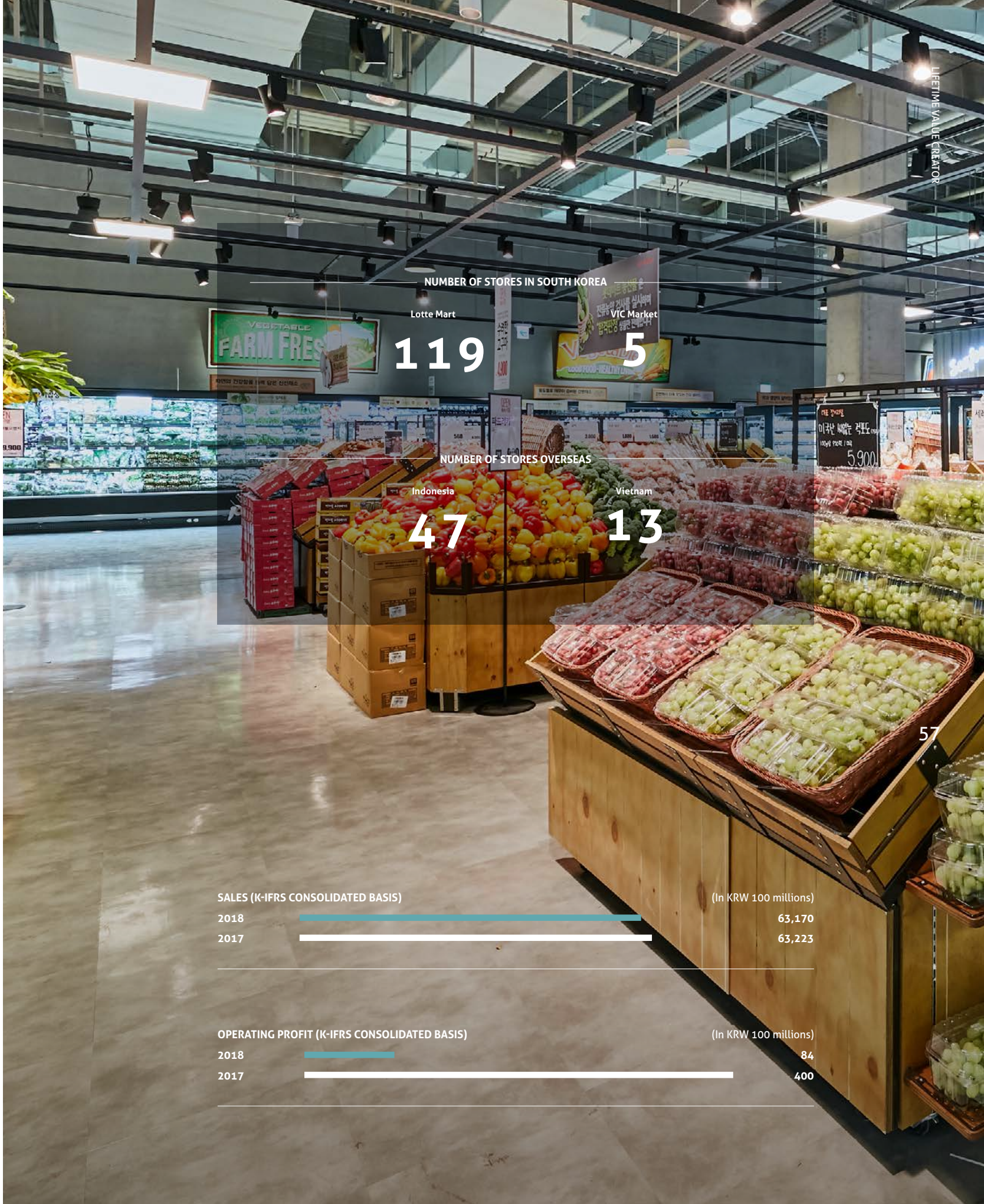
VIC Market

LOTTE Mart Mall Online Mall

Specialty Stores

LOTTE Mart introduced a number of specialty stores like "Market D" and smart stores in 2018. We also made our operations more competitive by enhancing the freshness of our foods and launching many new PB products and home meal replacements.

Our plans for 2019 include innovating our stores' merchandising structures, strengthening our online platform business, and continuing with our focus on food freshness and the development of new PB products. We will also open new stores overseas, enhance the competitiveness of their products, and continue our search for promising new growth engines.



NUMBER OF STORES IN SOUTH KOREA

Lotte Mart

119

VIC Market

5

NUMBER OF STORES OVERSEAS

Indonesia

47

Vietnam

13

SALES (K-IFRS CONSOLIDATED BASIS)

(In KRW 100 millions)

2018	<div></div>	63,170
2017	<div></div>	63,223

OPERATING PROFIT (K-IFRS CONSOLIDATED BASIS)

(In KRW 100 millions)

2018	<div></div>	84
2017	<div></div>	400





## 2018 Review

South Korea's hypermarket industry experienced sluggish growth in 2018, mainly due to lowered consumption caused by a continuing economic downturn, ongoing governmental regulations regarding store openings and opening hours, and the negative effect of rising wages. Other factors included an increase in the number of single and two-person households, the growing popularity of online shopping, and increasing competition among retail channels. LOTTE Mart posted sales of KRW 6,317.0 billion, similar to its total for the previous year. Our operating profit fell, mostly because of large investments in new products and types of stores.

We continued with our strategy of opening more specialty stores, including a low-cost, one-stop shopping space called "Market D" in Suwon. Opened in May and featuring a large stock of goods imported from overseas as well as VIC Market signature products, it keeps frugal shoppers happy by letting them use electronic pricing cards and unmanned checkout counters. We also opened LOTTE Mart Geumcheon in Seoul in December. It offers customers all the advantages of a truly "smart" store, including deliveries that are made within a three-hour time frame, an interactive product recommendation system, and a 3D ho-

logram process that lets shoppers stock up on all the goods they need without having to even use a shopping bag.

We added to the quality and the freshness of our fruit, vegetable, livestock, and seafood products. This included opening a Quality Innovation Center that supplies fresh foods to all of our stores, leading to significant cost savings by helping us to standardize our merchandising operations. We also increased our stock of small-quantity products for single and two-person households, as well as our number of home meal replacement products.

These now include sweet and spicy chicken, fried bean curds with vinegary rice, premium-quality sushi, and Crispy Wingbong. Our range of PB products was also augmented, including Only Price PB products, "Haebit" health supplements, and "Sweet Hug" fresh-squeezed juice. These PB products are also supplied to 7-Eleven and other convenience stores across the country.

We also accelerated our digital transformation strategy by making significant additions to our omnichannel "online for offline (O4O)" service. This

included revamping the UI of our M Coupon App so that it now records the purchasing behaviors of our customers, and placing sales coupons on the main screen instead of a second or third one. We also began adding QR codes to the price tags of most of the products sold in our stores. This took place in November. When customers scan a QR code with their smartphone, they immediately see the name of a product and other information, and can order it through a mobile app.

Our strategy in Indonesia and Vietnam was to enhance the competitiveness of our products, add new online malls, and increase our operating efficiencies. Sales in Vietnam grew especially well, thanks to more PB products, fast deliveries and other customer service enhancements, and improved online operations. Our operating profit increased sharply, changing our results from the red to the black.

## 2019 Outlook and Plans

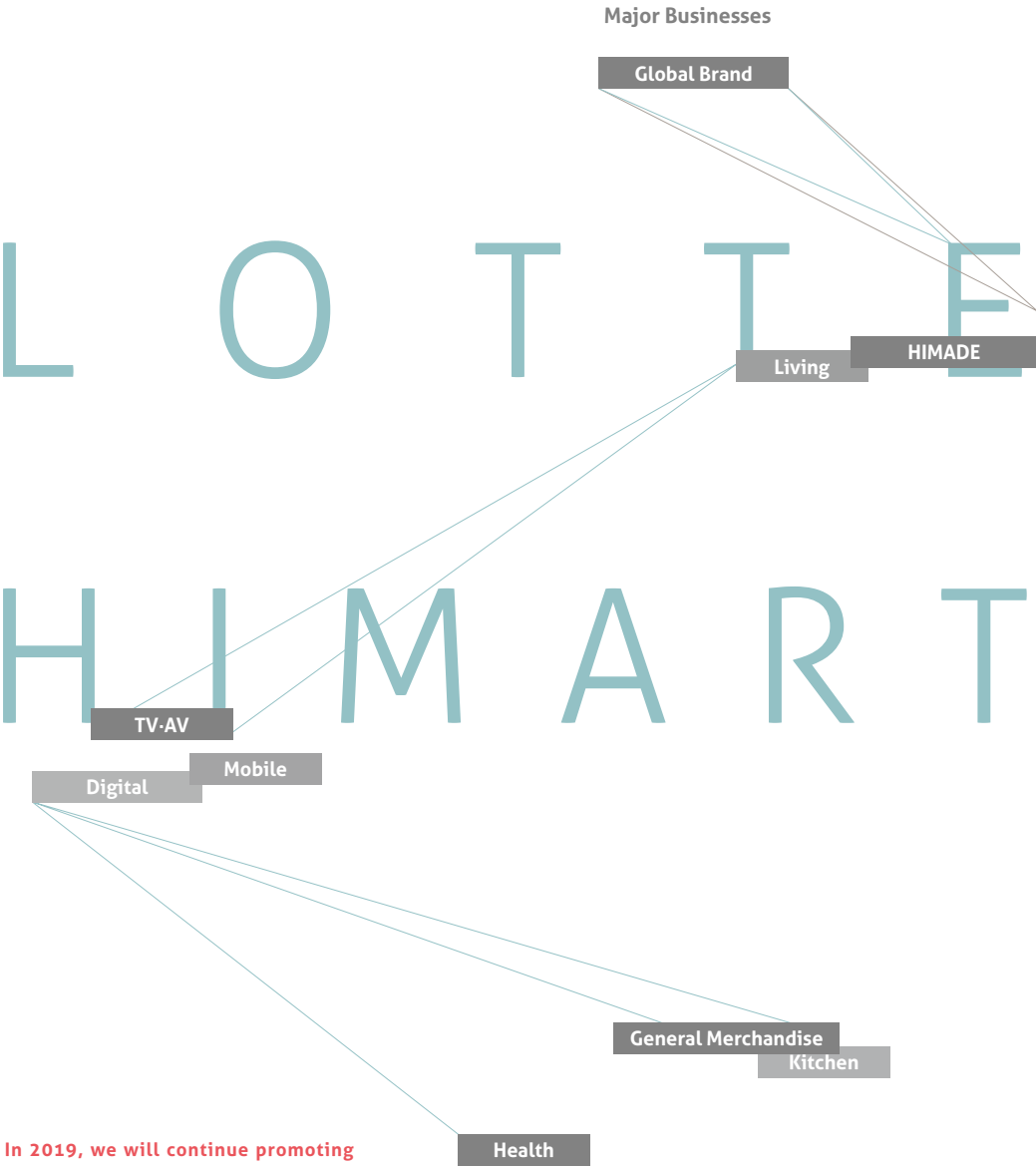
LOTTE Mart will increase its earnings and respond to the many changes in its operating environment by enhancing the competitiveness of its products. This will include enhancing the quality and the freshness of our fruit, vegetable, livestock, and seafood products, introducing more small-quantity meal packages and PB products, and doing more sourcing from overseas to lower our costs. We will also continue innovating our stores' merchandising structures by increasing the efficiency of their spaces and strengthening our online platform business by increasing our number of mobile-based smart stores.

