

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Lotte Shopping Co., Ltd.:

We have audited the accompanying consolidated financial statements of Lotte Shopping Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other matter

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

KPMG Samjong Accounting Corp.
Seoul, Korea
March 15, 2017

<p>This report is effective as of March 15, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

	Notes	Korean won (millions)	
		December 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents	8,36,43 ₩	2,269,177	1,751,268
Trade and other receivables	6,8,42,43	1,031,338	918,851
Other financial assets	7,8,23,43	9,979,329	9,672,512
Inventories	5,9	3,324,377	3,265,997
Income tax refund receivable		2,961	2,828
Other non-financial assets	10	322,866	385,396
Non-current assets held for sale	11	2,267	447
Total current assets		<u>16,932,315</u>	<u>15,997,299</u>
Investments in associates and joint ventures	12,13	1,336,700	1,274,851
Other financial assets	7,8,23,43	2,319,322	2,089,193
Property, plant and equipment, net	5,14,42	15,932,242	15,759,107
Investment property, net	15	691,845	520,982
Goodwill	5,16	2,591,950	2,715,569
Other intangible assets, net	5,16	764,748	862,820
Other non-financial assets	10	1,278,199	1,413,805
Deferred tax assets	35	68,586	59,740
Total non-current assets		<u>24,983,592</u>	<u>24,696,067</u>
Total assets		<u>₩ 41,915,907</u>	<u>40,693,366</u>

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

As of December 31, 2016 and 2015

	Notes	Korean won (millions)	
		December 31, 2016	December 31, 2015
Liabilities			
Borrowings and debentures, net of issuance costs	8,18,40,42,43	₩ 5,058,613	4,267,139
Trade and other payables	8,17,42,43	5,785,352	5,465,907
Other financial liabilities	8,23,43	626,345	533,789
Income tax payables		153,972	134,348
Unearned revenues	19	221,442	217,574
Provisions	20	68,755	60,359
Other non-financial liabilities	21	1,471,476	1,239,537
Total current liabilities		13,385,955	11,918,653
Borrowings and debentures, net of issuance costs	8,18,40,42,43	9,424,335	9,816,438
Other financial liabilities	8,23,43	260,489	279,552
Employee benefit liabilities	22	68,907	81,291
Deferred tax liabilities	35	1,342,334	1,365,668
Unearned revenues	19	10,736	8,086
Provisions	20	40,024	32,458
Other non-financial liabilities	21	119,085	103,378
Total non-current liabilities		11,265,910	11,686,871
Total liabilities		24,651,865	23,605,524
Equity			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares			
Issued and outstanding –			
31,490,892 shares	1,24	157,454	157,454
Capital surplus	24	3,910,752	3,910,752
Hybrid securities	25	269,118	269,118
Capital adjustments	26	(116,353)	(79,039)
Retained earnings	27	11,995,610	11,893,663
Accumulated other comprehensive income	28	87,953	95,502
Stockholders' equity attributable to owners of the Company		16,304,534	16,247,450
Non-controlling interests		959,508	840,392
Total equity		17,264,042	17,087,842
Total liabilities and equity		₩ 41,915,907	40,693,366

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

	Notes	Korean won (millions, except for earnings per share)	
		2016	2015
Sales	30,37,39,40,42	₩ 29,526,413	29,127,655
Cost of sales	9,30,33,42	(20,196,281)	(20,217,144)
Gross profit		<u>9,330,132</u>	<u>8,910,511</u>
Selling, general and administrative expenses	31,33,42	(8,389,771)	(8,056,798)
Operating profit		<u>940,361</u>	<u>853,713</u>
Other income	32,42	161,191	81,556
Other expenses	32,42	(495,179)	(853,305)
Finance income	34	213,266	270,969
Finance costs	34	(391,627)	(439,614)
Equity method income on investments in associates	12,13	<u>61,409</u>	<u>6,917</u>
Profit (loss) before income tax		<u>489,421</u>	<u>(79,764)</u>
Income tax expense	35	(242,546)	(265,737)
Profit (loss) for the year		<u>246,875</u>	<u>(345,501)</u>
Other comprehensive income (loss) :			
Items that will never be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	22	11,994	(17,457)
Net change in equity of equity method investments		(1,847)	(1,122)
Income tax on items that will never be reclassified to profit or loss		<u>(3,548)</u>	<u>5,390</u>
Total items that will never be reclassified to profit or loss		<u>6,599</u>	<u>(13,189)</u>
Items that are or may be reclassified to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets		(15,689)	(99,836)
Exchange rate differences on translating foreign operations		8,756	38,141
Effective portion of unrealized changes in fair values of cash flow hedges	23	4,760	(2,880)
Net change in equity of equity method investments		(16,228)	12,131
Income tax on items that are or may be reclassified to profit or loss		<u>6,767</u>	<u>23,568</u>
Total items that are or may be reclassified to profit or loss		<u>(11,634)</u>	<u>(28,876)</u>
Other comprehensive income (loss) for the year, net of tax		<u>(5,035)</u>	<u>(42,065)</u>
Total comprehensive income (loss) for the year		<u>241,840</u>	<u>(387,566)</u>
Profit (loss) attributable to:			
- Owners of the Company		168,195	(383,067)
- Non-controlling interests		<u>78,680</u>	<u>37,566</u>
		<u>246,875</u>	<u>(345,501)</u>
Total comprehensive income (loss) attributable to:			
- Owners of the Company		166,352	(405,940)
- Non-controlling interests		<u>75,488</u>	<u>18,374</u>
		<u>241,840</u>	<u>(387,566)</u>
Earnings (loss) per share	29		
- Basic earnings (loss) per share (in won)		5,257	(13,393)
- Diluted earnings (loss) per share (in won)		₩ 5,246	(13,611)

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

Korean won (millions)

	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2015	₩ 157,454	3,910,752	269,118	(78,452)	12,360,095	106,836	16,725,803	818,074	17,543,877
Total comprehensive income (loss) for the year:									
Profit (loss) for the year	-	-	-	-	(383,067)	-	(383,067)	37,566	(345,501)
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	(54,980)	(54,980)	(17,353)	(72,333)
Exchange differences on translating foreign operations	-	-	-	-	-	38,403	38,403	(317)	38,086
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	(1,314)	(1,314)	129	(1,185)
Remeasurements of net defined benefit liabilities	-	-	-	-	(10,808)	-	(10,808)	(1,649)	(12,457)
Change in equity of equity method investments	-	-	-	-	(731)	6,557	5,826	(2)	5,824
Subtotal	-	-	-	-	(11,539)	(11,334)	(22,873)	(19,192)	(42,065)
Total comprehensive income (loss) for the year	-	-	-	-	(394,606)	(11,334)	(405,940)	18,374	(387,566)
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(14,810)	(73,915)
Interests of hybrid securities	-	-	-	-	(12,721)	-	(12,721)	-	(12,721)
Changes in ownership interests in subsidiaries	-	-	-	(340)	-	-	(340)	3,674	3,334
Changes in subsidiaries	-	-	-	-	-	-	-	15,100	15,100
Other	-	-	-	(247)	-	-	(247)	(20)	(267)
Subtotal	-	-	-	(587)	(71,826)	-	(72,413)	3,944	(68,469)
Balance at December 31, 2015	₩ 157,454	3,910,752	269,118	(79,039)	11,893,663	95,502	16,247,450	840,392	17,087,842

See accompanying notes to the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2016 and 2015

Korean won (millions)

	Capital stock	Capital surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Stockholders' equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at January 1, 2016	₩ 157,454	3,910,752	269,118	(79,039)	11,893,663	95,502	16,247,450	840,392	17,087,842
Total comprehensive income (loss) for the year:									
Profit for the year	-	-	-	-	168,195	-	168,195	78,680	246,875
Other comprehensive income (loss):									
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	-	(8,376)	(8,376)	(2,716)	(11,092)
Exchange differences on translating foreign operations	-	-	-	-	-	10,172	10,172	(1,531)	8,641
Effective portion of unrealized changes in fair values of cash flow hedges	-	-	-	-	-	5,386	5,386	206	5,592
Remeasurements of net defined benefit liabilities	-	-	-	-	7,415	-	7,415	894	8,309
Change in equity of equity method investments	-	-	-	-	(1,709)	(14,731)	(16,440)	(45)	(16,485)
Subtotal	-	-	-	-	5,706	(7,549)	(1,843)	(3,192)	(5,035)
Total comprehensive income (loss) for the year	-	-	-	-	173,901	(7,549)	166,352	75,488	241,840
Transactions with owners of the Company, recognized directly in equity:									
Dividends to owners of the Company	-	-	-	-	(59,105)	-	(59,105)	(18,449)	(77,554)
Interests of hybrid securities	-	-	-	-	(12,849)	-	(12,849)	-	(12,849)
Changes in ownership interests in subsidiaries	-	-	-	(293)	-	-	(293)	36,314	36,021
Changes in subsidiaries	-	-	-	-	-	-	-	177	177
Other	-	-	-	(37,021)	-	-	(37,021)	25,586	(11,435)
Subtotal	-	-	-	(37,314)	(71,954)	-	(109,268)	43,628	(65,640)
Balance at December 31, 2016	₩ 157,454	3,910,752	269,118	(116,353)	11,995,610	87,953	16,304,534	959,508	17,264,042

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

	Korean won (millions)	
	2016	2015
Cash flows from operating activities		
Profit (loss) for the year	₩ 246,875	(345,501)
Income tax expense	242,546	265,737
Post-employment benefits	123,069	114,614
Long-term employee benefits	17,660	6,213
Depreciation	835,967	840,136
Amortization	137,198	146,054
Impairment loss on intangible assets	201,523	618,638
Loss on disposal of intangible assets	184	805
Loss on foreign currency translation	97,427	128,627
Loss on foreign currency transactions	162	22,176
Loss on disposal of property, plant and equipment	7,404	41,306
Impairment loss on property, plant and equipment	73,528	17,670
Bad debt expenses (Reversal of allowance for bad debts)	(19,600)	42,962
Impairment loss on other non-current assets	15,616	13,543
Loss on valuation of financial liabilities at fair value through profit or loss	-	8,116
Loss on transactions of derivative instruments	19,996	239
Loss on valuation of derivative instruments	1,673	12,279
Equity method loss on investments in subsidiaries, associates and joint ventures	42,741	84,090
Impairment loss on investments in subsidiaries, associates and joint ventures	5,233	-
Rental expenses (Amortization of discount on deposit, etc.)	94,602	85,212
Loss on disposal of available-for-sale financial assets	420	803
Impairment loss on available-for-sale financial assets	1,971	6,905
Loss on redemption of debentures	20,060	-
Miscellaneous losses	51,101	-
Other expenses	543	31
Cost of card business	472,122	497,662
Interest expense	237,072	254,350
Financial guarantee costs	7,697	-
Gain on foreign currency translation	(39,815)	(21,847)
Gain on foreign currency transactions	(12,045)	(120)
Gain on disposal of property, plant and equipment	(2,786)	(2,295)
Gain on disposal of investment property	-	(699)
Gain on transactions of derivative instruments	-	(8,445)
Gain on valuation of derivative instruments	(61,954)	(98,196)
Equity method gain of investments in subsidiaries, associates and joint ventures	(104,150)	(91,007)
Gain on disposal of available-for-sale financial assets	(8)	(28,270)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(5,519)	(12,595)
Other income	(1,229)	(3,821)
Income of card business	(777,813)	(794,062)
Interest income	(87,037)	(92,885)
Dividend income	(7,070)	(8,364)
Trade receivables	(117,045)	22,496
Other receivables	(145,272)	(107,972)
Other financial assets	(763,589)	(687,511)
Inventories	(47,093)	(86,365)
Other non-financial assets	1,139	(72,037)
Trade payables	38,872	(49,089)
Other payables	285,730	(153,320)
Other financial liabilities	43,165	(38,716)