We will continue opening new stores in Indonesia and Vietnam, and add to the competitiveness and the quality of fresh foods we sell there. Our overseas locations will also contribute to our profitability by stocking more PB products. Last, but not least, we will continue with our strategy of identifying new growth engines with a high potential for profitability.

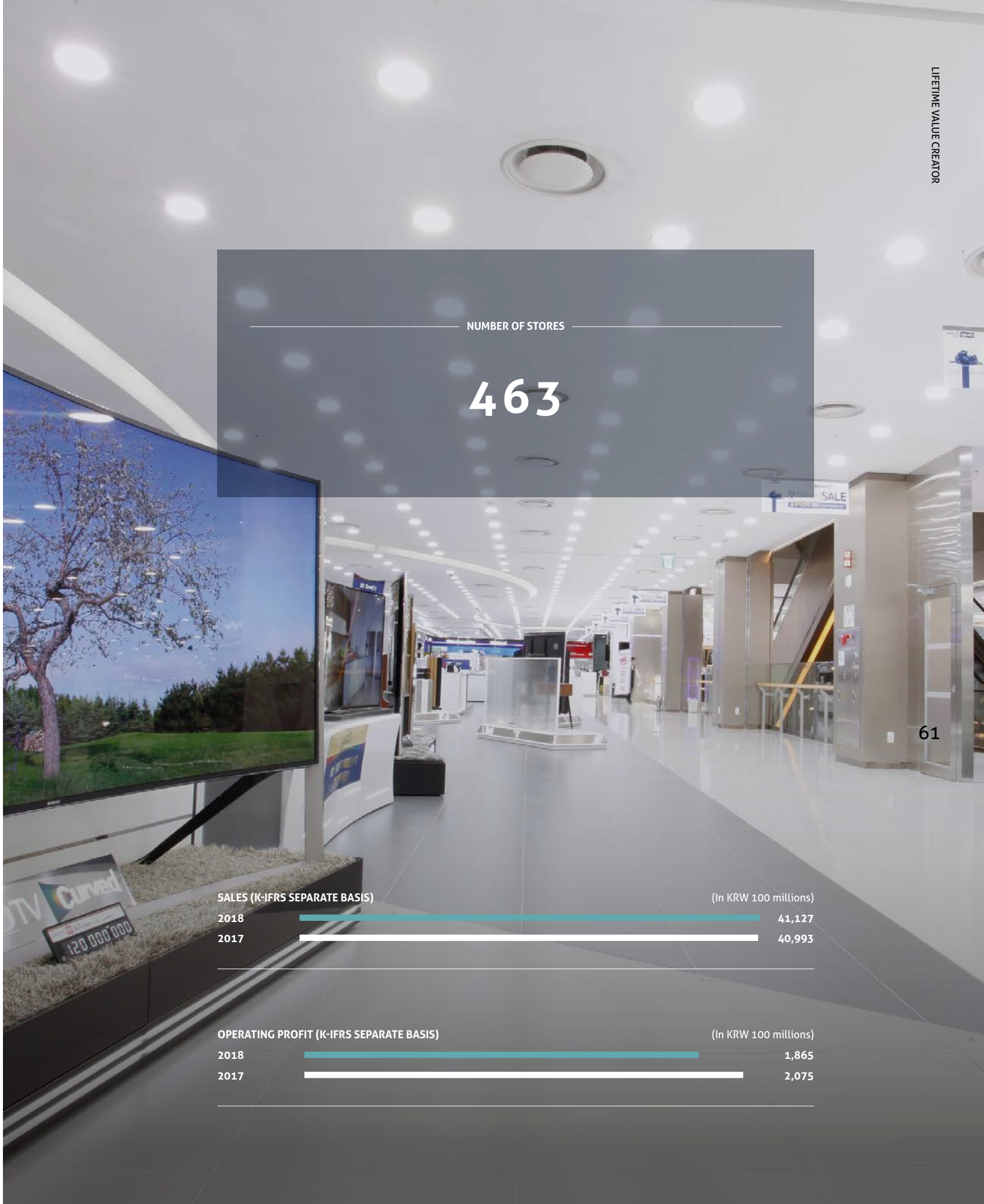


Review of Operations

LOTTE Himart spent 2018 strengthening its online business operations, adding to its portfolio of PB and global brands, and enhancing its Home Care services. We also brought our number of omni-stores to twelve.



In 2019, we will continue promoting our offline stores by diversifying their formats, adding more omni-stores and premium stores to our stock, and strengthening their online operations. We will also continue offering customers more products that distinguish us from the competition.



NUMBER OF STORES

463

SALES (K-IFRS SEPARATE BASIS)		(In KRW 100 millions)
2018		41,127
2017		40,993

OPERATING PROFIT (K-IFRS SEPARATE BASIS)		(In KRW 100 millions)
2018		1,865
2017		2,075





## 2018 Review

South Korea's consumer electronics industry experienced sluggish growth in 2018. This was due to lowered consumer confidence, a less than robust real estate market, negative growth in the AV home appliance and mobile devices sector, and the increasing popularity of online buying and purchases from overseas. Sales of environmentally-related products like clothes dryers and refreshers, air purifiers, and cordless cleaners grew significantly, as did those of small-sized products like air fryers and beauty devices. We responded to this situation by expanding our online business, enhancing the competitiveness of our offline stores, increasing our portfolio of PB and global brands, and enhancing our Home Care services. Sales rose by KRW 4,112.7 billion from the previous year, while our operating profit fell to KRW 186.5 billion.

We also opened twelve Himart-style omni-stores nation-wide. They sell premium-level products, and feature a search, order, and payment system that customers can access through our Omni App system. Our other efforts to diversify the formats of our stores included merging our LOHB's health and beauty store into LOTTE Himart Juan, and opening premium-level stores in the LOTTE Department Store Ansan. We also enhanced our

omnichannel services, centering on the newly established omni-stores, and made our Omni-Zones available at all our sites.

We also strengthened our omnichannel services even more, centering on our newly-opened omni-stores and our omni-zones. This included Smart Pick and Cross Pick services. Smart Pick allows customers to pick up their Himart Mall purchases at any of our more than 460 offline stores nationwide, while Cross Pick allows them to pick up their online purchases at any of our over eight thousand affiliated offline stores, including Himart, 7-Eleven, LOTTE Super, and Lotteria.

Our digital transformation strategy continued apace. This included introducing a sound wave-based simple payment service, a Hand Pay service, and a location-based "L.pot" coupon service. We also enhanced customer security by launching voiceprint and eye recognition biometrics accessible through vocal commands. Online sales grew by more than 30% from the previous year as a result.

We also enhanced the competitiveness of our products, including adding more premium-level PB products and global brands to our portfolio. The range of products sold by our HIMADE flagship PB

brand also increased, going from our previous emphasis on small appliances to include larger ones. We made a similar move with regard to our global brands, expanding their portfolio from household appliances to personal care items. Our Home Care business was transformed from only being a cleaning service for household appliances, kitchenware, and bedding to include home renovations. It also diversified its sales channels.

## 2019 Outlook and Plans

South Korea's consumer electronics market is forecast to experience sluggish growth in the area of white goods in 2019. On the plus side, we expect that demand for environmentally-related, large-sized household appliances such as clothes dryers and refreshers will climb. Online sales are also expected to increase.

Himart will continue strengthening its online business in 2019 by adding to its product portfolio, increasing its investments in infrastructures, and repurposing its offline stores into omni-stores and premium-level facilities. Equally dramatic moves will be made to increase our profitability. This will include selling more high-margin products like large household appliances, increasing our stock of PB goods, global brands, and products that are exclusive to us, and expanding our Home Care service.



Review of Operations

LOTTE  
SUPER



557

NUMBER OF STORES

(Includes LOTTE Super, directly-managed and merchant-operated LOTTE Market 999 stores, and directly-managed CS Mart stores)

2018 Review

South Korea's super-supermarket industry experienced sluggish growth in 2018 due to increasing governmental regulations, lowered consumption, wage hikes, demographic changes, the growing popularity of online shopping, and increasing competition. LOTTE Super responded to this gloomy situation by enhancing the competitiveness of its product lines, strengthening its productivity and revenue structures, adding more new concept stores, and making changes to its online operations. In spite of this, sales fell YoY to KRW 1,975.4 billion.

We spent much of 2018 adding to our stock of online delivery bases and developing more new store formats. Our number of LOTTE Premium Food Market stores increased to nine, including branches in Seocho, Irwon, Jamsil, and Giheung. We also led the country's retail industry by obtaining a Hazards Analysis and Critical Control Points certification. Another industry-leading step that we took was to increase our number of Fresh Center online delivery points to five, creating a much faster delivery service for customers living in Seoul and its surrounding area. Our new store format strategy included opening hybrid "LOTTE Super with LOHB's" shop-within-a-shop stores combining the advantages of supermarkets and health and beauty stores in Siheung and Wonju. This helped us to

increase both our number of younger customers, and the length of their stays.

We made our online operations more efficient by launching an early-morning delivery service. Inaugurated in February, it led to a sharp rise in our number of orders received at our LOTTE Fresh Centers. We also diversified our online shopping channels, including opening "Fresh Cook", South Korea's largest online mall specializing in HMRs, and a LOTTE Premium Food Market online mall. Our omnichannel services were also enhanced by the addition of a number of new technologies. One of them was the launching of our "AI Grocery Shopping Service". Activated by means of voice commands, it marks another dramatic step in the development of a more convenient and innovative shopping environment



2019 Outlook and Plans

South Korea's SSM industry will invest many of its energies of 2019 in attempting to recoup its losses from previous years. This will happen in spite of a management environment that has come to be increasingly defined by low consumer confidence, rising unemployment, a continuing economic slowdown, the increasing popularity of online shopping, and increased competition between channels. LOTTE Super will respond to these many challenges by opening new Premium Food Market stores, enhancing the way it merchandizes its products, and increasing the range of goods it sells at its already-existing offline stores. We will also strengthen our online operations by increasing

our number of Fresh Centers and adding more early morning deliveries. Our digital transformation strategy will also be enhanced, including building a better automation system at our Fresh Centers and using AI to increase our stores' efficiencies. We will also add to our profitability by continuing to innovate our organizational and cost structures.

SALES (K-IFRS CONSOLIDATED BASIS)		(In KRW 100 millions)
2018		19,754
2017		20,714

OPERATING PROFIT (K-IFRS CONSOLIDATED BASIS)		(In KRW 100 millions)
2018		(621)
2017		(47)



Review of Operations

LOTTE  
HOME  
SHOPPING



2018 Review

South Korea's home shopping industry suffered from continuing low growth in 2018. This was largely due to falling consumption in the wake of a continuing economic downturn, lower numbers of home TV viewers, and increasing competition among channels. LOTTE Homeshopping responded by enhancing the competitiveness of its channels and its product lines. We also maximized our number of customer contact points by adding new and more personalized mobile services. This helped our transaction volume grow from the previous year to KRW 4.256 trillion. Sales and operating profit were KRW 908.8 billion and KRW 98.9 billion, respectively.

We also made our channels more competitive, including TV home shopping, Internet and mobile shopping malls, data broadcasting, and product catalogues. This included adding more PB and fashion brands and a wide variety of trend-leading lifestyle products such as premium-level household appliances and home furnishing goods to the product mix of our TV home shopping channel. We launched a cultural content site called "The Stage" and opened a sixth Studio Shop studio in Giheung so that customers there can purchase TV home shopping products on-site. Last, but not least, we opened "LE TIT" shops, a "COCOYA" pet

products store, and wedding and travel shops at our Internet and mobile shopping malls.

Our customers also benefit from a wide range of personalized content and services, such as one-person SNS broadcasts, a "Mobile Shopping Go" live broadcast program, chats in real time, and a "L Cast" shopping service. We also added to their convenience by integrating our LOTTE Homeshopping, Baro TV, and LOTTE OneTV apps into a single entity and using AI, AR, VR, and other advanced technologies to make their shopping experiences more relaxed and entertaining. These exciting new services include "Smart Eye," the industry's first image-based search service; "AR View," which arranges the placement of furniture and household appliances as shoppers watch; a virtual reality store called "VR Street"; and "TV Voice Shopping" that lets customers order their favorite TV home shopping products using voice commands.



2019 Outlook and Plans

South Korea's home shopping industry is forecast to see even more online channels appear in 2019, increasing its already burdensome problem of little or no growth. LOTTE Home Shopping will attempt to respond to this worrisome situation by enhancing the attractiveness of its product lines, adding more next-generation media content, increasing the quality of its customer services and the range of its eTV offerings, and making improvements to its "OneTV" T-commerce business. We will also take the lead in the area of digital transformation, introducing a wide range of new digital technologies to upgrade our AR shopping, VR shopping, and online fitting services

and launching a host of innovative personalized services, such as AI image search and digital fashion personal care services. By doing so, we will achieve our new vision to be a "First & True Media Commerce Creator".

SALES (K-IFRS CONSOLIDATED BASIS)		(In KRW 100 millions)
2018		9,088
2017		9,248

OPERATING PROFIT (K-IFRS CONSOLIDATED BASIS)		(In KRW 100 millions)
2018		989
2017		1,126



Review of Operations

LOTTE  
CULTURE-  
WORKS



2018 Review

South Korea's film industry continued its healthy growth in 2018, boasting more than 216 million viewers and benefiting from a rising secondary market. Our overseas markets, including China and Vietnam, also enjoyed healthy growth. LOTTE Cultureworks, which was newly launched as an independent corporation in June 2018, posted KRW 774.1 billion in sales, up 9.2% from the previous year. This was mainly due to an aggressive strategy of new multiplex openings and a succession of box office hits.

We opened ten new multiplex theaters, bringing our total to 120, and invested in/and or distributed fourteen movies, including "Along with the Gods: The Last 49 Days", "Mission Impossible: Fallout", and "Perfect Strangers". Thanks to these steps, we ranked first in the country's domestic film distribution industry, boasting a 17.3% market share in terms of our number of viewers.

Our commitment to providing all our customers with state-of-the-art facilities and a wide range of experiences is evidenced in such specially-customized sites as CharLOTTE, Super Plex, Super 4D, Super S, and Recliner. In addition to introducing the nation's first-ever 3D LED screen theater, we took a number of steps to advance our digital

transformation strategy. They included introducing a Hand Pay service and smart vending machines at our World Tower theatre and developing our Konkuk University site into a flagship store, complete with smart kiosks and watches.

Our focus in terms of our international operations was on increasing our market share by adding more multiplexes, strengthening our relationships with our local partners, investing in and producing movies that would appeal to a wide local audience, and expanding our business territories. We now operate thirteen multiplex cinemas in China, and opened another one in Jakarta, Indonesia. We also opened eight new theatres in Vietnam, bringing our total there to forty-one. In addition, we released one of our own independently produced films, called "Daddy Issues," in 172 theaters across the country.



2019 Outlook and Plans

The world's film industry is expected to continue growing this year, led by a rise in viewership and a healthy secondary market. Competition is expected to intensify within all segments of the sector. LOTTE Cultureworks will add to its presence within the industry by increasing its pace of digitalization and identifying new growth drivers with a high potential for profitability. We will also develop many new business ventures, mainly by enhancing our Over The Top business and entering into the production of K-dramas. We will continue to lead the industry in terms of both content and audience share by producing more box office hits and strengthening our production capabilities. We

will also enhance our content sourcing operations, enter into more alliances with players from overseas, add to our investments in their productions, increase our presence in the concert business, and continue searching for future growth engines with a high potential for profitability. Some of our other goals include strengthening our OTT business, entering into the production of K-dramas, and opening new theatres both at home and abroad. Our activities in Vietnam and Indonesia will include producing films that are specifically designed to appeal to local tastes.





Review of Operations

LOHB's



122

NUMBER OF STORES

Excludes two Lotte Super with LOHB's stores

2018 Review

Although South Korea's retail industry faced a host of difficulties in 2018 due to declining consumption and intensifying competition, the health and beauty sector enjoyed satisfying growth. LOHB's posted sales of KRW170.9 billion, up 18.3% from the previous year. This was largely attributable to new store openings and the refurbishment of older ones, an increase in the number of brands being offered for sale, an increased emphasis on locating new stores in up-scale markets and neighborhoods, and positive results from our various marketing activities.

We opened twenty-six new stores, bringing our total to 122 nationwide, and added a number of new brands that are only sold by us. They included the ULTRU's "I'm SORRY Relaxing Jelly Mask", CEZANNE's "Natural Cheek", "Balea," a PB brand produced by the DM drugstore chain in Germany, and "LOHB'S X Chilsung Cider Limited Edition", produced in collaboration with LOTTE Chilsung Beverage.

We also opened a number of hybrid stores in collaboration with other LOTTE affiliates. This included working with LOTTE Super to open a "LOTTE Super with LOHB's" in our Sinheung Eunheung and Wonju stores and the establishment of a store-

within-a-store in LOTTE Himart Juan. We also have a store on the first floor of LOTTE Department Store Ansan that offers shoppers the ultimate in prestige services and brands. All of these collaborations lead to the creation of new synergies, making our offline stores even more competitive.

Another goal that we were successful in meeting was increasing our number of omnichannel services in a bid to bridge the gap between our online and offline channels. These include "Smart Search", which allows shoppers to read reviews of products by scanning their barcodes into the LOHB's app, "Finding stores by type of product", which allows them to browse for products online, "Smart Receipt", designed to protect the environment and add to customer convenience, and gift certificates that can be used at both online and offline stores.



2019 Outlook and Plans

South Korea's health and beauty store sector will enjoy healthy growth in 2019, despite the threat of intensifying competition. LOHB's will continue with its program of new store openings, including high-efficiency stores, stores that are opened in collaboration with other LOTTE affiliates, stores that are located in high-income neighborhoods, and hands-on, experiential stores. We will also add to the efficiency of our operations, enhance the quality and the attractiveness of our food, miscellaneous goods, and other product categories, and increase our portfolio of PB, exclusive, and cooperatively-produced products.

SALES (K-IFRS SEPARATE BASIS)		(In KRW 100 millions)
2018		1,709
2017		1,445

OPERATING PROFIT (K-IFRS SEPARATE BASIS)		(In KRW 100 millions)
2018		(318)
2017		(198)



## Review of Operations

# LOTTE e-COMMERCE

Launched in 2018, LOTTE e-commerce is tasked with the implementation of detailed action plans to strengthen LOTTE Shopping's digital capabilities. These responsibilities include establishing integrated e-commerce strategies, developing apps, building digital infrastructures, and identifying and introducing next-generation technologies

### 2018 Review

LOTTE Shopping will achieve sales of KRW 20 billion by the year 2023 by integrating the online shopping malls operated by each of its business divisions and affiliates.

Our LOTTE e-commerce division will bear the primary responsibility for meeting this goal. Its first step in enhancing the digital capabilities of LOTTE Shopping lay in merging the human resources working in the IT, UX, and R&D areas of LOTTE.com and the LOTTE Group, and hiring new employees to assist with their efforts. We also established a series of mid- to long-term business strategies, and are now carrying out detailed action plans. They include developing new apps, building new infrastructures, and introducing next-generation technologies.

The first app that we developed was called the "LOTTE ON". First introduced in March 2019, it allows customers to access our seven mobile shopping malls with a single login. Once that has been done, they can move to the apps of the six other shopping malls without having to log again. Some of the other benefits of using the service include allowing shoppers to make integrated searches for products and information about them, as well as standardizing the UIs of all the products offered by the seven affiliates. It will also enhance our repurchasing efforts, increase the number of shopper lock-ins, and add to customer traffic at each of our affiliates.

Our plans for the future include developing an app that is even more integrated, in the sense that it will allow our customers to access all the online shopping malls of all our seven online shopping malls using it alone. We hope to have it in place by March 2020. Boasting AI-based voice commerce and other state-of-the-art technologies, it will be designed to provide shoppers with the ultimate in ease and convenience.

Another of our goals is to merge all our affiliates into a fully- integrated online and offline membership program. This is scheduled to happen in 2019. We also want to develop an AI voice device that can order products through voice recognition commands and integrate all the customer data held by all our affiliates. This will create a "data lake" that can be used in real-time to create custom-tailored product recommendations and other services.

When all of these strategies have come to fruition, we will have the power to connect all of LOTTE Shopping's stores and employees with our mobile-using customers in real time, offering them the ultimate in "happy shopping every day." We will continue with our efforts to broaden LOTTE Shopping's e-commerce ecosystem by optimizing the efficiency of all our retail eco-platforms through the sustained use of such advanced technologies as AI, VR, robotics, IoT, and in-vehicle infotainment.

### 2019 Outlook and Plans





# CSR MANAGEMENT

## LOTTE SHOPPING'S CSR

SUSTAINABLE MANAGEMENT FOCUS

BECOMING  
A LEADING GLOBAL  
RETAILER

LOTTE Shopping is committed to faithfully executing its corporate social responsibilities and assisting in the protection and preservation of the environment. We engage in social contribution activities that benefit our partner companies, young businesspeople, and small- and medium-sized businesses, while also helping to resolve social issues and create enhanced social values.

### ECONOMY

We pursue continuous economic growth

### SOCIETY

We contribute to national and local development through systematic social contribution activities

### ETHICS

We practice integrity in management and create a fair and impartial corporate culture

### ENVIRONMENT

We actively protect the environment and prevent climate change



# CREATING SHARED VALUE LOTTE SHOPPING'S CSV



## ENCOURAGING ETHICAL CONSUMPTION



LOTTE Shopping encourages ethical consumption. LOTTE Department Store operates a Green Card Eco-Money points program that gives cardholders points when they buy eco-friendly products, while LOTTE Mart sponsors "MOASO" products made by disabled people and the "YEO:UM" brand that helps increase employment opportunities for women.