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

For the years ended December 31, 2016 and 2015

	Korean won (millions)	
	2016	2015
Cash flows from operating activities, continued		
Unearned revenues	(8,968)	(19,837)
Provisions	(8,474)	(9,602)
Other non-financial liabilities	248,065	91,248
Payment of post-employment benefits	(53,492)	(54,698)
Plan assets	(92,298)	(89,176)
Income tax paid	(251,973)	(346,210)
Interest received	699,178	697,143
Interest paid	(156,487)	(155,429)
Dividends received	45	83
Net cash provided by operating activities	₩ 1,506,867	641,069

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

	Korean won (millions)	
	2016	2015
Cash flows from investing activities		
Proceeds from sale of financial assets	₩ 1,940,735	1,323,830
Collection of loans	12,673	13,976
Proceeds from sale of available-for-sale financial assets	1,490	123,111
Proceeds from sale of investments in associates and joint ventures	2,316	-
Proceeds from disposal of property, plant and equipment	57,370	140,929
Proceeds from disposal of intangible assets	339	735
Proceeds from disposal of investment property	-	3,400
Proceeds from capital distribution from associates	6,296	7,648
Decrease of other non-financial assets	7	6
Cash inflows from Business combination	-	1,431
Purchase of financial assets	(1,575,056)	(1,775,233)
Increase of loans	(11,695)	(5,137)
Purchase of available-for-sale financial assets	(87,068)	(144,966)
Purchase of investments in associates and joint ventures	(56,162)	(139,247)
Acquisition of property, plant and equipment	(1,206,957)	(1,094,939)
Acquisition of intangible assets	(102,532)	(100,165)
Acquisition of investment property	(17,404)	(8,040)
Acquisition of other investments	(904)	(828)
Cash outflows from Business combination	(7,881)	-
Cash outflows from disposal of subsidiaries, net of proceeds received	-	(37)
Interest received	40,772	46,173
Dividends received	35,288	48,999
Net cash used in investing activities	₩ (968,373)	(1,558,354)

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31, 2016 and 2015

		Korean won (millions)	
		2016	2015
Cash flows from financing activities			
Proceeds from borrowings	₩	3,020,549	2,494,790
Proceeds from issuance of debentures		2,251,620	3,008,247
Capital contribution from non-controlling interests		34,798	3,297
Proceeds related to sale and lease back transactions		21,068	7,570
Cash inflows from settlement of derivative instruments		2,226	-
Repayment of borrowings		(3,018,855)	(2,177,278)
Redemption of debentures		(1,985,866)	(2,251,083)
Acquisition of additional ownership in subsidiaries		-	(343)
Cash outflows from settlement of derivative instruments		-	(18,675)
Payment of hybrid securities interests		(12,849)	(12,721)
Payment of finance lease liabilities		(16,940)	(13,865)
Cash outflows from other financing activities		-	(112)
Interest paid		(239,430)	(234,905)
Dividends paid		(77,554)	(73,914)
Net cash provided by (used in) financing activities	₩	(21,233)	731,008
Net increase (decrease) in cash and cash equivalents		517,261	(186,277)
Cash and cash equivalents at beginning of the year		1,751,268	1,928,136
Impact of foreign currency exchange rates on cash and cash equivalents		168	2,290
Exchange differences on translating foreign operations		480	7,119
Cash and cash equivalents at end of the year	₩	2,269,177	1,751,268

See accompanying notes to the consolidated financial statements.

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

December 31, 2016 and 2015

1. General Description of Reporting Entity

(a) Organization and Description of the Company

Lotte Shopping Co., Ltd. (the "Company") was established on July 2, 1970 in the Republic of Korea to engage in retail operations through department stores, outlet stores, discount stores, supermarkets and H&B stores. In addition to the retail operations, the Company's business includes a chain of multiplex movie theaters under the brand name of Lotte Cinema and so on. The Company's stock was listed on the Korea Exchange and the London Stock Exchange through an initial public offering in February 2006.

The stockholders of the Company as of December 31, 2016 are as follows:

Stockholder	Number of shares	Ownership (%)
Shin, Dong Bin	4,237,627	13.46
Shin, Dong Ju	4,235,883	13.45
Shin, Kyuk Ho	293,877	0.93
Shin, Young Ja	232,818	0.74
Hotel Lotte Co., Ltd.	2,781,947	8.83
Korea Fuji Film Co., Ltd.	2,474,543	7.86
Lotte Confectionery Co., Ltd.	2,474,543	7.86
LOTTE DATA COMMUNICATION COMPANY	1,515,653	4.81
Lotte Chilsung Beverage Co., Ltd.	1,237,272	3.93
Lotte Engineering & Construction Co., Ltd.	300,019	0.95
Hotel Lotte Pusan Co., Ltd.	246,720	0.78
Treasury share	1,938,688	6.16
Others	9,521,302	30.24
Total	31,490,892	100.00

(b) Description of Subsidiaries

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. A summary of the subsidiaries of the Company as of December 31, 2016 and 2015 is as follows:

Subsidiaries	December 31, 2016			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 8th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 9th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 10th Supreme (*1)	Korea	SPC	Dec. 31	0.50
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03

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

December 31, 2016 and 2015

(b) Description of Subsidiaries, continued

December 31, 2016				
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	90.02
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.88
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED (*3)	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd. (*3)	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. (*4)	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*4)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*4)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*4)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*4)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00

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

December 31, 2016 and 2015

1. General Description of Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	December 31, 2016			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease, Apartment sales services	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (*5) (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	99.99
PT. LOTTE SHOPPING INDONESIA (*5)	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Lotte Holdings Hong Kong Ltd. (Formerly, Kotobuki Holding (HK) Ltd.)	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00
LOTTE E-Commerce Vietnam Co., Ltd	Vietnam	Distribution	Dec. 31	100.00
LOTTE Properties Hanoi (Singapore) Pte. Ltd.	Singapore	Holding company	Dec. 31	80.00
LOTTE Properties Hanoi Co. Ltd.	Vietnam	Distribution	Dec. 31	100.00

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

- (*1) Although the Group holds less than 50% of these investees, the Group determined that the Group controlled these investees, since it was exposed, or had rights, to variable returns from its involvement with these investees and had the ability to affect those returns through its power over these investees.
- (*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable common stocks for the issued bond is changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 64.60%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2015, the total number of the common stocks of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Company collected all of them.
- (*3) For the year period ended December 31, 2016, these were reclassified to subsidiaries of Lotte Shopping Holdings (Hong Kong) Co., Limited.
- (*4) These subsidiaries were presented as Lotte Mart China Co., Ltd. and its subsidiaries until 2014. As Lotte Mart China Co., Ltd. sold the shares of these subsidiaries to Lotte Shopping Holdings (Hong Kong) Co., Limited in 2015, the Group presents these subsidiaries separately.
- (*5) For the year period ended December 31, 2016, these were reclassified to subsidiaries of LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	December 31, 2015	
			Fiscal year	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 7th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 8th Supreme (*1)	Korea	SPC	Dec. 31	0.90
The 9th Supreme (*1)	Korea	SPC	Dec. 31	0.90
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	85.58
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.78
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd. and its subsidiaries	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries (*3)	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries (*3)	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited (*3)	China	Real estate development	Dec. 31	100.00

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	Location	Products or services	December 31, 2015	
			Fiscal year	Percentage of ownership (%)
Zhuji Decheng Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited(*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary (*3)	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited (*3)	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE VIETNAM SHOPPING CO., LTD.	Vietnam	Distribution	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(b) Description of Subsidiaries, continued

Subsidiaries	December 31, 2015			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Kotobuki Holding (HK) Ltd.	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00

(*1) Although the Group holds less than 50% of these investees, the Group determined that the Group controlled these investees, since it was exposed, or had rights, to variable returns from its involvement with these investees and had the ability to affect those returns through its power over these investees.

(*2) During 2013, the Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩ 307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable common stocks for the issued bond is changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds are exchanged to the common stocks of LOTTE Himart Co., Ltd., the Company's percentage of ownership on LOTTE Himart Co., Ltd. will be decreased from 65.25% to 64.60%. In addition, the Company entered into securities lending agreements to lend shares of LOTTE Himart Co., Ltd. owned by the Company up to 50% of the total exchangeable common stocks. As of December 31, 2015, the total number of the common stocks of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Company collected all of them.

(*3) These subsidiaries were presented as Lotte Mart China Co., Ltd. and its subsidiaries until 2014. As Lotte Mart China Co., Ltd. sold the shares of these subsidiaries to Lotte Shopping Holdings (Hong Kong) Co., Limited in 2015, the Group presents these subsidiaries separately.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2016 and 2015 are summarized as follows:

Subsidiaries	Korean won (millions)					
	December 31, 2016					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 9,982,357	7,815,064	2,167,293	1,643,515	106,561	109,747
eB Card Co., Ltd.	186,951	127,124	59,827	84,929	13,895	13,908
Woori Home Shopping & Television Co., Ltd.	888,217	298,270	589,947	886,033	37,991	31,785
Korea Seven Co., Ltd.	1,106,098	790,130	315,968	3,522,760	38,403	37,573
Buy the way Inc.	117,455	31,571	85,884	181,433	(22,147)	(21,049)
Lotte Suwon Station Shopping Town Co., Ltd.	317,501	241,750	75,751	43,989	(8,644)	(8,643)
Lotte Songdo Shopping Town Co., Ltd.	241,376	152,124	89,252	40,365	(3,988)	(3,987)
CS Mart Co., Ltd.	165,638	55,849	109,789	420,600	8,729	8,733
LOTTE Himart Co., Ltd.	3,004,859	1,109,197	1,895,662	3,939,442	121,428	122,985
Lotte Members Co., Ltd	219,972	162,913	57,059	61,585	1,603	1,510
LOTTE.COM INC	155,325	155,045	280	204,186	(30,312)	(29,329)
LOTTE MART COMPANY LIMITED	167,016	221,214	(54,198)	306,080	(30,974)	(29,786)
Qingdao LOTTE Mart Commercial Co., Ltd.	24,458	76,584	(52,126)	-	(10,260)	(8,435)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,061,307	772,082	289,225	689	(268,922)	(254,553)
Swift Harvest Ltd. and its subsidiaries	567,494	905,169	(337,675)	696,047	(151,586)	(150,595)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	442,194	229,786	212,408	-	(7,130)	(785)
Lotte Properties (Chengdu) Limited	623,386	250,409	372,977	-	(11,833)	(27,943)
LHSC Limited	31,309	-	31,309	-	(90)	854
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	469,971	444,816	25,155	263,151	(13,367)	(13,018)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	591,379	8	591,371	-	(45,096)	(36,610)
PT. LOTTE SHOPPING INDONESIA	314,896	176,819	138,077	845,571	12,643	19,246
PT. LOTTE MART INDONESIA	184,712	199,027	(14,315)	268,901	(15,953)	(16,338)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(c) Financial information of significant subsidiaries as of and for the years ended December 31, 2016 and 2015 are summarized as follows:, continued

Subsidiaries	Korean won (millions)					
	December 31, 2015					
	Assets	Liabilities	Equity	Sales	Net income (loss)	Total comprehensive Income (loss)
Lotte Card Co., Ltd.	₩ 9,198,112	7,140,566	2,057,546	1,625,815	134,273	140,751
eB Card Co., Ltd.	186,395	140,477	45,918	69,718	(1,478)	(1,448)
Woori Home Shopping & Television Co., Ltd.	841,097	252,935	588,162	854,483	10,762	(27,591)
Korea Seven Co., Ltd.	1,005,362	725,263	280,099	3,079,967	10,616	10,195
Buy the way Inc.	144,380	37,447	106,933	234,847	(54,769)	(54,557)
Lotte Suwon Station Shopping Town Co., Ltd.	355,624	271,231	84,393	46,138	(12,943)	(12,939)
Lotte Songdo Shopping Town Co., Ltd.	240,931	147,692	93,239	5,378	(1,911)	(1,910)
CS Mart Co., Ltd.	156,077	55,021	101,056	431,707	10,119	10,360
LOTTE Himart Co., Ltd.	2,905,213	1,122,386	1,782,827	3,896,137	106,595	105,484
Lotte Members Co., Ltd	179,446	150,085	29,361	56,916	153	119
LOTTE.COM INC	194,553	164,944	29,609	211,241	3,878	(1,187)
LOTTE MART COMPANY LIMITED	149,837	174,249	(24,412)	334,162	(26,008)	(26,048)
Qingdao LOTTE Mart Commercial Co., Ltd.	20,399	145,979	(125,580)	24,617	(72,610)	(74,729)
Lotte Shopping Holdings (Hong Kong) Co., Limited	1,195,329	733,439	461,890	-	(430,468)	(392,957)
Swift Harvest Ltd. and its subsidiaries	705,045	899,997	(194,952)	838,622	(99,837)	(100,109)
LOTTE PROPERTIES (CHENGDU) HK LIMITED	436,070	222,876	213,194	-	(6,998)	5,460
Lotte Properties (Chengdu) Limited	532,211	131,290	400,921	-	(3,816)	3,617
LHSC Limited	30,455	-	30,455	-	(164,324)	(157,743)
LOTTE VIETNAM SHOPPING CO., LTD.	435,575	397,402	38,173	216,131	(26,417)	(25,730)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	318,693	16	318,677	-	(37,416)	(16,528)
PT. LOTTE SHOPPING INDONESIA	269,260	150,430	118,830	768,484	11,039	7,216
PT. LOTTE MART INDONESIA	175,309	173,286	2,023	245,874	(15,703)	(16,272)

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(d) Entities included in subsidiaries in 2016 are as follows:

Description	Subsidiaries
Establishment	Lotte Ulsan Development Co., Ltd. LOTTE E-Commerce Vietnam Co., Ltd The 10th Supreme LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD. LOTTE PROPERTIES HANOI CO., LTD
Split-off	Lotte Cinema Hong Kong Co., Limited
Reclassification from joint venture due to acquisition of additional interests	Chongqing Yujia Lucky Pai Commercial Co., Ltd. (Formerly, Chongqing Yujia Co., Ltd.)