## HELPING SMES IDENTIFY POTENTIAL MARKETS



LOTTE Shopping's retail affiliates work together to arrange meetings at which they helped SMEs to identify potential markets for their goods both at home and abroad. LOTTE Department Store has hosted similar meetings dealing with procuring materials from abroad. It also operates a chain of Dream Plaza stores that only sell products made by SMEs.

We pursue a true shared growth of enterprises and society by contributing to the practical addressing of social issues beyond simple donations and one-time volunteer work through various CSR activities utilizing the characteristics of retail business.

## SUPPORTING YOUNG BUSINESSPEOPLE



LOTTE Mart supports the growth of startup businesses and the young businesspeople who establish them. This assistance includes operating Youth Restaurants and a "Choo-Choo Cook-Cook" food startups support center. It also provides assistance to the Global Youth and Startups Business Assistance Project and L StartupBOX, which work to reduce unemployment among young people.

## SHARING WITH OUR NEIGHBORS



We distribute our products and services among less fortunate people in our communities. LOTTE Mart provides them with ingredients needed to make hot meals, while LOTTE Himart and LOTTE Homeshopping offer them used household appliances and returned goods and LOHB's donates Smile Points.

## HELPING YOUNG PEOPLE FOLLOW THEIR DREAMS

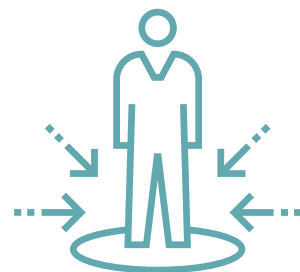


We operate a number of programs designed to help children and teenagers follow their dreams. This includes LOTTE Mart's "Dream Catchers" program, science classes sponsored by LOTTE Himart, Small Libraries and hands-on broadcasting camps supported by LOTTE Homeshopping, and movie production classes provided by LOTTE Cultureworks.



# CUSTOMER CENTERED MANAGEMENT

Innovating customer services and  
enhancing customer safety



## Improving On-site Services

LOTTE Department Store has made a number of improvements to its customer services and the ways it delivers them. They include developing a course to help our employees add to their sales skills and improve their knowledge of the products we sell. It comprises four topics, including "Sales Proposals" and "Relationships That Make a Difference." Its purpose is to improve our offline sales abilities by means of suggesting which products our customers might be interested in and developing better ways of managing our relationships with them. In addition to developing a new customer satisfaction survey model that measures our service levels and suggests ways in which each of our stores can make improvements to its operations, we conducted benchmarking exercises and applied the results to our worksites. They included the use of unmanned kiosks, and producing information materials in other languages than Korean.

## Voice of Customers

Customer kudos and complaints are handled at the customer service centers of every LOTTE Department Store and LOTTE Mart. We deal with them as quickly as we can, but always within a three-hour time-frame. We also share this information with our employees and our partner companies, enabling us to work as a team to make whatever improvements might be needed. We also developed a customer service page on the LOTTE Department Store app that allows us to communicate with our customers in real time. This was complemented by the publication of a customer service manual

that was distributed to all our customer service centers. It includes information about what defines "extra care customers" [i.e., customers who make unnecessary and/or frivolous complaints], how to deal with them, and what the law says about them. We also provide our employees with summary report outlining examples of frequently occurring problems.

## Customer Service

LOTTE Department Store's VIP customers enjoy a wide range of custom-tailored services, including being helped with their shopping needs and receiving special events reminders from their very own sales assistants. We also installed an "open kitchen" in our Self-Service Lounge and placed an order desk outside it so that our customers can pick up their purchases without bothering to go inside it. In addition, we developed an exclusive-to-us brand of coffee for the delectation of our high-end customers at our MVG Lounge. Those shoppers can also take advantage of our automatic ordering system to ensure speedier customer services, and use our community rooms by booking them on our app.

## Protecting Personal Information

LOTTE Shopping is committed to protecting the personal information of all our customers and employees through the deployment of state-of-the-art information protection technologies and personal information management systems. This world-leading security management system is so well-regarded that it has earned us an ISO 27001 Information Security Management System certification, a Korea Internet and Security Agency Information Security Management System certification, and a Personal Information Management System certification. It includes an electronic content management system, a separate network for handling personal information, a database encryption and access control system, and a response mechanism for dealing with what are called Advanced Persistent Threats. We also carry out regular training programs targeting all our employees who handle customers' personal information and any members of our partner companies that provide us with our personal information processing services.

## Food Safety and Health

Lotte Shopping goes to great lengths to ensure the safety and freshness of its food items, including one-person and fresh products. In addition, we suspend or restrict the sale of products that have a high likelihood of developing bacteria that can lead to food poisoning. We also carry out our own regular in-store inspections and others conducted by the Lotte Safety Center. Our employees are also required to participate in food safety training programs.

## Keeping Stores Safe and Healthy

LOTTE Shopping carries out monthly safety inspections of all its facilities. They cover our fire suppression facilities, gas-burning facilities, escalators and elevators, construction sites, and hazardous materials. We also operate quarterly safety and fire prevention clinics at our multi-use facilities. All of our employees are required to participate in safety training and education classes, and they must also be familiar with the information contained in our crisis response manual. It includes step-by-step information about what to do in the event of fires, terrorist attacks, gas leaks, heavy rainfall, typhoons, and earthquakes. We work with government offices responsible for health and safety issues to carry out safety drills and monitor our fire suppression systems on a 24/7 basis. We have also installed monitors that measure the air quality of our stores every day, while the filters on our air conditioning systems are cleaned or replaced as needed. Monthly risk assessments are carried out by the Korea Industrial Safety Association. We also manage risks associated with chemicals and other hazardous substances.

## K-BPI

Ranked first in department store category for twentieth consecutive year in Korea Brand Power Index (K-BPI) survey

## NCSI

Ranked first in department store category for sixteenth consecutive year, and in hypermarket category for eighth consecutive year in National Customer Service Index (NCSI) survey

## NBCI

Ranked first in department store category for fifteenth consecutive year in National Brand Competitiveness Index (NBCI) survey





# ENVIRONMENTAL MANAGEMENT

Helping to protect and preserve  
the environment



## Environmental Management Policies and Programs

LOTTE Shopping has a six-point environmental management policy to help protect the environment and promote eco-friendly, sustainable growth.

Our commitment to environmental management is reflected in our "Green LOTTE" slogan, and we are always striving to raise people's awareness of the importance of environmental values and the need for eco-friendly consumption. LOTTE Mart carries out eco-friendly green management practices in three main areas: promoting green consumption, selling environmentally friendly products, and operating green stores.

### Green Stores

We are constantly adding to our number of LOTTE Department and LOTTE Mart green stores, with an eventual goal of making them 100% environmentally friendly. This also leads to a reduction in our environmental quality improvement charges. "Green Stores" are designated by the Ministry of Environment and the Korea Environmental Industry & Technology Institute. The term refers to retail outlets that have made significant contributions to eco-friendly consumption by means of environmentally friendly facilities, products, environmental awareness campaigns, and similar efforts. We currently operate 101 such facilities. LOTTE Mart has spent KRW 23 billion installing solar power facilities at thirty-nine of its stores nationwide, producing 4,586 MW worth of electricity annually. We were the very first player in the nation's retail industry to participate in the Ministry of Environment's "Electric Vehicle Charging Infrastructure Project", taking the lead in expanding the number of EV chargers available for the future.



101

Number of LOTTE Mart  
Green Stores

## Green Card Eco-Money Points Program

LOTTE Department Store and LOTTE Mart have been carrying out a Green Card Eco-Money Points program since 2014 as a means of promoting eco-friendly products. These promotional credit cards are provided by the Ministry of Environment, retail operators, and product manufacturers. Whenever someone owning one purchases an eco-friendly product that has been certified by the Ministry of Environment, they earn Eco Money Points that are equivalent to between 1% and 5% of the total purchase price. The 5% bonus increases to 25% during special promotional periods in June and December. Points that have been saved can be redeemed for gift certificates at retail stores or used in other ways.

### Environmental Doomsday Clock

LOTTE Department Store installed an "environmental doomsday clock" in front of its main branch to raise people's awareness of the importance of a clean and healthy environment. The clock, which has been showing an ecological "doomsday time" since 2008, reminds people of the need to protect and preserve the environment for future generations.

### LOTTE Children's Environmental Art Festival

We have been sponsoring the LOTTE Children's Environmental Art Festival for the past thirty-nine years. The goal of the event is to make young people aware of the importance of a clean environment and the harm done by environmental pollution. 13,656 children participated in it in 2018. We also collaborated with the Korea Environment Corporation, WWF Korea, and other environmental groups to carry out an on-site nature conservation campaign and other environmentally-related events.

13,656

Number of participants in LOTTE  
Children's Environmental Art Festival in  
2018

## Tree Planting Campaign

LOTTE Mart carries out a tree planting campaign to reduce the volume of air pollutants, such as fine dust and yellow dust, and offset the production of greenhouse gases and carbon. We signed an MOU with the Ministry of Environment, the Korea Environmental Industry & Technology Institute, and Future Forests in 2014 to carry out a carbon offset reforestation project, creating the first-ever "Green Forests for Carbon Offsets" near the Godeokcheon River in Seoul. This was followed by planting over 50,000 trees in the second, third, fourth, and fifth forests, with more than four thousand customers assisting us.

### Saving Energy and Reducing Greenhouse Gas Emissions

Lotte Shopping reduced its greenhouse gas emissions by about 5.6% from the previous year thanks to the efforts of all its business units. We also reduced our energy use by 11%. Our efforts included distributing indoor temperature guides and posters reminding people about saving energy, as well as by offering training programs to our employees.

	2017	2018
Greenhouse Gas Emission (tCO <sub>2</sub> eq)	849,398	801,661
Energy Consumption (Tj)	18,299	16,236





# WIN-WIN PARTNERSHIPS

KRW **90.5** billion  
Value of LOTTE Department Store's financial support for partner companies in 2018

KRW **90.0** billion  
Value of LOTTE Mart's shared growth fund in 2018

## Assisting Partner Companies Financial supports

LOTTE Department Store offers a number of financial support programs to help its partner companies manage their finances. This includes a KRW 100 billion Win-Win Growth Fund that provides interest-free loans of up to KRW 400 million per partner firm, and a KRW 105 billion Shared Growth Fund that helps reduce their costs of borrowing from financial institutions. LOTTE e-commerce makes advance payments for products made by its partner companies prior to Chuseok, while LOTTE Mart and LOTTE Himart operate KRW 90 billion and KRW 40 billion Shared Growth Funds for their business partners and provide them with advance payments during national holiday periods.

## Helping Partner Companies Find Markets at Home and Abroad

### Information meeting for SMEs

The LOTTE Retail Business Unit held a LOTTE Retail Business Unit Conference for 250 SMEs in March 2018. The participants included representatives from all seven of the company's retail affiliates. They were tasked with assisting SMEs experiencing difficulties finding markets for their goods in either opening their

own stores or placing them in stores run by the affiliates.