(e) Entities excluded from subsidiaries in 2016 are as follows:

Description	Subsidiaries
Liquidation	Times Supermarket Limited Wealth Concept Inc. Supreme Forum Ltd. Apex Forum Ltd. Ocean Luck Asia Investment Ltd. East Fine Enterprise Ltd. Fine Port Ltd Fine Spring Ltd. Full Faith Development Ltd. Goldwell Corporation Ltd. Ocean Rich International Ltd. Waho (China) Ltd. Wealthland Corporation Ltd.
Loss of control	Hangzhou Lucky Pai Investment Co., Ltd. (*) Heilongjiang Fangxin TV shopping Media. Co., Ltd. (*)

(*) Companies described above had been subsidiaries of Lucky Pai Ltd., but they were excluded from consolidation due to loss of control as of December 31, 2016.

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests

Financial information related to significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2016 and 2015 are as follows:

Description	Korean won (millions)			
	December 31, 2016			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 606,759	9,730,368	372,481	730,013
Non-current assets	326,453	495,255	736,773	787,602
Current liabilities	282,043	3,192,706	628,016	450,474
Non-current liabilities	17,964	4,882,008	162,114	706,177
Net assets	633,205	2,150,909	319,124	360,964
Net assets attributable to non-controlling interests	311,612	134,981	155,543	125,446
Dividends paid to non-controlling interests during the year	14,090	-	832	3,528
Revenue	896,644	1,786,996	3,522,760	3,939,442
Profit	66,472	110,494	40,942	117,351
Total comprehensive income	60,191	113,592	40,111	118,908
Profit attributable to non-controlling interests	31,034	7,108	20,005	40,783
Total comprehensive income attributable to non-controlling interests	28,078	7,303	19,599	41,324
Cash flows from operating activities	93,250	(328,572)	102,521	236,937
Cash flows from investing activities	(4,633)	(58,255)	(85,924)	(77,853)
Cash flows from financing activities	(30,000)	471,557	20,439	(130,889)
Effect of currency exchange rate	(95)	265	-	-
Net increase (decrease) in cash and cash equivalents	58,522	84,995	37,036	28,195

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(f) Non-controlling interests, continued

Financial information related to significant non-controlling interests for subsidiaries as of and for the years ended December 31, 2016 and 2015 are as follows:, continued

Description	Korean won (millions)			
	December 31, 2015			
	Woori Home Shopping & Television Co., Ltd.	Lotte Card Co., Ltd.	Korea Seven Co., Ltd.	LOTTE Himart Co., Ltd.
Ownership interests held by NCI	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 566,430	8,893,970	324,879	640,377
Non-current assets	320,939	508,588	683,638	782,971
Current liabilities	235,407	2,601,830	578,113	638,445
Non-current liabilities	19,210	4,763,411	147,150	532,696
Net assets	632,752	2,037,317	283,254	252,207
Net assets attributable to non-controlling interests	297,320	127,678	136,776	87,650
Dividends paid to non-controlling interests during the year	10,332	-	1,770	2,707
Revenue	864,626	1,789,948	3,079,967	3,896,137
Profit	56,696	119,811	10,442	102,518
Total comprehensive income	18,389	123,231	10,021	101,406
Profit attributable to non-controlling interests	26,408	7,348	5,102	35,628
Total comprehensive income attributable to non-controlling interests	8,420	7,560	4,897	35,242
Cash flows from operating activities	(38,781)	(530,980)	147,610	120,304
Cash flows from investing activities	37,752	(47,305)	(119,197)	(84,763)
Cash flows from financing activities	(22,000)	728,580	(79,358)	(10,612)
Effect of currency exchange rate	50	474	-	-
Net increase (decrease) in cash and cash equivalents	(22,979)	150,769	(50,945)	24,929

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(g) Changes in a parent's ownership interest in subsidiaries that did not result in change in control

1) Details of the parent's additional investments in subsidiaries for the years ended December 31, 2016 and 2015 are summarized as follows:

Subsidiaries	Korean won (millions)	2016		Korean won (millions)	
		Percentage of ownership (%)		Parent's portion in net assets	
		Before	After	Before	After
Qingdao LOTTE Mart Commercial Co., Ltd.	₩ 41,025	100.00%	100.00%	₩ (125,580)	(84,555)
	27,700	100.00%	100.00%	(86,132)	(58,432)
	13,164	100.00%	100.00%	(65,290)	(52,126)
LOTTE CINEMA VIETNAM CO., LTD.	10,299	90.00%	90.00%	8,295	18,594
Lotte Datviet Homeshopping Co., Ltd.	5,951	85.58%	90.02%	398	5,776
Lotte Ulsan Development Co., Ltd.	13,900	100.00%	95.98%	9,123	22,967
	-	95.98%	94.84%	23,542	23,551
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	4,254	100.00%	100.00%	60,015	64,269
	4,383	100.00%	100.00%	64,481	68,864
Lotte Members Co., Ltd	<u>24,382</u>	93.78%	93.88%	<u>29,205</u>	<u>53,566</u>
Total	₩ <u>145,058</u>			₩ <u>(81,943)</u>	<u>62,474</u>

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

December 31, 2016 and 2015

1. General Description of the Reporting Entity, Continued

(g) Changes in a parent's ownership interest in subsidiaries that did not result in change in control, continued

2) Details of the parent's additional investments in subsidiaries for the years ended December 31, 2016 and 2015 are summarized as follows:, continued

Subsidiaries	2015				
	Korean won (millions)	Percentage of ownership (%)		Korean won (millions)	
		Before additional acquisition	After additional acquisition	Parent's portion in net assets Before additional acquisition	After additional acquisition
Lotte Shopping Plaza Vietnam Co., Ltd.	₩ 2,173	100.00%	100.00%	₩ 24,306	26,479
Lotte Department Store Masan Co., Ltd.	12,000	100.00%	100.00%	3,908	15,908
Lotte Shopping Holdings (Hong Kong) Co., Limited	979	100.00%	100.00%	749,327	750,306
LOTTE PS NET	6,704	62.78%	63.64%	(3,456)	3,037
Swift Harvest Ltd. and its subsidiaries	52,069	100.00%	100.00%	(17,340)	34,729
Lotte Business Management (Tianjin) Co., Ltd.	19,250	100.00%	100.00%	(66,990)	(47,740)
Qingdao LOTTE Mart Commercial Co., Ltd.	44,034	100.00%	100.00%	(169,614)	(125,580)
LOTTE CINEMA VIETNAM CO., LTD.	4,232	90.00%	90.00%	2,950	7,182
NCF Co., Ltd.	343	98.30%	99.80%	16,804	17,060
Total	₩ 141,784			₩ 539,895	681,381

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

2. Basis of Accounting

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Stock Corporation in the Republic of Korea*.

The consolidated financial statements were authorized for issue by the Board of Directors on March 2, 2017, which will be submitted for approval to the shareholders' meeting to be held on March 24, 2017.

(b) Basis of measurement

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

- ✓ derivative financial instruments are measured at fair value
- ✓ financial instruments at fair value through profit or loss are measured at fair value
- ✓ available-for-sale financial assets are measured at fair value
- ✓ liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(i) Information about assumptions and estimation uncertainties

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

- Note 16 – Goodwill and Intangible assets
- Note 20 – Provisions
- Note 22 – Employee benefits
- Note 35 – Income taxes
- Note 40 – Contingent liabilities and financial commitments
- Note 43 – Risk management

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

2. Basis of Accounting, Continued

(d) Use of estimates and judgments, continued

(ii) Measurement of fair value

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

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

Significant valuation issues are reported to the Group's Audit Committee.

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

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

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

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

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

Note 8 - Fair value of financial instruments

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2016.

- ✓ Amendments to K-IFRS 1001 'Presentation of Financial Statements'

The nature of the changes are explained below.

(i) Presentation of Financial Statements

These amendments clarify the materiality and aggregation, so that they specify the considerations in the case of additional presentation of the subtotal and clarify the order of the notes and other comprehensive income arising from associates.

The impact of the amendments on the Group's consolidated financial statements is not significant.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies

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

(a) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has six reportable segments which consist of department stores, discount stores, credit card service, consumer electronics retail, convenience stores and others, as described in note 39.

(b) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Non-controlling interests("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(b) Basis of consolidation, continued

(iii) Subsidiaries

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

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted Investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vii) Acquisitions from entities under common control

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(c) Cash and cash equivalents

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

(d) Inventories

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

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

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

(e) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

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

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(e) Non-derivative financial assets, continued

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(f) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Other derivative financial instruments

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(g) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If there is objective evidence that financial instruments are impaired, impairment losses are measured and recognized. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(h) Property, plant and equipment

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

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

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

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

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

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

	Useful lives (years)
Buildings	5 ~ 50
Structures	2 ~ 40
Machinery	3 ~ 30
Vehicles	5 ~ 10
Furniture and fixtures	2 ~ 7
Tools and equipment	2 ~ 15
Display fixtures	2 ~ 20
Other property, plant and equipment ("Other PP&E")	3 ~ 40

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(i) Intangible assets

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

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

	Useful lives (years)
Industrial property rights	5 ~ 10
Rights to use facility	5 ~ 20
Film copyrights	Actual revenue as a percentage of total estimated revenue
Other intangible assets	2 ~ 10

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

(j) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(k) Non-current assets held for sale

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS 1036, 'Impairment of Assets'.

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

(l) Impairment of non-financial assets

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(m) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(n) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

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

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

(o) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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4. Significant Accounting Policies, Continued

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

(iv) Retirement benefits: defined benefit plans

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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4. Significant Accounting Policies, Continued

(q) Provisions

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(r) Foreign currencies

(i) Foreign currency transactions

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

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

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

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

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(s) Equity capital

(i) Share capital

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

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

(ii) Hybrid securities

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the arrangement and the definitions of financial liability and an equity instrument. When the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the Group's hybrid securities are classified as equity instruments.

(t) Revenue

Revenue from sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

(i) Sales of goods

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The Group recognizes sales on a gross basis for merchandise of which the Group bears the overall inventory risk in connection with purchase contracts with vendors where the merchandise may only be returned for a full refund prior to the end of the relevant season (for seasonal merchandise) or within 90 days from delivery (for non-seasonal merchandise). The Group recognizes sales on a net basis for merchandise that may be returned to vendors at any time.