Over fifty experts boasting years of experience in the areas of food, clothing, and household appliances provided one-on-one advice and information to SME owners and personnel with similar backgrounds, including analyses of their products and advice on how to choose the best sales channels. They also recommended which LOTTE affiliate would offer the best fit with the goods produced by each SME, and gave them advice on how to get them placed on each store's shelves.

### Dream Plaza by LOTTE Department Store

LOTTE Department Store provides SMEs with a stable market for their goods through its Dream Plazas, South Korea's first-ever chain dedicated to selling only products made by SMEs. The company currently operates four Dream Plazas, located in its Main, Busan, Jamsil, and Yeongdeungpo branches. The company covers all the costs of the stores' employees and furnishings.

### Overseas purchasing information meetings

LOTTE Department Store runs a number of programs to help SMEs expand their operations overseas. This included hosting 140 Overseas Purchasing Information Meetings in Hanoi in 2018. They were attended by twenty of the company's partner businesses, leading to USD 150,000 worth of exports and a number of overseas market entries.

## Helping Partner Companies Enhance Their Competitiveness

### LOTTE Department Store: Communications and training programs

LOTTE Department Store has been enhancing communications with its partner companies through a "Healing Camp" program since 2015. The camp provides employees of the company's partners, as well as buyers working for the company itself, with an opportunity to share common experiences and resolve mutual problems. The company also operates a Win-Win Growth Academy targeting employees of its partner companies. It offers them both short- and long-term service and job training programs.

### LOTTE Himart: Supports for SME partners

LOTTE Himart has signed an "Agreement Regarding the LOTTE Himart Partner Support Project" in since 2018. Its goal was to help the company's SME partners enhance their competitiveness. The company agreed to contribute KRW 60 million to the Korea Foundation for Cooperation Between Large and Small Business, Rural Affairs. The funding will allow three specially-selected SME partner companies to obtain advice from professional consulting firms on their visions and strategies and their marketing, customer management, procurement, and logistics efforts.

## Strengthening Communications with Partner Companies

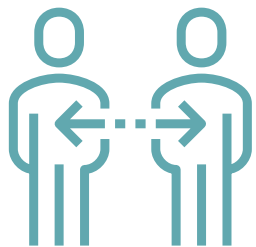
### LOTTE Himart: Shared growth conference

LOTTE Himart held a shared growth conference with ninety of its partner companies in November 2018. In addition to discussing the current status of their joint shared growth programs, the participants attended a number of lectures regarding anticipated consumer trends in 2019. The company carries out hiking, cultural, and social contribution programs with employees of its business partners every year.

### LOTTE e-commerce: Shared growth activities

LOTTE e-commerce established a one-stop service organization for its partners by creating a shared growth team with its launch in 2018. In addition, the company operates a partner center for smooth communications with them, while engaging in work support activities. These include producing and distributing glossaries and job description videos.

Growing with our partner companies,  
young entrepreneurs, and SMEs



\* Win-win partnership website  
LOTTE Department Store <https://buying.lotteshopping.com>  
Lotte Mart <http://winwin.lottemart.com>  
Lotte Super <http://winwin.lottesuper.co.kr>





### Supporting Startups by Young Businesspeople LOTTE Mart: Youth and startup business promotion project

LOTTE Mart has been working with the Korea Institute of Startups and Entrepreneurship Development and the Korea Foundation for Cooperation between Large and Small Business, Rural Affairs, in carrying out a Global Youth and Startup Businesses Promotion Project since 2015. It targets young entrepreneurs who are having difficulty finding markets for their products. In 2018, more than 150 merchandizing experts from LOTTE Group's major affiliates gave young businesspeople advice on how to sell jewelry and jewelry-like products. In addition, two hundred young entrepreneurs and sales experts participated in mentoring activities designed to help the young people increase the attractiveness of their products. The company holds similar events in Indonesia and Vietnam.

#### LOTTE Mart: L-StartupBOX

LOTTE Mart's "L-StartupBOX" is an open communications platform for young entrepreneurs. It was developed in association with the Korea Institute of Startups and Entrepreneurship Development Promotion Agency and the Small and Medium Business Distribution Center. It includes an "Everyday Proposal Platform" and a "Competition Platform". In the first platform, young people who have established startup businesses are required to register their products. After that has been done, merchandisers from the company select the ones they want to put on their shelves. The "Competition Platform" is manned by the company's merchandisers. They choose the products that they want to develop and open stores for, and select the most competitive companies from all the applicants. This is followed by product development and then by eventual store openings. LOTTE Mart identified eighteen young entrepreneurs that it wanted to support in 2018.

#### LOTTE Mart: "Choo-Choo Cook-Cook"

LOTTE Mart collaborates with the Korea Rail Network Authority to run "Choo-Choo Cook-Cook," a youth food startup support center that fosters the development of youthful restaurateurs, helping to reduce the number of unemployed young people. The company shares its knowledge regarding menu development and sales, starting businesses and managing them, marketing, hygiene management, and a host of related topics with young entrepreneurs. More than thirty young entrepreneurs

are currently working in eight restaurants at the first "Choo-Choo Cook-Cook" food court at LOTTE Mart Seoul Station.

### Growing with the Communities in which We Operate

#### LOTTE Mart: Support for local communities and social enterprises

LOTTE Mart supports businesses run by women and the differently-abled. It has been helping to raise people's awareness of products made by disabled people by sponsoring the development of a brand called "MOASO" since 2014, and has also been promoting the sale of a brand called "YEO:UM" to help increase employment opportunities for women since 2017. It also holds yearly promotional events to support the production and sale of products made by the less fortunate in our society.

#### LOTTE Mart: Partnering with traditional markets

LOTTE Mart has been playing a leading role in the operation of a "one store-one traditional market" relationship program since 2014. By the end of 2018, it had formed partnerships between fifty-four of its own stores and fifty-eight traditional markets across the nation. The business activities that it supports to assist the traditional markets include marketing, public relations, hygiene and safety issues and training, and participating in special events and festivals. All of the company's fifty-four participating stores took part in Traditional Market Autumn Festivals held in October 2017 and 2018, contributing to the revitalization of local economies.



## 4

# SOCIAL CONTRIBUTION

Dealing with social issues and creating shared values



### Employee Volunteer Services Social contribution activities

LOTTE Group's Retail Business Unit carried out a wide range of social contribution activities in 2018. In April, it signed an MOU with the Ministry of the Interior and Safety and the Korea Disaster Relief Association to provide KRW 3 billion over five years in support of public-private disaster relief efforts. We also provided emergency relief supplies at disaster sites. In June, we donated KRW 170 million to help provide dental care to national heroes and war veterans. This was done in accordance with an MOU that we entered into with the Ministry of Patriots and Veterans Affairs in 2017. Our activities in November included participating in a campaign with the Korean Red Cross to promote blood donations. We received 1,605 blood donation certificates during the campaign, and donated all of them to the Korea Pediatric Cancer Foundation. We also organized a "Creating Mom's Happiness World" contest to encourage shared parenting by both mothers and fathers.

#### LOTTE Department Store: Employee volunteer activities

LOTTE Department Store has helped to organize employee volunteer clubs at its stores across the country. The clubs' membership includes store employees, employees of our partner companies, and some highly-appreciated customers. They carry out a wide range of activities, such as helping to clean up the environment, assisting people living in broken homes, and supporting senior citizens who live by themselves. The groups work in tandem with many organizations, such as local governments, NGOs, and social assistance facilities.

#### LOTTE Mart: Charlotte Volunteer Group activities

LOTTE Mart founded its Charlotte Volunteer Group in 2011. Since then, its 132 volunteer teams have formed one-on-one partnerships with an equal number of children's social assistance facilities to carry out a variety of caring and sharing activities. As of 2018, 80,000 employees had volunteered an average of more than 1,500 hours a month, helping more than 6,500 children. Their efforts include supporting the children's emotional development, helping them discover and strengthen their talents and abilities, assisting with their studies, and providing them with school supplies.



**LOTTE Mart: Matching grant program**  
The workers at LOTTE Mart have been donating a portion of their pay since 2008. The company then matches the amount raised by them. Over 4,800 employees donated KRW 62 million in 2018, with the cumulative total reaching KRW 640 million. The donations are mainly used to support scholarships for "Dream Catchers", the company's signature CSR program that nurtures the talents of young musicians.

**LOTTE Himart:**  
**Charlotte Volunteer Group activities**  
LOTTE Himart has been operating a LOTTE Himart Charlotte Volunteer Group since 2014. Its membership includes more than 463 stores and 4,000 employees at its head office. They are mainly engaged in helping underprivileged children in their local communities. The group's activities in 2018 included taking children to the National Children's Science Center in February, helping with spring cleanup activities at children's welfare institutions in March, visiting twenty-three of the facilities in April, and bringing disabled children to the LOTTE World in Jamsil, Seoul in October.

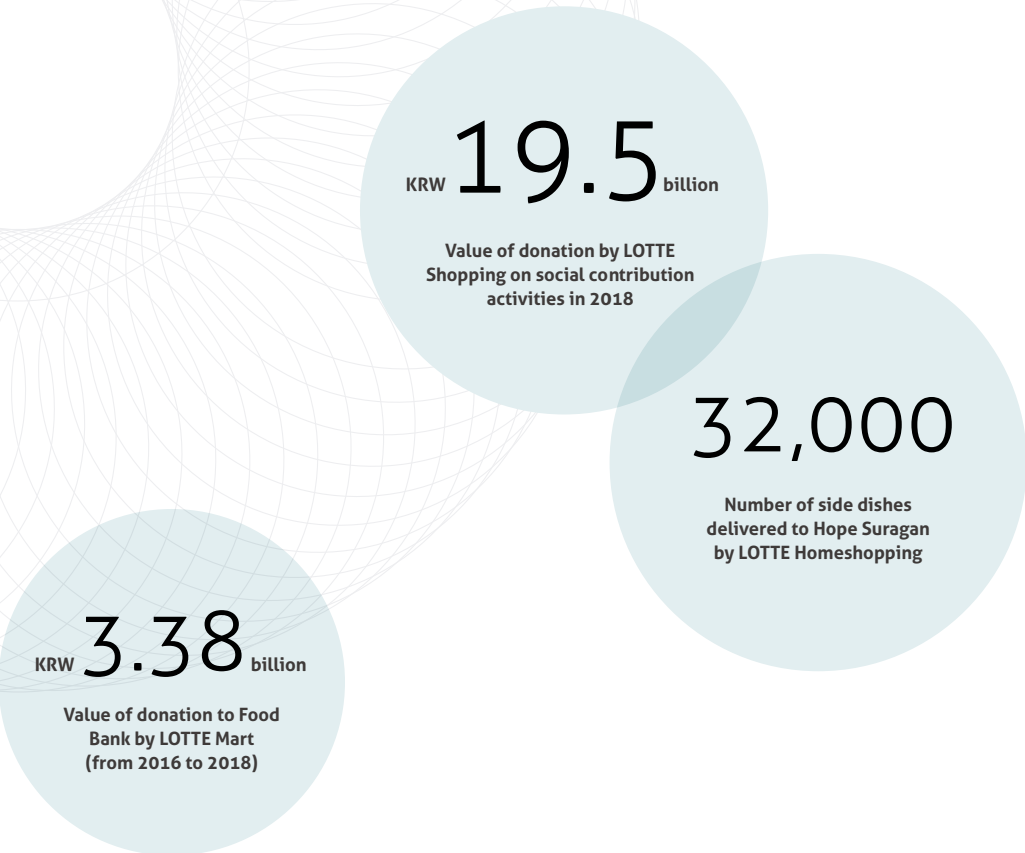
**LOTTE Super: Employee volunteer activities**  
LOTTE Super assists people living in the communities in which it operates by engaging in a broad range of volunteer activities through its employee-based Hanultari Volunteer Group. Its activities include providing people in need with meals, working at blood donation clinics, and assisting with environmental improvement activities. Workers at the company's head office also deliver rice, fruit, and other foods to the Home of St. Paul Hasang's soup kitchen in Seoul.