(ii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable from the initial sale is allocated between the award credits ("points") and the other components of the sale. The Group supplies all of the awards with its products. The amount allocated to the points is estimated by reference to the fair value of its products for which they could be redeemed, since the fair value of the points themselves is not directly measurable. The fair value of its products is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to supply its products.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(t) Revenue, continued

(iii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

(iv) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

(v) Income of card business

The Group recognizes interest and fee income from cardholders and merchants on an accrual basis. Certain fees associated with lending activities which meet specified criteria, are deferred and amortized over the life of the loan as an adjustment to the carrying amount of the loan. The amortization of deferred fee is recognized as operating revenue.

(u) Finance income and finance costs

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(v) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(w) Earnings per share

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

(x) Emission Rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which became effective in 2015.

(i) Greenhouse Gases Emission Right

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

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

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

(ii) Emission liability

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

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4. Significant Accounting Policies, Continued

(y) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published but are not mandatory for the Group for annual periods beginning on January 1, 2016, and the Group has not early adopted them.

Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements.

(i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015 which replaces existing guidance in K-IFRS 1039 Financial Instruments: Recognition and Measurement, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group currently plans to apply K-IFRS 1109 for the year beginning on January 1, 2018.

K-IFRS 1109 will generally be applied retrospectively, except for the following:

- exemption allowing the Group not to restate comparative information for prior periods with respect to classification and measurement including impairment changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of the new standard, K-IFRS 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment methodology reflects based on changes in 'expected credit losses' (ECL) model for financial assets, and expanded scope of hedged items and hedging instrument which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

To ensure smooth implementation of K-IFRS 1109, the Group needs to assess the financial impact of adopting K-IFRS 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS 1109 on the Group's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Group plans to change the accounting process and internal control and to assess the financial impact on its consolidated financial statements resulting from the adoption of K-IFRS 1109 by December 31, 2017. Expected impacts on consolidated financial statements upon adoption of K-IFRS 1109 are generally categorized as follows:

Classification and measurement of financial assets

Classification of financial assets under K-IFRS 1109 is driven by the entity's business model for managing financial assets and their cash flow characteristics. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and cash flow characteristics are as follows:

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4. Significant Accounting Policies, Continued

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

Business model assessment	Contractual cash flow characteristics	
	Solely payments of principal and interest	Others
Hold to collect contractual cash flows	Amortized cost(*1)	
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value (*1)	FVTPL-measured at fair value (*2)
Hold to sell financial assets and others	FVTPL-measured at fair value	

(*1) To eliminate or significantly reduce the accounting mismatch, the Group may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.

(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

As new classification requirements for financial assets under K-IFRS 1109 are more stringent than requirements under K-IFRS 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Group.

As of December 31, 2016, the Group has financial assets at fair value through profit or loss amounting to ₩67,059 million, loans and receivables amounting to ₩12,415,872 million, available-for-sale financial assets amounting ₩627,288 million. K-IFRS 1109, a financial asset shall be measured at amortised cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group has recognized the loans and receivables as amortized cost as of December 31, 2016.

A financial asset is measured at FVOCI under K-IFRS 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2016, the Group has ₩14,485 million of debt instruments classified as available-for-sale financial assets.

Under K-IFRS 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2016, the Group has ₩612,802 million of available-for-sale equity instruments.

K-IFRS 1109, a financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. As of December 31, 2016, the Group has debt instruments classified as financial assets at fair value through profit or loss amounting to ₩10,022 million and has no equity instruments classified as financial assets at fair value through profit or losses.

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

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4. Significant Accounting Policies, Continued

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

Classification and measurement of financial liabilities

Under K-IFRS 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss. Adoption of K-IFRS 1109 may result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI. As of December 31, 2016, the Group has financial liability at fair value through profit or loss amounting to ₩26,281 million.

Impairment : financial assets and contract assets

The current impairment requirements under K-IFRS 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS 1109 replaces the incurred loss model in K-IFRS 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under K-IFRS 1109, the Group should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS 1039.

Stages (*1)		Loss allowance
Stage 1	No significant increase in credit risk since initial recognition (*2)	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Objective evidence of credit risk impairment	

(*1) Under K-IFRS 1115, Revenue from Contracts with Customers (see note 3 (26) (2)), for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS 1115, the Group may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Group may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

(*2) The Group may assume that a financial asset's credit risk has not increased significantly since initial recognition if the asset has low credit risk at the reporting date.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

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

K-IFRS 1109 allows the Group to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date.

As of December 31, 2016, the Group has debt instruments recognized as amortized cost amounting to ₩12,415,872 million (loans and receivables), recognized as available-for-sale financial assets amounting to ₩14,485 million and set a loss allowance amounting to ₩243,270 million.

Hedge accounting

K-IFRS 1109 maintains the mechanics of hedge accounting from those in K-IFRS 1039. However, K-IFRS 1109 replaces existing rule-based requirements under K-IFRS 1039 that are complex and difficult to apply with principle based requirement focusing more on the Group's risk management purposes and procedures. Under K-IFRS 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in K-IFRS 1109, the Group may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS 1039 thereby reducing volatility in profit or loss.

As of December 31, 2016, the Group recognized the total amount of ₩219,760 million as hedged assets and ₩5,190 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩6,878 million (after deducting the tax effect) was recognized in OCI for the year ended December 31, 2016.

Upon initial application of K-IFRS 1109, the Group may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS 1039 instead of the requirements in K-IFRS 1109. The Group is still in the process of evaluating whether to make such accounting policy election upon adoption date.

(ii) K-IFRS 1115 'Revenue from Contracts with Customers'

K-IFRS 1115, published in November 6, 2015, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS 1018, Revenue, K-IFRS 1011, Construction Contracts, K-IFRS 2013, Revenue—Barter Transactions Involving Advertising Services, K-IFRS 2113, Customer Loyalty Programmes, K-IFRS 2115, Revenue—Barter Transactions Involving Advertising Services, and K-IFRS 2118, Transfers of assets from customers. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group will adopt K-IFRS 1115 from the beginning of the financial year beginning on or after January 1, 2018 and apply to the comparative historical reporting periods presented in accordance with the K-IFRS 1008, Accounting Policies, Changes in Accounting Estimates and Errors retrospectively and will adopt the simplified method so that the Group does not restate the consolidated financial statements.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

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

K-IFRS 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS 1115 introduces a five-step model for revenue recognition that focuses on the 'transfer of control' rather than the 'transfer of risks and rewards'. The steps in five-step model are as follows:

- ✓ identification of the contract with a customer;
- ✓ identification of the performance obligations in the contract;
- ✓ determination of the transaction price;
- ✓ allocation of the transaction price to the performance obligations in the contract; and
- ✓ recognition of revenue when (or as) the entity satisfies a performance obligation.

The Group has not been able to undertake preparatory work related to the adoption of K-IFRS 1115, it has not been able to analyze the financial impact of the adoption of this standard on its consolidated financial statements. The Group will complete the analysis of the financial impact of adopting the standard in 2017.

(iii) K-IFRS 1013, 'Statement of Cash Flows'

K-IFRS 1013 requires disclosure of changes in liabilities arising from financial activities. The Group will adopt K-IFRS 1107 from the beginning of the financial year beginning on or after January 1, 2017.

(iv) K-IFRS 1012, 'Income Taxes'

K-IFRS 1012 includes decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, ie continuing to hold it, or whether it is probable that the issuer will pay all the contractual cash flows. The probable inflow of taxable economic benefits may exceed the carrying amount of the asset. In evaluating whether it will have sufficient taxable profit in future periods, an entity compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The Group will adopt K-IFRS 1012 from the beginning of the financial year beginning on or after January 1, 2017.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

5. Business Combination

Significant business combinations of the Group in 2016 and 2015 are as follows:

(i) Acquisition of L.pay Service Business

The Group entered into an agreement to acquire L.pay Service Business from Mybi.Co.Ltd on May 30, 2016 and the Group consummated the acquisition on June 30, 2016.

(ii) Acquisition of LOTTE.COM INC

On February 26, 2015, the Group acquired 15.62% of capital stock of LOTTE.COM INC, in which the Group held 34.39% of its capital stock prior to the acquisition. As a result of the acquisition of additional interests, the Group obtained control over LOTTE.COM INC by holding 50.01% of its capital stock.

(iii) Acquisition of LOTTE PS NET

The Group and LOTTE.COM INC held 31.91% and 30.87% of LOTTE PS NET, respectively, prior to the Group's obtaining control over LOTTE.COM INC in February 2015. As a result of obtaining control over LOTTE.COM INC, the Group obtained control over LOTTE PS NET by holding 62.78% of its capital stock.

(iv) Acquisition of Lotte Department Store Masan Co., Ltd.

The Group entered into an agreement to acquire department stores (MASAN store and BUSAN CENTRAL store) from DAEWOO INTERNATIONAL CORPORATION on September 2, 2014 and the Group consummated the acquisition on June 30, 2015.

The following summarizes major classes of consideration transferred.

Description	Korean won (millions)			
	December 31, 2016	December 31, 2015		
	L.pay Service	LOTTE.COM INC	LOTTE PS NET	Lotte Department Store Masan Co., Ltd.
Fair value of the Group's existing equity interest (*)	₩ -	14,104	2,480	-
Cash and cash equivalents	7,687	11,563	-	7,630
Total consideration transferred	7,687	25,667	2,480	7,630
Cash and cash equivalents held by subsidiary acquired	-	12,872	26	3,725
Net cash inflow (outflow)	₩ (7,687)	1,309	26	(3,905)

(*) The Group recognized a gain on disposal of existing equity interests of ₩6,880 million upon consummation of the business combination. The gain is included in financial income in the Group's statement of comprehensive income for the year ended December 31, 2015.

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5. Business Combination, Continued

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

Accounts	Korean won (millions)			
	December 31, 2016	December 31, 2015		
	L.pay Service	LOTTE.COM INC	LOTTE PS NET	Lotte Department Store Masan Co., Ltd.
Current:				
Cash and cash equivalents	₩ -	12,872	26	3,725
Trade and other receivables	-	86,402	1,526	2,560
Inventories	-	1,560	-	453
Other assets	-	34,521	728	16,673
Non-current:				
Property, plant and equipment, net	1,607	9,099	49,870	1,222
Intangible assets, net	5,788	17,073	36	-
Other assets	-	6,256	9	763
Total assets	7,395	167,783	52,195	25,396
Current:				
Trade and other payables	-	128,632	4,370	12,741
Borrowings and debentures, net of debentures issuance cost	-	-	27,000	-
Other liabilities	-	5,408	11,790	9,752
Non-current:				
Employee benefit liabilities	-	944	-	464
Other liabilities	-	163	12,300	975
Total liabilities	-	135,147	55,460	23,932
Total identifiable net assets	₩ 7,395	32,636	(3,265)	1,464

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5. Business Combination, Continued

Goodwill recognized as a result of business combinations is as follows:

	Korean won (millions)			
	December 31, 2016	December 31, 2015		
Accounts	L.pay Service	LOTTE.COM INC	LOTTE PS NET	Lotte Department Store Masan Co., Ltd.
Total consideration transferred	₩ 7,687	25,667	2,480	7,630
Non-controlling interests	-	16,315	(1,215)	-
Subtotal	7,687	41,982	1,265	7,630
Less: Fair value of identifiable net assets	(7,395)	(32,636)	3,265	(1,464)
Goodwill	₩ 292	9,346	4,530	6,166

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6. Trade and Other Receivables

Trade and other receivables as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Trade receivables	₩	692,751	621,014
Other receivables		367,420	349,065
Allowance for doubtful accounts		(28,833)	(51,228)
Total	₩	<u>1,031,338</u>	<u>918,851</u>

7. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as of December 31, 2016 and 2015 are summarized as follows:

Description	Depository	Korean won (millions)	
		December 31, 2016	December 31, 2015
Current:			
Time deposits	Busan Bank and others	₩ 58,238	78,441
Special deposits	Industrial Bank of Korea and others	184,682	154,000
Money Market Fund	Citibank and others	25,873	21,744
Non-current:			
Special deposits	Busan Bank and others	9,961	2,505
Available-for-sale financial assets	Busan City Hall and others	16,424	21,408
Total		₩ <u>295,178</u>	<u>278,098</u>