**LOTTE Cultureworks:**  
**Employee volunteer activities**  
Employees of LOTTE Cultureworks have been delivering gifts to poor people's children across the country since 2016. They do this every Children's Day in May and during the Christmas holidays. They also take them to the movies. About 5,400 children had benefited from this largesse as of 2018.

**LOTTE Homeshopping:**  
**Employee volunteer activities**  
LOTTE Homeshopping has been operating a CSR program called Hope Suragan since 2015, delivering food to underprivileged people living in Seoul's Yeongdeungpo area near its headquarters. The company covers all the costs of the food and other operating expenses, while its employees help with preparing and cooking and delivering the meals.

**LOHB's: Employee volunteer activities**  
LOHB's helps visually handicapped people through its Smile Point campaign. It held a beauty class for some of them at the Beauty Lab in LOHB's Itaewon in September 2018. It was attended by ten company employees and ten people who learned to apply makeup without needing anyone's help. Company employees also helped to package TADOT Bottles for blind people at the Korean Braille Library. The bottles feature Braille script on their surfaces.

**LOTTE e-commerce:**  
**Employee volunteer activities**  
LOTTE e-commerce has been carrying out employee volunteer activities since 2017. They include providing children's clothing and other articles to the Eastern Social Welfare Society adoption agency, caring for children awaiting adoptions, cleaning the children's rooms, and helping out at bazaars. They also help to deliver bread to people in need in conjunction with the Korean Red Cross and participate in forest management activities at Namsan Mountain.



#### Supporting Women and Children

**LOTTE Department Store: "Rejoice Campaign"**  
LOTTE Department Store launched a "Rejoice Campaign" to increase people's awareness of the need for counseling and treatment for women suffering from post-partum depression and the negative effects of having their careers disrupted. This included publishing a series of informative webtoons and selling "Rejoice" goods. All the proceeds of the sales were then donated to a support fund for single mothers. The company also provides women suffering from depression with a number of no-cost programs, including therapy sessions and information on ways to take care of their psychological needs. We also took thirty-six specially-selected employees of our own and our partner companies on an overseas "Healing Cruise".

**LOTTE Himart: "Mom's Happiness Hi, Dream!"**  
LOTTE Himart's "Mom's Happiness Hi, Dream!" CSR program provides mothers and their children with household appliances to make their lives easier. It was created by adding LOTTE Himart's "Hi, Dream!" brand to LOTTE Corporation's "Mom's Happiness" CSR brand. The company delivered KRW 10 million worth of home appliances to selected homes in 2018.





### Supporting Young People LOTTE Mart: Dream Catchers

LOTTE Mart has been nurturing the development of talented young people into future leaders since 2016. This includes assisting nineteen highly-promising young musicians through its "Dream Catchers" program. They have been provided with lessons delivered by highly-regarded professionals, training in playing in ensembles and concerts, and scholarships, with eight of them being admitted to middle schools, high schools, and universities of the arts. The company also invites the students and their families and friends to a Dream Concert at the end of every year.

### LOTTE Himart: Children's Science Classes

LOTTE Himart offers "LOTTE Himart Science Classes" at child welfare facilities during school vacations. The students learn about the theory and practice of science by discovering how electrical appliances work and making their own from kits. The kits consist of electronic products that we use every day, such as Bluetooth speakers, humidifiers, and wireless lights. Their teachers are women whose careers have been interrupted but who majored in the sciences. Some of the company's employees also volunteered to serve as teachers in 2018.

### LOTTE Himart:

#### "Happy Three Generations" Campaign

The "Happy Three Generations Campaign" is LOTTE Himart's flagship CSR activity. Started in 2006, it provides material and emotional supports to families headed by grandparents. It was named "Happy Three Generations" because of its role in bridging the space between the elderly family heads and their grandchildren. The company presently sponsors about 220 such families across the country. Its employees donate a portion of their salaries to support the program and cover its costs.

### LOTTE Homeshopping: Small Libraries

LOTTE Homeshopping has been carrying out its "Small Library" CSR program since 2013. It takes under-used spaces at child welfare facilities across the country and converts them into pleasurable reading places. Its activities range from renovating the spaces to filling them with furniture, books, and IT equipment and giving the children using them lessons in avoiding becoming addicted to various types of media. It also replaces old equipment and purchases new books. The company had established sixty Small Libraries as of 2018. It also runs a number of hands-on experiential programs, such as baseball and video production camps.

### LOTTE Homeshopping: Broadcasting Training School

LOTTE Homeshopping operates a video production program to help nurture the development of tomorrow's broadcasting professionals. After

refurbishing an unused school in the city of Asan, the company established a Broadcasting Training School. It offers camp-style, two- and three-day training programs to children from low-income families. A total of 183 camp programs have been offered to 6,683 students from 2011 to 2018.

### LOTTE Cultureworks: Youth Support Project

LOTTE Cultureworks has been helping young people explore career opportunities, develop their talents and skills, and increase their level of work experience and expertise since 2017. We also sponsor scholarships targeting our part-time employees, and had supported forty of them by 2018. In addition, we give middle school and high school students opportunities to learn about the film industry and produce their own films. Finally, we operate an annual "Carrot" program involving up to twenty university students. They learn about film-making and performing, and also engage in social contribution activities. We offer them mentoring services, scholarships, and pay all of their expenses.



### Helping the Underprivileged

#### LOTTE Mart: Food sharing

LOTTE Mart works with The Food Bank to donate food to families on social assistance who live in the areas in which we operate. The value of these donations was KRW 1.5 billion in 2017 and KRW 1.7 billion in 2018, bringing the total to KRW 3.38 as of the end of 2018.

#### LOTTE Himart: Donations of household appliances

LOTTE Himart has been giving household appliances to people in need since 2015. The recipients include sole-support seniors and institutions for the disabled. In addition, we started setting aside a portion of the profits that we make from our sales of clothes dryers in April 2018. Once we had accumulated a fund of KRW 37 million, we gave brand-new washing machines to institutions for unwed mothers. We also donated KRW 30 million worth of heating appliances to low-income families last November.

#### LOHB's: Smile Points Campaign

LOHB's has been working with the Korean Braille Library and L.POINT to carry out a customer-driven CSR activity called the Smile Campaign since 2017. We have installed Smile Point devices in its six stores, and our customers donate fifty "L points" every time they smile in front of one. We held a larger Smile Point event in September 2018, increasing the level of participation by our customers to include our online channels and allowing them to donate their points whenever they clicked on the Smile Icon on their LOBH's App. We donated KRW 10 million of these donations to the Korean Braille Library in November 2018 to help with the production of TADOT Bottles for the visually impaired.

### LOTTE Homeshopping:

#### Donations to the Beautiful Store

LOTTE Homeshopping has been donating returned goods to the Beautiful Store every year since 2009. Twice-yearly bazaars are then held at twenty-seven Beautiful Store locations and other specially-selected sites to sell the products. We donated over 100,000 items worth KRW 5.9 billion in the period between 2015 and 2018. Some of the proceeds are also used to help develop markets for goods made by social enterprises.

### Global CSR Activities

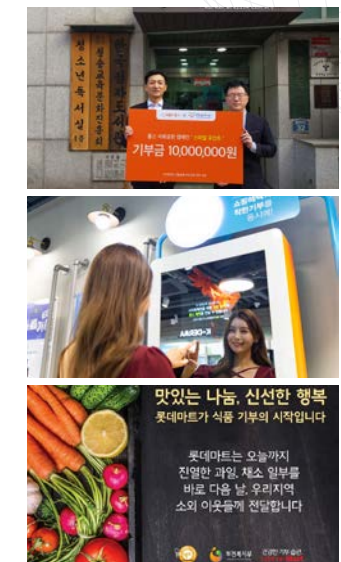
#### LOTTE Department Store: LOTTE Schools

LOTTE Department Store works with Plan Korea to build "LOTTE Schools" for kindergarten and elementary school children living in isolated regions of Vietnam.

As of 2015, we had helped build three of them. We also paid for the installation of a twenty-ton rainwater harvesting and treatment system to provide potable water to poor people living near Hanoi and Ho Chi Minh City, as well as a forty-ton rainwater drinking facility in Jakarta, Indonesia. Both of these facilities were built in 2017.

#### LOTTE Himart: "Goodmorning Children" Campaign

LOTTE Himart has been carrying out a "Goodmorning Children" campaign since 2010 as part of its global CSR activities. The campaign supports basic education, facility improvement, and health care projects in Kenya and Vietnam so that low-income children living there will be able to lift themselves out of poverty through education. We also raise funds for a hundred needy children living overseas through voluntary donations from our employees. The funds are used to help children buy school supplies, go on school trips, take part in physical education and art classes, and engage in other activities. They are also used to help improve the children's living conditions, including new wash-room facilities and desks and chairs. The children are also given insect repellents, toothbrushes, sanitary napkins, and training in personal hygiene to help them live happier and healthier lives.





# GREAT PLACE TO WORK

Building a great place to work



## Family-Friendly Leaves

### Parental leave program for male employees

LOTTE Shopping's parental leave program for men was inaugurated in 2017. Its purpose was to help our employees achieve a healthier work-life balance by encouraging mothers and fathers to share their childcare duties. All of our male employees can take five days of paternity leave (comprising two days of their annual paid holidays and three days of national holidays) whenever their spouses have a baby. They are also encouraged to use up thirty or more days of this automatic childcare leave within thirty days of their baby's date of birth. They are paid 100% of their wages for the first month of their leave.

### Enhanced maternity and childcare leaves

LOTTE Shopping's maternity and parental leave programs are designed to lessen the degree of career disruption faced by female employees due to pregnancies, childbirth, and the need to provide follow-up childcare. The maternity leave program allows any pregnant employee to take an unpaid leave of up to nine months prior to the beginning of her maternity leave. The maternity leave, which used to be limited to one year, can now be extended for up to two years, in either six-month or one-year increments. This combination of the maternity leave and the extended parental leave means that our employees can stay at home to look after their children for up to three years without penalty.