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8. Fair Value of Financial Instruments

(a) The carrying amount and the fair value of financial instruments as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)			
		December 31, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 2,269,177	2,269,177	1,751,268	1,751,268
Financial assets at fair value through profit or loss	Short-term financial instruments	40,003	40,003	60,003	60,003
	Long-term Financial Instruments	10,022	10,022	-	-
	Current Derivative assets held for the purpose of trading	1,312	1,312	-	-
	Non-current Derivative assets held for the purpose of trading	15,722	15,722	-	-
	Subtotal	67,059	67,059	60,003	60,003
Loans and receivables (*1)	Current :				
	Trade and other receivables	1,031,338	1,031,338	918,851	918,851
	Short-term financial instruments	865,432	865,432	1,221,935	1,221,935
	Short-term loans	15,008	15,008	12,136	12,136
	Accrued income	36,169	36,169	37,664	37,664
	Current portion of deposits	89,751	89,751	107,947	107,947
	Card financial assets	8,853,173	8,853,173	8,178,959	8,178,959
	Non-current :				
	Long-term financial instruments	9,958	9,958	2,507	2,507
	Long-term loans	52,186	52,186	54,909	54,909
	Deposits	1,462,840	1,462,840	1,361,193	1,361,193
Accrued income	18	18	8	8	
Subtotal	12,415,873	12,415,873	11,896,109	11,896,109	
Available-for-sale financial assets	Marketable available-for-sale financial assets (*2)	280,520	280,520	282,887	282,887
	Non-marketable available-for-sale financial assets (*3)	346,768	346,768	279,170	279,170
	Subtotal	627,288	627,288	562,057	562,057
Derivative assets held for the purpose of hedging	Current	78,401	78,401	53,868	53,868
	Non-current	141,368	141,368	108,519	108,519
	Subtotal	219,769	219,769	162,387	162,387
	Total	₩ 15,599,166	15,599,166	14,431,824	14,431,824

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

8. Fair Value of Financial Instruments, Continued

(a) The carrying amount and the fair value of financial instruments as of December 31, 2016 and 2015 are summarized as follows:, continued

(*3) Some of non-marketable available-for-sale financial assets that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies as of the end of reporting period. Others are recorded based on acquisition cost because either the fair value cannot be reliably measured or the difference between fair value and acquisition cost is immaterial.

(b) Other financial assets as of December 31, 2016 and 2015 are summarized as follows:

	Korean won (millions)	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current:		
Short-term financial instruments	₩ 905,435	1,281,938
Short-term loans	15,008	12,136
Available-for-sale financial assets	80	-
Accrued income	36,169	37,664
Deposits	89,751	107,947
Card business financial assets	8,853,173	8,178,959
Derivative assets held for the purpose of trading	1,312	-
Derivative assets held for the purpose of hedging	78,401	53,868
Subtotal	<u>9,979,329</u>	<u>9,672,512</u>
Non-current:		
Long-term financial instruments	19,980	2,507
Available-for-sale financial assets	627,208	562,057
Long-term loans	52,186	54,909
Deposits	1,462,840	1,361,193
Accrued income	18	8
Derivative assets held for the purpose of trading	15,722	-
Derivative assets held for the purpose of hedging	141,368	108,519
Subtotal	<u>2,319,322</u>	<u>2,089,193</u>
Total	<u>₩ 12,298,651</u>	<u>11,761,705</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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8. Fair Value of Financial Instruments, Continued

(c) Available-for-sale financial assets as of December 31, 2016 and 2015 are summarized as follows:

	Korean won (millions)				December 31, 2015
	December 31, 2016		Acquisition cost	Carrying amount	
	Number of shares	Percentage of ownership			Carrying amount
Marketable available-for-sale financial assets:					
BNK Financial Group Inc. (Formerly, BS Financial Group Inc.)	8,543,826	2.62%	₩ 56,179	74,160	55,248
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247	14,078	12,305
LOTTE FOOD CO.,LTD.	47,180	3.45%	10,167	30,620	44,774
momo.com Inc.	21,333,420	15.02%	37,684	154,828	161,737
Others			5,622	6,834	8,823
Subtotal			₩ 111,899	280,520	282,887
Non-marketable available-for-sale financial assets:					
LOTTE Logistics Corp.	66,308	4.64%	₩ 4,000	17,729	13,865
LOTTE rental co., ltd.	1,592,072	13.53%	164,967	165,622	142,420
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	149,807	17.70%	50,118	29,962	34,457
Lotte Global Logistics Co.,LTD.	660,805	3.62%	25,169	25,292	
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,919	41,919	41,919
Investment in government bonds			10,775	10,476	386
Others			55,823	55,768	46,123
Subtotal			₩ 352,771	346,768	279,170
Total			₩ 464,670	627,288	562,057

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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8. Fair Value of Financial Instruments, Continued

(d) The carrying amount and the fair value of financial liabilities as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)			
		December 31, 2016		December 31, 2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Overseas convertible bonds	₩ -	-	113,440	113,440
	Current derivative liabilities held for the purpose of trading	14,420	14,420	-	-
	Non-current derivative liabilities held for the purpose of trading	11,861	11,861	24,608	24,608
	Subtotal	26,281	26,281	138,048	138,048
Financial liabilities based on amortized cost (*)	Current :				
	Trade and other payables	5,785,352	5,785,352	5,465,907	5,465,907
	Short-term borrowings	1,537,255	1,537,255	1,789,819	1,789,819
	Current portion of long-term borrowings	903,232	903,232	467,641	467,641
	Current portion of long-term debentures	2,618,126	2,618,126	1,896,239	1,896,239
	Accrued expenses	333,554	333,554	276,716	276,716
	Current portion of withholding deposit	241,622	241,622	244,524	244,524
	Finance lease liabilities	25,721	25,721	11,282	11,282
	Other liabilities	10,132	10,132	665	665
	Non-current :				
	Long-term borrowings	1,706,080	1,706,080	1,856,538	1,856,538
	Long-term debentures	7,718,255	7,718,255	7,959,900	7,959,900
	Withholding deposit	206,949	206,949	201,134	201,134
	Finance lease liabilities	19,826	19,826	32,870	32,870
Other liabilities	17,560	17,560	5,595	5,595	
Subtotal	21,123,664	21,123,664	20,208,830	20,208,830	
Derivative liabilities held for the purpose of hedging	Current	896	896	602	602
	Non-current	4,294	4,294	15,345	15,345
	Subtotal	5,190	5,190	15,947	15,947
Total	₩ 21,155,135	21,155,135	20,362,825	20,362,825	

(*) Book value is considered as a reasonable approximation value of fair value.

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8. Fair Value of Financial Instruments, Continued

(e) Other financial liabilities as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current:			
Accrued expenses	₩	333,554	276,716
Deposit received		241,622	244,524
Derivative liabilities held for the purpose of hedging		896	602
Derivative liabilities held for the purpose of trading		14,420	-
Finance lease liabilities assets		25,721	11,282
Others		10,132	665
Subtotal		<u>626,345</u>	<u>533,789</u>
Non-current:			
Deposit received		206,949	201,134
Derivative liabilities held for the purpose of hedging		4,294	15,345
Derivative liabilities held for the purpose of trading		11,861	24,608
Finance lease liabilities		19,826	32,870
Other financial liabilities		17,559	5,595
Subtotal		<u>260,489</u>	<u>279,552</u>
Total	₩	<u>886,834</u>	<u>813,341</u>

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8. Fair Value of Financial Instruments, Continued

(f) The fair value hierarchy

The fair value measurements classified by fair value hierarchy as of December 31, 2016 are as follows:

Description	Korean won (millions)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 280,520	14,485	248,352	543,357
Derivative assets	-	219,770	17,034	236,804
Total financial assets	280,520	234,255	265,386	780,161
Derivative liabilities	-	5,190	26,281	31,471
Total financial liabilities	₩ -	5,190	26,281	31,471

The fair value measurements classified by fair value hierarchy as of December 31, 2015 are as follows:

Description	Korean won (millions)			
	Level I	Level II	Level III	Total
Available-for-sale financial assets	₩ 282,887	386	198,034	481,307
Derivative assets	-	162,387	-	162,387
Total financial assets	282,887	162,773	198,034	643,694
Oversees convertible bonds	-	113,440	-	113,440
Derivative liabilities	-	15,947	24,608	40,555
Total financial liabilities	₩ -	129,387	24,608	153,995

In measuring Level 2 fair values, the Group used Strip & Bootstrapping method, etc. and the Group used the significant observable inputs of risk-free rate, etc.

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

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8. Fair Value of Financial Instruments, Continued

(g) Level 3 fair values

Changes in Level 3 fair values for the years ended December 31, 2016 and 2015 are as follows:

Description	Korean won (millions)	
	December 31, 2016	December 31, 2015
Beginning of the year	₩ 173,426	112,217
Transfer in of Level 3	1,500	-
Gain (loss) included in finance costs		
- Gain (loss) on valuation of derivative instruments	9,585	167
Gain (loss) included in OCI		
- Net change in unrealized fair value of available-for-sale financial assets	1,090	7,262
Purchases	53,504	137,912
Disposal	-	(84,132)
Reclassification to investments in associates	-	-
End of the year	₩ 239,105	173,426

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets and stock options, reasonably possible changes as of December 31, 2016 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on fair values.

(i) Equity securities

Description	Korean won (millions)			
	Discount rate		Terminal growth rate	
	1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩ 62,570	(45,888)	22,442	49,002

(ii) Stock options (liability-classified)

Description	Korean won (millions)			
	Discount rate		Stock price volatility	
	10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩ (5,590)	5,598	(2)	4

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9. Inventories

(a) Inventories as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)					
		December 31, 2016			December 31, 2015		
		Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value
Merchandise	₩	2,979,195	(27,962)	2,951,233	2,952,329	(21,290)	2,931,039
Finished goods		14,855	(4,248)	10,607	17,579	(4,798)	12,781
Goods in process		1,529	-	1,529	969	-	969
Raw materials		678	(126)	552	973	(125)	848
Subsidiary materials		-	-	-	23	-	23
Supplies		2,002	-	2,002	2,244	-	2,244
Materials-in-transit		4,593	-	4,593	2,149	-	2,149
Unsold apartment units		8,488	-	8,488	29,412	-	29,412
Unfinished apartment units		345,373	-	345,373	286,532	-	286,532
Total	₩	<u>3,356,713</u>	<u>(32,336)</u>	<u>3,324,377</u>	<u>3,292,210</u>	<u>(26,213)</u>	<u>3,265,997</u>

(b) For the years ended December 31, 2016 and 2015, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are summarized as follows:

		Korean won (millions)	
		2016	2015
Cost of goods sold:			
- Amount of inventories recognized as cost of goods sold	₩	18,895,068	18,909,058
- Changes of allowance for valuation losses of inventories		6,123	8,402

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10. Other Non-financial Assets

Other non-financial assets as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current:			
Advance payments	₩	80,152	132,282
Prepaid expenses		178,655	174,145
Prepaid value added tax		64,059	78,909
Other		-	60
Subtotal		<u>322,866</u>	<u>385,396</u>
Non-current:			
Long-term advance payments		218,595	183,727
Long-term prepaid expenses (*)		1,055,386	1,226,136
Other		4,218	3,942
Subtotal		<u>1,278,199</u>	<u>1,413,805</u>
Total	₩	<u><u>1,601,065</u></u>	<u><u>1,799,201</u></u>

(*) Long-term prepaid expenses mainly consist of lease prepayments.

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11. Non-current assets held for sale

Non-current assets held for sale as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Land (*1)	₩	103	-
Buildings (*1)		2,164	-
Tools and equipment(*2)		-	447
Total		<u>2,267</u>	<u>447</u>

(*1) Since Lotte.com decided to dispose of its land and buildings in 2016, these assets were reclassified to non-current assets held for sale.

(*2) Since Qingdao Lotte Mart Commercial Co., Ltd. closed the Deyang store and decided to dispose of its tools and equipment in 2015, these assets were reclassified to non-current assets held for sale. In 2016, Qingdao Lotte Mart Commercial Co., Ltd. discarded them.