### Childcare and parental care programs

LOTTE Shopping's employees are allowed to take an unpaid childcare leave of between six months and one year when their children become old enough to enter elementary school. This helps them to focus on their child-rearing responsibilities at the very time when they are again threatened with a massive disruption to their careers. We were also one of the first enterprises in South Korea to offer a national academic aptitude test leave program. It allows any of our employees who have children preparing to write the country's college entrance examination to take an unpaid leave of between thirty and one hundred days. We also offer a "silver care assistance program" that provides up to KRW 4 million for any of our employees who are obliged to support parents suffering from dementia, cerebrovascular diseases, and other illnesses associated with old age.



## A Healthy Work-Life Balance

### Helping pregnant and sub-fertile women

LOTTE Shopping operates a program specifically designed for women called "LOTTE's MOM". Its benefits include sick leaves for women suffering from morning sickness, and paying 20% the cost for them to attend pregnancy, childbirth, and childcare classes. We also support sub-fertile women by paying part of the cost of in-vitro fertilization procedures and embryo transfers, and offering them sub-fertility leaves if they have been childless for five or more years or are over thirty-five years of age and have been diagnosed as being sub-fertile.

### Childcare facilities for working mothers

We also operate Mom's Happiness Childcare Centers in Seoul and Busan. They operate during regular business hours. We pay all the costs of our employees' childcare, including food for their children and a shuttle bus service, as well as providing the children with top-flight educational and teaching materials.

### Staggered working hours

We have instituted a staggered work schedule program so that employees who need to look after their children or attend to other important affairs can come in before or after their normal starting times and leave their work early or late. They are also allowed to reduce their work schedule to thirty hours a week to permit them to look after their children or go to school.

### Reduced working hours and support for starting and ending work on-time

In order to provide our employees with a healthier work-life balance and comply with governmental regulations calling for a 52-hour work week, we have reduced our work-week from 46.5 hours to forty. We also operate a PC on/off system that automatically starts and turns off our PCs twenty minutes before our work hours start and twenty minutes after they end. We do this to save on our energy use and encourage our employees to start and end their work on time.

## Training for Working Moms and Dads

We also offer a wide range of programs for working mothers and fathers to help them cope with the many responsibilities they have to face in their daily lives, both at home and when they return to work. They include "Re-Start" and "Daddy School".

### "With You" Centers

#### Preventing sexual harassment and violence

Our "With You Centers" provide information and training in ways to prevent sexual harassment for all our employees. Offered seventy times a year at each of our stores, they include information about reporting channels, offer one-on-one counseling, and help to raise people's awareness about sexual abuse. We also hold on-site meetings at least twice a month at which all our female employees are encouraged to talk about issues relating to sexual harassment and violence. We publish and distribute information pamphlets on sexual harassment and violence, and make frequent visits to each of our stores to monitor how much training and information they are providing our workers.

#### Employee emotional wellness

Our "With You Centers" offer a wide range of programs to help employees deal with psychological and emotional issues. They include special lectures for new hires on emotional well-being, as well as programs to deal with depression, anxiety, and stress. We also provide the services of professional counselors in our larger stores, allowing our employees to talk about their personal and work-related problems whenever they feel the need to. Last, but not least, we offer emotional and psychological wellness programs tailored to dealing with specific conditions, such as MBTI personality tests and art therapy classes.



LOTTE Shopping is committed to adding value, contentment, and happiness to our customers' lives. We do this by offering them the convenience of online shopping, the ease and friendliness of offline purchasing, and the novelty of omnichannel services. Taken together, these different formats allow us to grow with our customers, our shareholders, our partners, the communities in which we operate, and all our other stakeholders.

## FINANCIAL REVIEW

LOTTE Shopping took a number of steps to strengthen its competencies in all of its business areas and identify future growth engines that had a high potential for profitability even in difficult management environments. We intend to realize our goal of high-quality, profitability-oriented growth while building more solid foundations for success in 2019, allowing us to once more meet our commitment of constantly delivering enhanced values to all our customers and shareholders.



Consolidated Statements of Financial Position

Lotte Shopping Co., Ltd. and Subsidiaries

YEARS ENDED DECEMBER 31, 2018 AND 2017

(in Korean won)

	Notes	2018	2017
Assets			
Current assets		5,708,395,689,998	6,295,311,076,552
Cash and cash equivalents	7,35,42	1,818,473,007,915	2,626,243,925,953
Trade and other receivables	5,7,41,42	1,119,397,467,063	870,455,686,564
Other financial assets	6,7,22,42	1,061,979,008,598	1,245,665,288,496
Inventories	8	1,267,488,684,051	1,354,039,250,052
Income tax refund receivable		6,508,527,017	2,105,153,010
Other non-financial assets	9	147,917,797,142	193,161,093,427
Assets held for sale	10	286,631,198,212	3,640,679,050
Non-current assets		20,550,913,168,208	21,653,176,972,530
Investments in associates and joint ventures	11,12	598,181,387,362	443,190,286,833
Other financial assets	6,7,22,42	1,670,847,015,265	1,702,498,327,264
Property, plant and equipment, net	13,41	14,404,970,701,402	14,918,310,394,824
Investment property, net	14	1,023,932,723,284	1,149,023,430,144
Goodwill	15	1,601,819,192,996	1,923,903,641,348
Intangible assets, net	15	451,657,409,610	502,252,395,726
Deferred tax assets	34	27,645,357,351	16,700,982,896
Other non-financial assets	9	771,859,380,938	997,297,513,495
Total assets		26,259,308,858,206	27,948,488,049,082
Liabilities			
Current liabilities		6,603,742,844,501	8,544,529,589,237
Borrowings and debentures, net of issuance costs	7,17,39,41,42	1,980,154,167,081	3,078,792,356,946
Trade and other payables	7,16,41,42	2,910,394,337,674	3,494,433,704,804
Other financial liabilities	7,22,42	420,336,936,454	504,089,415,191
Income tax payables		52,653,918,289	122,745,920,601
Unearned revenues	18	147,450,075,517	132,564,117,803
Provisions	19	113,688,719,092	55,121,565,042
Other non-financial liabilities	20	962,604,510,286	1,156,782,508,850
Liabilities for sale	10	16,460,180,108	-
Non-current liabilities		7,228,193,148,302	6,052,605,867,573
Borrowings and debentures, net of issuances costs	7,17,39,41,42	5,814,744,850,720	4,588,891,563,125
Other financial liabilities	7,22,42	76,958,297,105	151,868,082,611
Net of defined benefit liabilities and other long-term employee benefits	21	26,017,199,872	34,713,839,844
Deferred tax liabilities	34	1,173,077,398,673	1,133,944,793,579
Unearned revenues	18	32,960,664,424	7,519,852,356
Provisions	19	7,043,472,920	3,302,633,974
Other non-financial liabilities	20	97,391,264,588	132,365,102,084
Total liabilities		13,831,935,992,803	14,597,135,456,810
Equity			
Share capital		11,705,414,107,566	12,658,584,620,816
Capital Surplus	1,23	141,443,775,000	140,610,235,000
Hybrid securities	23	3,574,211,671,439	3,505,685,532,239
Capital adjustments	24	-	269,118,000,000
Retained earnings	25	(2,909,828,356,943)	(2,904,413,361,094)
Accumulated other comprehensive income	26	10,991,567,194,372	11,730,312,514,167
Equity attributable to owners of the Parent Company	27	(91,980,176,302)	(82,728,299,496)
Non-controlling interest		721,958,757,837	692,767,971,456
Total equity		12,427,372,865,403	13,351,352,592,272
Total liabilities and equity		26,259,308,858,206	27,948,488,049,082

The above consolidated statements of comprehensive income(loss) should be read in conjunction with the accompanying notes

Consolidated Statements of Comprehensive Income(loss)

Lotte Shopping Co., Ltd. and Subsidiaries

YEARS ENDED DECEMBER 31, 2018 AND 2017

(in Korean won)

	Notes	2018	2017
Sales	29,36,38,39,41	17,820,781,434,515	17,926,062,645,541
Cost of sales	8,29,32,41	(10,313,111,398,016)	(10,299,185,383,296)
Gross profit		7,507,670,036,499	7,626,877,262,245
Selling, general and administrative expenses	30,32,41	(6,911,701,185,620)	(6,825,620,761,758)
Return of bad check allowance (amortization)	30,32	1,034,747,693	(218,053,815)
Operating profit		597,003,598,572	801,038,446,672
Other income	31,41	60,480,214,456	104,821,417,257
Other expenses	31,41	(692,989,219,752)	(595,960,262,781)
Financial income - interest based on effective interest rate	33	90,369,352,782	86,032,881,758
Financial income - other	33	188,546,099,017	275,770,029,867
Finance costs	33	(411,619,928,356)	(482,942,969,812)
Allowance for other loss	31,33,41	(14,235,233,558)	(3,098,677,144)
Share of profit of associates and joint ventures	11,12	88,583,487,325	68,365,883,297
Profit(loss) before income tax		(93,861,629,514)	254,026,749,114
Income tax expense	34	(160,416,752,873)	(273,402,112,875)
Loss from continuing operations		(254,278,382,387)	(19,375,363,761)
Loss from discontinued operations	43	(210,718,208,408)	(1,261,329,481)
Loss for the year		(464,996,590,795)	(20,636,693,242)
Other comprehensive income for the year	27	(51,843,253,383)	(63,275,479,360)
Items that will not be reclassified to profit or loss		(39,615,005,317)	7,353,809,898
Loss for the year - evaluation loss of equity instruments based on fair value		(5,220,494,135)	-
Remeasurements of net defined benefit liabilities	21	(40,146,695,128)	9,423,840,226
Share of other comprehensive income of associates		(587,463,005)	486,911,290
Income tax on items that will not be reclassified to profit or loss		6,339,646,951	(2,556,941,618)
Items that may be subsequently reclassified to profit of loss		(12,228,248,066)	(70,629,289,258)
Loss for the year - evaluation loss of liability instruments based on fair value		327,488,435	-
Changes in the fair value of available-for-sale financial assets		-	(22,886,356,631)
Exchange rate differences on translating foreign operations		(32,395,224,763)	(31,728,367,381)
Gain on valuation of derivatives	22	6,149,799,927	1,538,989,881
Share of other comprehensive income of associates		16,685,900,771	(28,575,417,631)
Income tax on items that will not be reclassified to profit or loss		(2,996,212,436)	11,021,862,504
Total comprehensive loss for the year		(516,839,844,178)	(83,912,172,602)
Owners of the Parent Company		(544,874,280,474)	(136,395,172,880)
Loss from continuing operations		(334,156,072,066)	(123,862,194,880)
Loss from discontinued operations		(210,718,208,408)	(12,532,978,000)
Non-controlling interests		79,877,689,679	115,758,479,638
Profit from continuing operations		79,877,689,679	104,486,831,119
Profit from discontinued operations		-	11,271,648,519
Total comprehensive loss attributable to:			
Owners of the Parent Company		(589,275,241,389)	(182,926,701,489)
Non-controlling interests		72,435,397,211	99,014,528,887
Earnings (loss) per share	28		
Basic earnings (loss) per share (in won)			
From continuing operations		(12,307)	(4,673)
From discontinuing operations		(7,479)	(429)
Diluted earnings (loss) per share (in won)			
From continuing operations		(12,584)	(4,690)
From discontinuing operations		(7,479)	(436)