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December 31, 2016 and 2015

12. Investments in Associates

(a) The details of associates as of December 31, 2016 and 2015 are summarized as follows:

December 31, 2016				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2016
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 123,880
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	131,289
Lotte Capital Co., Ltd.	Korea	Capital	22.36	214,361
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	227,004
FRL Korea Co., Ltd.	Korea	Retail	49.00	234,139
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	36,717
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	121,282
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	3,063
Coralis S.A.	Luxembourg	Holding company	45.00	1,242
Others				143,905
Total				₩ 1,236,882

December 31, 2015				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2015
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩ 121,725
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00	135,243
Lotte Capital Co., Ltd.	Korea	Capital	22.36	195,323
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68	239,270
FRL Korea Co., Ltd.	Korea	Retail	49.00	187,626
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14	49,316
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68	124,077
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	-
Coralis S.A.	Luxembourg	Holding company	45.00	11,923
Others				131,252
Total				₩ 1,195,755

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December 31, 2016 and 2015

12. Investments in Associates, Continued

(b) Changes in investments in associates for the years ended December 31, 2016 and 2015 are as follows:

Korean won (millions)									
2016									
Company	Beginning balance	Adjustment to							Balance at December 31, 2016
		Acquisition	Dividends	Net income (loss)	Capital adjustment	Impairment	Disposal	Others	
Lotte Station Building Co., Ltd.	₩ 121,725	-	(7,382)	8,707	822	-	-	8	123,880
Daehong Communications Co., Ltd.	135,243	-	(680)	5,583	(9,353)	-	-	496	131,289
Lotte Capital Co., Ltd.	195,323	-	(2,234)	23,270	(870)	-	-	(1,128)	214,361
Lotteria Co., Ltd.	239,270	-	-	(11,538)	(913)	-	-	185	227,004
FRL Korea Co., Ltd.	187,626	-	(13,475)	51,182	8,806	-	-	-	234,139
Lotte Asset Development Co., Ltd.	49,316	-	-	(2,671)	(8,679)	-	-	(1,249)	36,717
Lotte Trading Co., Ltd.	124,077	-	-	594	(3,374)	-	-	(15)	121,282
Lotte Europe Holdings B.V.	-	-	-	2,740	323	-	-	-	3,063
Coralis S.A.	11,923	4,474	-	(14,244)	(911)	-	-	-	1,242
Others	131,252	27,255	-	(2,571)	(347)	(5,233)	(6,296)	(155)	143,905
Total	₩ 1,195,755	31,729	(23,771)	61,052	(14,496)	(5,233)	(6,296)	(1,858)	1,236,882

Korean won (millions)									
2015									
Company	Beginning balance	Adjustment to							Balance at December 31, 2015
		Acquisition	Business combination	Dividends	Net income (loss)	Capital adjustment	Disposal	Others	
Lotte Station Building Co., Ltd.	₩ 123,646	-	-	(13,597)	10,546	1,130	-	-	121,725
Daehong Communications Co., Ltd.	122,989	-	-	(9)	5,066	7,711	-	(514)	135,243
Lotte Capital Co., Ltd.	152,953	-	-	(2,234)	20,157	24,962	-	(515)	195,323
Lotteria Co., Ltd.	241,347	-	-	-	(3,093)	1,197	-	(181)	239,270
FRL Korea Co., Ltd.	161,831	-	-	(19,502)	44,816	481	-	-	187,626
Lotte Asset Development Co., Ltd.	40,871	19,571	-	-	(5,078)	(6,383)	-	335	49,316
Lotte Trading Co., Ltd.	134,725	-	-	-	2,398	(13,571)	-	525	124,077
Lotte Europe Holdings B.V.	11,731	10,855	-	-	(24,450)	(2,832)	-	4,696	-
Coralis S.A.	37,616	-	-	-	(24,786)	(907)	-	-	11,923
Others	119,377	49,764	396	-	(18,930)	7	(12,003)	(7,359)	131,252
Total	₩ 1,147,086	80,190	396	(35,342)	6,646	11,795	(12,003)	(3,013)	1,195,755

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

12. Investments in Associates, Continued

(c) Financial information of significant associates as of and for the years ended December 31, 2016 and 2015 are summarized as follows:

Company	Korean won (millions)								
	2016								
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss) (*1)	
Lotte Station Building Co., Ltd.	₩	237,320	503,325	235,457	9,667	582,892	53,117	3,324	38,153
Daehong Communications Co., Ltd.		254,288	411,691	242,477	44,387	405,222	21,253	(24,813)	(8,495)
Lotte Capital Co., Ltd. (*2)		6,895,449	-	5,933,572	-	882,237	141,161	(3,839)	101,590
Lotteria Co., Ltd.		277,565	957,434	416,345	268,456	1,124,880	6,490	3,616	(5,684)
FRL Korea Co., Ltd.		515,676	149,335	186,627	550	1,208,517	127,213	17,971	122,426
Lotte Asset Development Co., Ltd.		586,147	268,414	676,089	85,065	224,788	9,750	(23,565)	(30,389)
Lotte Trading Co., Ltd.		303,709	905,072	359,721	166,814	683,149	4,634	(11,758)	(9,547)
Lotte Europe Holdings B.V.		106,119	445,948	151,624	379,567	103,682	10,049	1,196	56,253
Coralis S.A.		41,557	393,162	130,374	336,040	30,669	(10,775)	(2,023)	(33,660)

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

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

Company	Korean won (millions)								
	2015								
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss) (*1)	
Lotte Station Building Co., Ltd.	₩	277,785	450,438	232,636	8,689	612,651	54,390	4,519	46,704
Daehong Communications Co., Ltd.		248,298	451,607	255,311	53,698	398,229	19,994	21,227	35,664
Lotte Capital Co., Ltd. (*2)		6,361,468	-	5,484,954	-	803,553	123,178	8,562	98,713
Lotteria Co., Ltd.		223,909	843,767	343,767	152,659	1,122,763	1,456	2,626	(3,208)
FRL Korea Co., Ltd.		510,173	144,316	270,327	1,253	1,107,387	131,616	981	92,442
Lotte Asset Development Co., Ltd.		375,566	239,175	138,391	351,236	155,020	1,526	(15,452)	(28,426)
Lotte Trading Co., Ltd.		289,406	915,687	317,194	187,920	686,409	4,719	(49,905)	(38,519)
Lotte Europe Holdings B.V.		73,640	416,992	252,318	236,348	98,713	1,630	(7,421)	(113,189)
Coralis S.A.		28,279	409,687	10,298	435,619	25,560	(15,628)	(2,015)	(57,079)

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

12. Investments in Associates, Continued

(d) The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as of December 31, 2016 and 2015 is as follows:

Company	Korean won (millions)					Balance at December 31, 2016
	2016					
	Net assets (*1)	Ownership (%)	Ownership of net assets	Goodwill	Others (*2)	
Lotte Station Building Co., Ltd.	₩ 495,521	25.00	123,880	-	-	123,880
Daehong Communications Co., Ltd.	379,547	34.00	129,046	2,243	-	131,289
Lotte Capital Co., Ltd.	958,505	22.36	214,315	-	46	214,361
Lotteria Co., Ltd.	550,120	38.68	212,789	14,215	-	227,004
FRL Korea Co., Ltd.	477,834	49.00	234,139	-	-	234,139
Lotte Asset Development Co., Ltd.	92,928	39.14	36,374	343	-	36,717
Lotte Trading Co., Ltd.	438,079	27.68	121,282	-	-	121,282
Lotte Europe Holdings B.V.	20,876	26.98	5,633	9,676	(12,246)	3,063
Coralis S.A.	(31,695)	45.00	(14,263)	15,162	343	1,242

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

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

Company	Korean won (millions)					Balance at December 31, 2015
	2015					
	Net assets (*1)	Ownership (%)	Ownership of net assets	Goodwill	Others (*2)	
Lotte Station Building Co., Ltd.	₩ 486,898	25.00	121,725	-	-	121,725
Daehong Communications Co., Ltd.	391,176	34.00	133,000	2,243	-	135,243
Lotte Capital Co., Ltd.	873,361	22.36	195,277	-	46	195,323
Lotteria Co., Ltd.	581,830	38.68	225,055	14,215	-	239,270
FRL Korea Co., Ltd.	382,909	49.00	187,626	-	-	187,626
Lotte Asset Development Co., Ltd.	125,114	39.14	48,973	343	-	49,316
Lotte Trading Co., Ltd.	448,178	27.68	124,077	-	-	124,077
Lotte Europe Holdings B.V.	1,966	26.98	531	9,676	(10,207)	-
Coralis S.A.	(7,952)	45.00	(3,578)	15,150	351	11,923

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

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

(e) Current and accumulated unrecognized equity method losses of associates are summarized as follows:

Company	Korean won (millions)	
	December 31, 2016	
	Unrecognized losses for the year	Unrecognized accumulated losses
Lotte Incheon Development Co., Ltd.	₩ -	(1,760)
Prototype Inc.	(10)	(10)
Eunpyeong PFV corporation	(57)	(57)
Total	₩ (67)	(1,827)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

13. Joint Ventures

(a) When the Group has rights to the net assets of the joint venture entity, the Group classifies the investment in entity as a joint venture. The details of joint ventures as of December 31, 2016 and 2015 are summarized as follows:

December 31, 2016				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2016
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ 838
STL Co., Limited	Korea	Retail	50.00	511
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	7,373
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	928
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	9,684
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	3,868
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	-	-
International Business Center Company Limited	Vietnam	Distribution	50.00	63,895
PT. INDO LOTTE MAKMUR	Indonesia	Distribution	50.00	12,721
Total				₩ <u>99,818</u>

December 31, 2015				
Company	Location	Major operation	Ownership (%)	Korean won (millions) Balance at December 31, 2015
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ 1,725
STL Co., Limited	Korea	Retail	50.00	606
LOTTE JTB Co., Ltd.	Korea	Travel business	50.00	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00	962
Shandong Luckypai TV Shopping	China	TV Home Shopping	49.00	10,092
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00	4,195
Chongqing Yujia Co., Ltd.	China	TV Home Shopping	49.00	-
International Business Center Company Limited	Vietnam	Distribution	50.00	61,516
Total				₩ <u>79,096</u>

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

December 31, 2016 and 2015

13. Joint Ventures, Continued

(b) Changes in joint ventures for the years ended December 31, 2016 and 2015 are as follows:

Company	Korean won (millions)							Balance at December 31, 2016
	2016							
	Beginning balance	Adjustment to						
	Acquisition	Dividends	Net income (loss)	Capital adjustment	Others			
D-Cinema of Korea Co., Ltd. ₩	1,725	-	-	(887)	-	-	838	
STL Co., Limited	606	-	-	(95)	-	-	511	
LOTTE JTB Co., Ltd.	-	10,000	-	(2,575)	(52)	-	7,373	
Shenyang SL Cinema Investment Management Co., Ltd.	962	-	-	5	(39)	-	928	
Shandong Luckypai TV Shopping	10,092	-	-	-	-	(408)	9,684	
Yunnan Maile TV Shopping Media Co., Ltd.	4,195	-	(205)	46	-	(168)	3,868	
Chongqing Yujia Co., Ltd. International Business Center Company Limited	61,516	-	(4,188)	4,315	292	1,960	63,895	
PT. INDO LOTTE MAKMUR	-	14,433	-	(452)	(1,933)	673	12,721	
Total	₩ 79,096	24,433	(4,393)	357	(1,732)	2,057	99,818	

Company	Korean won (millions)							Balance at December 31, 2015
	2015							
	Beginning balance	Adjustment to						
	Acquisition	Business combination	Dividends	Net income (loss)	Capital adjustment	Others		
D-Cinema of Korea Co., Ltd. ₩	-	-	-	-	1,725	-	1,725	
STL Co., Limited	1,335	-	-	-	(729)	-	606	
LOTTE JTB Co., Ltd.	-	-	4,100	-	(4,100)	-	-	
Shenyang SL Cinema Investment Management Co., Ltd.	925	-	-	-	20	17	962	
Shandong Luckypai TV Shopping	9,906	-	-	-	-	186	10,092	
Yunnan Maile TV Shopping Media Co., Ltd.	4,225	-	-	(309)	200	79	4,195	
Chongqing Yujia Co., Ltd. International Business Center Company Limited	-	59,058	-	(4,927)	3,155	3,911	61,516	
Total	₩ 16,391	59,058	4,100	(5,236)	271	4,176	79,096	

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

13. Joint Ventures, Continued

(c) Financial information of joint ventures as of and for the years ended December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)							
		2016							
Company		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd.	₩	17,198	3,013	8,148	10,387	5,329	(1,620)	-	(1,775)
STL Co., Limited		4,094	852	3,369	555	16,149	(53)	-	(190)
LOTTE JTB Co.,Ltd Shenyang SL Cinema Investment Management Co., Ltd.		42,342	3,384	27,593	3,437	26,267	2,547	(50)	2,533
Shandong Luckypai TV Shopping		957	1,391	458	-	1,250	9	(79)	(67)
Yunnan Maile TV Shopping Media Co., Ltd.		43,186	3,725	26,643	-	-	-	-	-
International Business Center Company Limited		13,894	1,903	9,757	-	23,328	(1,505)	-	204
PT. INDO LOTTE MAKMUR		11,672	52,699	27,802	1,355	22,104	11,336	583	9,213
		17,975	6,499	96	282	-	(1,281)	(3,867)	(4,770)

		Korean won (millions)							
		2015							
Company		Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
D-Cinema of Korea Co., Ltd.	₩	25,784	9,289	13,777	17,845	22,747	9,553	-	6,931
STL Co., Limited		3,436	1,186	2,978	434	13,724	(1,187)	-	(1,458)
LOTTE JTB Co.,Ltd Shenyang SL Cinema Investment Management Co., Ltd.		15,500	3,441	23,709	2,965	18,998	(13,551)	-	(15,980)
Shandong Luckypai TV Shopping		884	1,586	513	-	1,454	(37)	35	75
Yunnan Maile TV Shopping Media Co., Ltd.		47,014	3,583	32,252	-	24,086	(310)	-	(260)
Chongqing Yujia Co., Ltd.		14,528	2,580	10,477	-	29,944	1,315	-	394
International Business Center Company Limited		1,622	385	32,252	-	38,025	(12,329)	-	(11,418)
		13,831	54,857	32,701	1,609	23,577	12,664	(1,996)	6,384

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

13. Joint Ventures, Continued

(d) The reconciliation of the net assets of the joint ventures to the carrying amount of the equity interest in the joint ventures as of December 31, 2016 and 2015 is as follows:

Korean won (millions)						
2016						
Company	Net assets (*1)	Ownership (%)	Ownership of net assets	Goodwill	Others (*2)	Balance at December 31, 2016
D-Cinema of Korea Co., Ltd. ₩	1,676	50	838	-	-	838
STL Co., Limited	1,022	50	511	-	-	511
LOTTE JTB Co.,Ltd	14,696	50	7,348	-	25	7,373
Shenyang SL Cinema Investment Management Co., Ltd.	1,890	49	926	-	2	928
Shandong Luckypai TV Shopping	20,268	49	9,932	-	(248)	9,684
Yunnan Maile TV Shopping Media Co., Ltd.	6,039	49	2,959	909	-	3,868
International Business Center Company Limited	35,215	50	17,608	40,415	5,872	63,895
PT. INDO LOTTE MAKMUR	24,096	50	12,048	-	673	12,721

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

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

Korean won (millions)						
2015						
Company	Net assets (*1)	Ownership (%)	Ownership of net assets	Goodwill	Others (*2)	Balance at December 31, 2015
D-Cinema of Korea Co., Ltd. ₩	3,451	50	1,725	-	-	1,725
STL Co., Limited	1,212	50	606	-	-	606
LOTTE JTB Co., Ltd.	(7,733)	50	(3,866)	-	3,866	-
Shenyang SL Cinema Investment Management Co., Ltd.	1,957	49	959	-	3	962
Shandong Luckypai TV Shopping	18,344	49	8,989	-	1,103	10,092
Yunnan Maile TV Shopping Media Co., Ltd.	6,631	49	3,249	946	-	4,195
Chongqing Yujia Co., Ltd.	(30,246)	49	(14,820)	-	14,820	-
International Business Center Company Limited	34,378	50	17,189	40,415	3,912	61,516

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

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

14. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)							
		December 31, 2016				December 31, 2015			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	8,043,145	-	-	8,043,145	7,991,801	-	-	7,991,801
Buildings		7,451,692	(2,380,298)	(62)	5,071,332	7,229,462	(2,169,376)	-	5,060,086
Structures		354,615	(116,069)	(2,959)	235,587	354,383	(102,766)	-	251,617
Machinery		304,071	(165,732)	(838)	137,501	265,792	(144,192)	(417)	121,183
Vehicles		7,937	(5,732)	(109)	2,096	8,541	(5,759)	(50)	2,732
Display fixtures		787,860	(503,835)	(13,671)	270,354	727,796	(432,687)	(9,440)	285,669
Furniture and fixtures		4,071,279	(2,993,914)	(35,266)	1,042,099	3,739,494	(2,648,079)	(5,587)	1,085,828
Tools and equipment		199,722	(113,427)	(9,757)	76,538	186,219	(103,005)	(3,492)	79,722
Other PP&E		259,999	(100,308)	(40,581)	119,110	257,741	(90,634)	(23,618)	143,489
Construction-in-progress		887,620	-	-	887,620	679,473	-	-	679,473
Finance lease assets		65,140	(14,672)	(3,608)	46,860	82,957	(23,679)	(1,771)	57,507
Total	₩	22,433,080	(6,393,987)	(106,851)	15,932,242	21,523,659	(5,720,177)	(44,375)	15,759,107

(b) Changes in property, plant and equipment for the year ended December 31, 2016 are as follows:

		Korean won (millions)							
		2016							
		Book value as of January 1, 2016	Acquisitions	Increase from business combination	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2016
Land	₩	7,991,801	71,960	-	-	-	(8,669)	(11,947)	8,043,145
Buildings		5,060,086	28,290	-	(207,100)	(62)	(3,835)	193,953	5,071,332
Structures		251,617	496	-	(14,734)	(2,959)	(1,047)	2,214	235,587
Machinery		121,183	23,109	-	(22,792)	(427)	(40)	16,468	137,501
Vehicles		2,732	508	-	(915)	(59)	(186)	16	2,096
Display fixtures		285,669	84,222	-	(94,391)	(4,995)	(2,476)	2,325	270,354
Furniture and fixtures		1,085,828	250,482	1,607	(437,728)	(29,709)	(5,372)	176,991	1,042,099
Tools and equipment		79,722	21,920	-	(21,614)	(7,911)	(1,084)	5,505	76,538
Other PP&E		143,489	12,876	-	(14,718)	(25,505)	(11)	2,979	119,110
Construction-in-progress		679,473	684,772	-	-	-	(21,341)	(455,284)	887,620
Finance lease assets		57,507	498	-	(10,035)	(1,901)	(15)	806	46,860
Total	₩	15,759,107	1,179,133	1,607	(824,027)	(73,528)	(44,076)	(65,974)	15,932,242

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

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14. Property, Plant and Equipment, Continued

(c) Changes in property, plant and equipment for the year ended December 31, 2015 are as follows:

		Korean won (millions)						
		2015						
	Book value as of January 1, 2015	Acquisitions	Increase from business combination	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Land	₩ 7,947,313	5,593	-	-	-	(37,346)	76,241	7,991,801
Buildings	5,222,599	24,705	-	(212,570)	-	(152,758)	178,110	5,060,086
Structures	259,056	83	-	(15,646)	-	(755)	8,879	251,617
Machinery	110,583	15,402	8,510	(20,722)	(395)	(2,176)	9,981	121,183
Vehicles	3,300	639	-	(1,018)	(50)	(126)	(13)	2,732
Display fixtures	298,815	71,327	-	(93,696)	(2,407)	(3,790)	15,420	285,669
Furniture and fixtures	1,129,226	236,385	11,050	(438,968)	(5,571)	(5,201)	158,907	1,085,828
Tools and equipment	91,951	11,021	-	(20,797)	(1,253)	(8,854)	7,654	79,722
Other PP&E	137,386	7,414	462	(15,741)	(7,994)	(22,192)	44,154	143,489
Construction-in- progress	676,973	612,254	535	-	-	(72,090)	(538,199)	679,473
Finance lease assets	23,772	252	39,634	(8,366)	-	-	2,215	57,507
Total	₩ 15,900,974	985,075	60,191	(827,524)	(17,670)	(305,288)	(36,651)	15,759,107

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

(d) Pledged property, plant and equipment provided by the Group as of December 31, 2016 are as follows:

		Korean won (millions)			
Offered assets(*)	Book value	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings etc.	₩ 333,075	409,319	Secured Loan and others	199,321	Kookmin Bank and others

(*) It is provided as collateral for borrowed money, security for lease deposit, and Provisional attachment of land

(e) During 2016 and 2015, capitalized borrowing costs and capitalization interest rates are as follows:

		Korean won (millions)	
		2016	2015
Capitalized borrowing costs	₩	8,665	8,162
Capitalization interest rates (%)		2.31%~7.42%	2.72%~5.25%

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

15. Investment Property

(a) Investment property as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)					
		December 31, 2016			December 31, 2015		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	380,715	-	380,715	223,494	-	223,494
Buildings		404,926	(93,796)	311,130	387,646	(90,158)	297,488
Total	₩	<u>785,641</u>	<u>(93,796)</u>	<u>691,845</u>	<u>611,140</u>	<u>(90,158)</u>	<u>520,982</u>

(b) Changes in investment property for the year ended December 31, 2016 are as follows:

		Korean won (millions)				
		2016				
		Book value as of January 1, 2016	Acquisitions	Depreciation	Others (*)	Book value as of December 31, 2016
Land	₩	223,494	2,566	-	154,655	380,715
Buildings		297,488	13,603	(11,940)	11,979	311,130
Total	₩	<u>520,982</u>	<u>16,169</u>	<u>(11,940)</u>	<u>-166,634</u>	<u>691,845</u>

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

(c) Changes in investment property for the year ended December 31, 2015 are as follows:

		Korean won (millions)					
		2015					
		Book value as of January 1, 2015	Acquisitions	Depreciation	Disposals	Others (*)	Book value as of December 31, 2015
Land	₩	233,762	-	-	(960)	(9,308)	223,494
Buildings		303,429	1,571	(12,612)	(1,966)	7,066	297,488
Total	₩	<u>537,191</u>	<u>1,571</u>	<u>(12,612)</u>	<u>(2,926)</u>	<u>(2,242)</u>	<u>520,982</u>

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

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15. Investment Property, Continued

(d) Income and expense from investment property

The details of income and expense from investment property during 2016 and 2015 are as follows:

Description	Korean won (millions)	
	2016	2015
Rent income	₩ 75,183	72,273
Direct operating expense (including maintenance and repair expenses)	29,610	30,191

(e) Fair value of investment property as of December 31, 2016 was follows:

Description	Korean won (millions)	
	Book value	Fair value
Land and buildings	₩ 691,845	927,839

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December 31, 2016 and 2015

16. Goodwill and Intangible Assets

(a) Intangible assets as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)							
		December 31, 2016				December 31, 2015			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Goodwill	₩	3,558,053	-	(966,103)	2,591,950	3,571,160	-	(855,591)	2,715,569
Industrial property rights		145,347	(7,146)	-	138,201	144,015	(5,999)	-	138,016
Rights to use facility		525,136	(170,967)	(41,321)	312,848	524,464	(144,449)	(2)	380,013
Membership		39,966	-	(6,276)	33,690	39,674	-	(5,532)	34,142
Other intangible assets		544,546	(255,676)	(8,861)	280,009	672,647	(357,448)	(4,550)	310,649
Total	₩	4,813,048	(433,789)	(1,022,561)	3,356,698	4,951,960	(507,896)	(865,675)	3,578,389

(b) Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)							
		2016							
		Book value as of January 1, 2016	Acquisition	Business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2016
Goodwill	₩	2,715,569	1,125	30,735	-	(154,861)	(186)	(432)	2,591,950
Industrial property rights		138,016	1,313	-	(1,148)	-	-	20	138,201
Rights to use facility		380,013	485	-	(26,518)	(41,318)	-	186	312,848
Membership		34,142	292	-	-	(744)	-	-	33,690
Other intangible assets		310,649	73,264	5,788	(109,532)	(4,600)	(281)	4,721	280,009
Total	₩	3,578,389	76,479	36,523	(137,198)	(201,523)	(467)	4,495	3,356,698

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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16. Goodwill and Intangible Assets, Continued

(b) Intangible assets as of December 31, 2016 and 2015 are summarized as follows:, continued

		Korean won (millions)							
		2015							
		Book value as of January 1, 2015	Acquisition	Business combination	Amortization	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Goodwill	₩	3,277,238	290	20,042	-	(616,934)	(1,323)	36,256	2,715,569
Industrial property rights		138,604	236	26	(1,108)	-	-	258	138,016
Rights to use facility		406,541	-	-	(26,544)	(2)	(14)	32	380,013
Membership		33,476	1,712	206	-	(1,087)	(165)	-	34,142
Other intangible assets		300,224	76,984	16,877	(118,402)	(573)	(39)	35,578	310,649
Total	₩	4,156,083	79,222	37,151	(146,054)	(618,596)	(1,541)	72,124	3,578,389

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

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

For the purpose of impairment testing, goodwill is allocated to the units at the lowest level at which the goodwill may be monitored in terms of internal management of the Group and cannot be higher than any of the Group's operating segments, as defined in the note 39.