The above consolidated statements of comprehensive income(loss) should be read in conjunction with the accompanying notes



Consolidated Statements of Changes in Equity

Lotte Shopping Co., Ltd. and Subsidiaries

YEARS ENDED DECEMBER 31, 2018 AND 2017

(in Korean won)

	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumuated other comprehensive in come(loss)	Non-controlling interest	Total
Balance at January 1, 2017	157,454,460,000	3,910,751,867,924	269,118,000,000	(116,353,277,534)	11,995,610,433,739	87,952,732,018	959,507,676,530	17,264,041,892,677
Changes in accounting policies	-	-	-	-	(61,646,191,077)	-	(3,703,217,169)	(65,349,408,246)
Adjusted balance at January 1, 2017	157,454,460,000	3,910,751,867,924	269,118,000,000	(116,353,277,534)	11,933,964,242,662	87,952,732,018	955,804,459,361	17,198,692,484,431
Comprehensive income (loss) for the year								
Profit(Loss) for the year	-	-	-	-	(136,395,172,880)	-	115,758,479,638	(20,636,693,242)
Other comprehensive income								
Changes in the fair value of available-for-sale financial assets	-	-	-	-	-	(3,897,679,690)	(8,589,707,859)	(12,487,387,549)
Exchange differences on translating foreign operations	-	-	-	-	-	(18,857,184,754)	(11,376,721,182)	(30,233,905,936)
Gain on valuation of derivatives	-	-	-	-	-	(7,563,058,388)	446,575,330	(7,116,483,058)
Remeasurements of net defined benefit liabilities	-	-	-	-	4,448,926,222	-	2,822,594,759	7,271,520,981
Share of other comprehensive income of associates	-	-	-	-	147,144,241	(20,809,676,240)	(46,691,799)	(20,709,223,798)
Sub-total of inclusive loss for the year	-	-	-	-	4,596,070,463	(51,127,599,072)	(16,743,950,751)	(63,275,479,360)
Total comprehensive income (loss) for the year	-	-	-	-	(131,799,102,417)	(51,127,599,072)	99,014,528,887	(83,912,172,602)
Transactions with owners								
Interests paid for hybrid securities	-	-	-	-	(12,748,218,078)	-	-	(12,748,218,078)
Dividends	-	-	-	-	(59,104,408,000)	-	(21,990,777,300)	(81,095,185,300)
Spin-off	(16,844,225,000)	(405,066,335,685)	-	(2,799,190,016,582)	-	(119,553,432,442)	(321,231,606,801)	(3,661,885,616,510)
Other	-	-	-	11,129,933,022	-	-	(18,828,632,691)	(7,698,699,669)
Balance at December 31, 2017	140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,730,312,514,167	(82,728,299,496)	692,767,971,456	13,351,352,592,272
Balance at January 1, 2018	140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,730,312,514,167	(82,728,299,496)	692,767,971,456	13,351,352,592,272
Changes in accounting policies	-	-	-	-	12,674,138,566	(12,674,138,566)	-	-
Adjusted balance at January 1, 2018	140,610,235,000	3,505,685,532,239	269,118,000,000	(2,904,413,361,094)	11,742,986,652,733	(95,402,438,062)	692,767,971,456	13,351,352,592,272
Comprehensive income (loss) for the year								
Profit(Loss) for the year	-	-	-	-	(544,874,280,474)	-	79,877,689,679	(464,996,590,795)
Other comprehensive income								
Other inclusive income - fair value Evaluation income/loss of financial assets	-	-	-	-	(18,546,466,814)	13,563,803,457	(4,114,884,020)	(9,097,547,377)
Exchange differences on translating foreign operations	-	-	-	-	-	(27,606,477,887)	(2,327,360,240)	(29,933,838,127)
Loss on valuation of derivatives	-	-	-	-	-	4,908,598,143	1,236,255	4,909,834,398
Remeasurements of net defined benefit liabilities	-	-	-	-	(28,711,692,436)	-	(1,001,284,463)	(29,712,976,899)
Share of other comprehensive income of associates	-	-	-	-	(565,063,425)	12,556,338,047	-	11,991,274,622
Sub-total of other inclusive loss for the year	-	-	-	-	(47,823,222,675)	3,422,261,760	(7,442,292,468)	(51,843,253,383)
Total comprehensive income (loss) for the year	-	-	-	-	(592,697,503,149)	3,422,261,760	72,435,397,211	(516,839,844,178)
Transactions with owners								
Interests paid for hybrid securities	-	-	-	-	(12,581,295,612)	-	-	(12,581,295,612)
Dividends	-	-	-	-	(146,140,659,600)	-	(42,661,946,120)	(188,802,605,720)
Issuance of convertible bonds	-	35,017,831,200	-	-	-	-	-	35,017,831,200
Fluctuation due to merger	833,540,000	33,508,308,000	-	-	-	-	-	34,341,848,000
Treasury shares acquired	-	-	-	(7,602,224)	-	-	-	(7,602,224)
Repayment of hybrid securities	-	-	(269,118,000,000)	(882,000,000)	-	-	-	(270,000,000,000)
Others	-	-	-	(4,525,393,625)	-	-	(582,664,710)	(5,108,058,335)
Balance at December 31, 2018	141,443,775,000	3,574,211,671,439	-	(2,909,828,356,943)	10,991,567,194,372	(91,980,176,302)	721,958,757,837	12,427,372,865,403

The above consolidated statements of comprehensive income(loss) should be read in conjunction with the accompanying notes

Consolidated Statements of Cash Flows

Lotte Shopping Co., Ltd. and Subsidiaries

YEARS ENDED DECEMBER 31, 2018 AND 2017

(in Korean won)

	Notes	2018	2017
Cash flows from operating activities		173,274,991,774	1,569,311,966,798
Cash generated from operations		350,944,576,326	1,430,051,858,602
Loss for the period		(464,996,590,795)	(20,636,693,242)
Adjustments	34	1,695,466,351,700	1,528,592,671,146
Changes in operatings assets and liabilites	34	(879,525,184,579)	(77,904,119,302)
Income taxes paid		(177,669,584,552)	(251,396,088,590)
Interest received		-	520,722,917,339
Interest paid		-	(130,071,544,153)
Dividend received		-	4,823,600
Net cash inflow from operating activities		(286,609,895,234)	(1,263,239,164,298)
Cash from investment activities		1,438,333,035,026	1,239,055,541,579
Decrease in short-term financial instruments		1,202,795,814,025	1,126,336,282,920
Collection of short-term loans		22,691,596,746	48,254,919,442
Collection of long-term loans		1,470,751,566	7,165,683,299
Decrease in long-term financial instruments		2,000,000	-
Proceeds from sale of available-for-sale financial assets		-	13,601,788,696
Other loss for the year - disposed liability instruments based on fair value		177,010,000	-
Other loss for the year - disposed equity instruments based on fair value		51,195,518,860	-
Net profit - disposed liability instruments based on fair value		2,833,477,598	-
Proceeds from capital distribution from associates		9,472,059,771	4,929,669,782
Disposal of fixed assets for sale		24,340,759,589	-
Proceeds from disposal of property, plant and equipment		26,175,105,089	35,960,172,183
Proceeds from disposal of intangible assets		1,552,986,413	222,777,276
Cash inflows from settlement of derivative instruments		6,981,786,735	2,567,293,802
Decrease in other assets		2,672,506,413	16,954,179
Cash from change in consolidation scope		85,971,662,221	-
Cash outflows due to investment activities		(1,883,090,479,411)	(2,604,868,283,847)
Increase in short-term financial instruments		(1,037,847,925,636)	(1,562,945,073,000)
Increase in long-term financial instruments		(4,004,000,000)	(85,000,000)
Increase in short-term loans		(15,370,052,900)	(22,468,222,066)
Increase in long-term loans		(2,998,309,965)	(3,991,603,127)
Purchase of available-for-sale financial assets		-	(13,925,354,217)
Net profit/loss - acquisditiion of liability instruments based on fair value		(6,303,528,596)	-
Other loss for the year - acquisition of equity instruments based on fair value		(20,709,697,595)	-
Other loss for the year - acquisition of liability instruments based on fair value		(356,220,000)	-
Purchase of investments in associates and joint ventures		(102,744,284,667)	(16,792,156,900)
Acquisition of property, plant and equipment		(597,125,018,348)	(883,863,398,961)
Acquisition of intangible assets		(64,360,040,159)	(69,638,461,406)
Acquisition of investment property		(29,289,401,700)	(27,956,683,570)
Increase in other assets		-	(3,202,330,600)
Cash outflow due to settlement of derivatives trading		(1,981,999,845)	-
Interest received		87,631,712,048	38,569,395,726
Dividend received		70,515,837,103	64,004,182,244
Cash flows from financing activities		(692,635,619,902)	74,920,393,351
Cash inflows from investment activities		3,066,526,864,118	6,693,159,530,794
Short-term borrowings		496,093,726,991	2,040,030,789,966
Long-term borrowings		830,849,658,000	1,758,631,204,142

The above consolidated statements of comprehensive income(loss) should be read in conjunction with the accompanying notes



(in Korean won)			
	Notes	2018	2017
Proceeds from issuance of debentures		1,738,090,679,237	2,838,760,464,176
Proceeds from finance lease liabilities		-	5,044,618,730
Cash inflow from settlement of derivatives trading		1,242,799,890	50,680,000,000
Cash inflow from consolidated capital trading		250,000,000	12,453,780
Cash outflow due to financial activities		(3,316,389,757,396)	(6,286,783,735,040)
Short-term borrowings repaid		(761,938,479,300)	(1,811,315,262,325)
Long-term borrowings repaid		(812,309,222,549)	(853,159,680,432)
Redemption of debentures		(1,450,067,642,984)	(2,232,838,800,000)
Acquisition of additional ownership in subsidiaries		-	(16,799,813,535)
Payment of hybrid securities interests		(12,581,295,612)	(12,748,218,078)
Payment of finance lease liabilities		(9,485,514,727)	(24,865,924,919)
Repayment of hybrid capital stock		(270,000,000,000)	-
Acquisition of fractional shares (treasury shares)		(7,602,224)	(3,795,474,701)
Cash outflows due to spin-off		-	(1,331,260,561,050)
Interest paid		(257,168,910,924)	(250,360,217,103)
Dividends paid		(185,603,815,700)	(81,095,185,300)
Net increase(loss) in cash and cash equivalents		(805,970,523,362)	380,993,195,851
Cash and cash equivalents at the beginning of the financial year		2,626,243,925,953	2,269,177,234,171
Replacement of asset group for sale disposed		(4,854,991,816)	-
Effects of exchange rate changes on cash and cash equivalents		3,054,597,140	(23,926,504,069)
Cash and cash equivalents at the end of the year		1,818,473,007,915	2,626,243,925,953

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