Details of the goodwill allocated to the groups of cash-generating units as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Department stores	₩	198,464	198,464
Discount stores		326,632	409,941
Finance business		113,320	113,320
Consumer electronics retail		1,242,973	1,282,696
Convenience stores		202,948	202,948
Others		507,613	508,200
Total	₩	2,591,950	2,715,569

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The approach used to determine value in use as of December 31, 2016 was consistent with those used in 2015. The calculation of value in use was based on the following key assumptions:

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

- The annual revenue growth rate for the five-year period in the future was estimated based on an analysis of past revenue growth rates. The revenues after the five-year period were assumed to grow constantly at zero to three percent.

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16. Goodwill and Intangible Assets, Continued

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

- The Group's weighted average cost of capital was applied as the discount rate in determining recoverable amount of cash-generating units. The weighted average costs of capital per each cash-generating unit are as follows:

	<u>2016</u>	<u>2015</u>
Department stores	5.71% ~ 14.24%	7.20% ~ 14.38%
Discount stores	5.71% ~ 9.70%	6.81% ~ 9.77%
Finance business	7.00% ~ 11.00%	4.71% ~ 7.16%
Consumer electronics retail	7.10%	7.74%
Convenience stores	13.62%	12.61%
Others	5.43% ~ 19.90%	6.65% ~ 13.60%

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Group. As a result of impairment testing as of December 31, 2016, recoverable amounts of the cash-generating units in department stores, discount stores, finance business and others were less than its book value, including goodwill, therefore impairment losses were recognized. As a result of impairment testing, value in use of the other cash-generating units is higher than their respective carrying amount as of December 31, 2016 and 2015.

For the years ended December 31, 2016 and 2015, the impairment losses and recoverable amounts of the impaired cash-generating units are as follows:

		Korean won (millions)			
		<u>2016</u>		<u>2015</u>	
		Impairment losses	Recoverable amounts	Impairment losses	Recoverable amounts
Department stores	₩	-	-	44,776	500,885
Discount stores		83,311	539,790	433,461	724,673
Finance business		-	-	5,413	126,374
Consumer electronics retail		39,723	1,458,959	-	-
Others		31,827	1,448	133,284	16,271
Total	₩	<u>154,861</u>	<u>2,000,197</u>	<u>616,934</u>	<u>1,368,203</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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16. Goodwill and Intangible Assets, Continued

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

The details of intangible assets with indefinite estimated useful lives as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Department stores	₩	11,012	11,012
Discount stores		1,976	1,976
Finance business		3,531	3,621
Consumer electronics retail		138,894	138,868
Convenience store		2,348	2,348
Others		12,067	12,443
		<hr/>	<hr/>
Total	₩	<u>169,828</u>	<u>170,268</u>

As a result of the Group's impairment test on indefinite intangible assets, the Group recognized an impairment loss of ₩ 743 million and ₩ 1,807 million as of December 31, 2016 and 2015.

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17. Trade and Other Payables

Trade and other payables as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trade payables	₩	3,764,738	3,725,603
Other payables		2,020,614	1,740,304
Total	₩	<u>5,785,352</u>	<u>5,465,907</u>

18. Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current:			
Short-term borrowings	₩	1,537,255	1,789,819
Current portion of long-term borrowings		903,320	467,765
Current portion of discount on long-term borrowings		(88)	(124)
Current portion of long-term debentures		2,626,860	2,030,280
Current portion of discount on debentures		(9,117)	(1,727)
Convertible bond redemption premium		1,173	1,173
Conversion rights adjustment		(352)	(604)
Exchange rights adjustment		(438)	(19,443)
Subtotal		<u>5,058,613</u>	<u>4,267,139</u>
Non-current:			
Long-term borrowings		1,706,870	1,857,614
Discount on long-term borrowings		(790)	(1,076)
Long-term debentures		7,729,855	7,994,640
Discount on debentures		(11,600)	(34,740)
Subtotal		<u>9,424,335</u>	<u>9,816,438</u>
Total	₩	<u>14,482,948</u>	<u>14,083,577</u>

(b) Short-term borrowings as of December 31, 2016 and 2015 are summarized as follows:

				Korean won (millions)	
<u>Lender</u>	<u>Details</u>	<u>Annual interest rate (%)</u>		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Korea Development Bank and others	General	1.99~10.11	₩	849,755	846,819
Shinhan Bank and others	Financial notes	1.77~5.52		687,500	943,000
Total			₩	<u>1,537,255</u>	<u>1,789,819</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

18. Borrowings and Debentures, Continued

(c) Long-term borrowings as of December 31, 2016 and 2015 are summarized as follows:

Lender	Details	Annual interest rate (%)	Korean won (millions)	
			December 31, 2016	December 31, 2015
Shinhan Bank and others	Local currency	1.78~6.90	₩ 1,242,250	1,006,095
Lotte Co., Ltd. (Japan) and others	Foreign currency	1.19~9.96	1,367,940	1,319,284
Subtotal			2,610,190	2,325,379
Less: Discount on borrowings			(878)	(1,200)
Subtotal			2,609,312	2,324,179
Less: Current portion of long- term borrowings, net of discount			(903,232)	(467,641)
Total			₩ 1,706,080	1,856,538

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18. Borrowings and Debentures, Continued

(d) Debentures as of December 31, 2016 and 2015 are summarized as follows:

Description	Maturity	Interest rate (%)	Korean won (millions)		
			December 31, 2016	December 31, 2015	
59-2nd placed	Aug. 07, 2017	3.20	₩	230,000	230,000
59-3rd placed	Aug. 07, 2019	3.33		200,000	200,000
61th placed	Mar. 21, 2018	3.05		100,000	100,000
62th placed	Jun. 21, 2018	2.80		110,000	110,000
63-1st placed	Jul. 02, 2017	2.79		200,000	200,000
63-2nd placed	Jul. 02, 2019	3.08		200,000	200,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50		181,275	175,800
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor		120,850	117,200
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02		120,850	117,200
65-1st placed	Mar. 03, 2020	2.26		160,000	160,000
65-2nd placed	Mar. 03, 2022	2.45		240,000	240,000
66-1st placed	Jun. 23, 2020	2.40		130,000	130,000
66-2nd placed	Jun. 23, 2022	2.64		50,000	50,000
66-3rd placed	Jun. 23, 2025	2.98		140,000	140,000
67-1st placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.60		181,275	175,800
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02		120,850	117,200
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60		120,850	117,200
68th placed	Jul. 31, 2020	2.40		110,000	110,000
69-1st placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.55		120,850	-
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02		120,850	-
70-1st placed	Apr. 04, 2019	1.77		100,000	-
70-2nd placed	Apr. 04, 2021	2.02		170,000	-
70-3rd placed	Apr. 04, 2026	2.48		70,000	-
71th placed	Nov. 29, 2019	1M USD Libor		120,850	-
1st placed (Global bond)	Apr. 07, 2016	-		-	468,800
2nd placed (Global bond)	May 09, 2017	3.38		483,400	468,800
USD convertible bonds	Jul. 05, 2016	-		-	22,340
JPY convertible bonds	Jul. 05, 2016	-		-	91,100
Exchangeable bonds (*)	Jan. 24, 2018	-		13,800	321,200
Korea Seven Co., Ltd. (foreign currency)	Apr. 18, 2016	-		-	35,160
Korea Seven Co., Ltd. (convertible bonds)	May 08, 2018	-		7,920	7,920
Lotte Card Co., Ltd.	Multiple	1.58~3.86		5,783,095	5,264,040
LOTTE Himart Co., Ltd.	Multiple	2.08~3.04		650,000	620,000
LOTTE Himart Co., Ltd. (Foreign currency)	Mar. 29, 2016	-		-	35,160
Subtotal			₩	10,356,715	10,024,920

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18. Borrowings and Debentures, Continued

(d) Debentures as of December 31, 2016 and 2015 are summarized as follows: continued

Description	Maturity	Interest rate (%)	Korean won (millions)	
			December 31, 2016	December 31, 2015
Less: Discount on debentures			₩ (20,717)	(36,467)
Convertible bond redemption premium			1,173	1,173
Less: Conversion rights adjustment			(352)	(604)
Less: Exchange rights adjustment			(438)	(19,443)
Total book value			10,336,381	9,969,579
Less: Current portion of debentures, net of discount			(2,618,126)	(2,009,679)
Total			₩ 7,718,255	7,959,900

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18. Borrowings and Debentures, Continued

(*) The Group issued five-year bonds in 2013 which are exchangeable to shares of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Company redeemed ₩307,400 million of the issued bonds on January 25, 2016. The terms and conditions are summarized as follows:

- | | |
|---|--|
| (a) Type of bonds: | Registered overseas unsecured exchangeable bonds |
| (b) Total face value of bonds(KRW): | 13,800,000,000 |
| (c) Bond interest rate | |
| Coupon rate (%): | - |
| Yield to maturity (%): | - |
| (d) Date of bond maturity: | January 24, 2018 |
| (e) Principal redemption method: | |
| i. Redemption on maturity date: Redemption in lump sum on the maturity date for the principal amount of bonds for which a condition for early redemption has not occurred and the exchange right has not been exercised. Early redemption: The Company has a call option, whereas bond holders have a put option. | |
| ii. Early redemption: Lotte Shopping Co., Ltd. ("Lotte Shopping") has a call option, whereas bond holders have a put option. | |
| (f) Put option by bondholders: | |
| The put option can be exercised if any of the following conditions occurs: | |
| On the third anniversary of the date of payment (January 24, 2016); | |
| i. If any change of control occurs in the LOTTE Himart; or | |
| ii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer. | |
| (g) Call option by the Company: | |
| The call option can be exercised if any of the following conditions occurs: | |
| i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2013) and 30 business days to the maturity date; | |
| ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or | |
| iii. Any additional tax burden arises due to the amendments of the related laws and regulations. | |
| (h) Matters relating to exchange: | |
| i. Exchange ratio (%): | 100 |
| ii. Exchange price (KRW per share): | 90,780 |
| iii. Type of shares to be issued following exchange: | Common shares of LOTTE Himart Co., Ltd. |
| iv. Period to apply for exchange: | |
| Start date: | March 5, 2013 |
| End date: | January 15, 2018 |
| v. Matters for the adjustment of exchange price: | |
| In case when a condition for re-adjustment of the exchange price has occurred, such as a stock dividend, the exchange price will be adjusted in accordance with the provisions in the relevant bonds purchase agreement. | |

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

18. Borrowings and Debentures, Continued

(e) Maturities of long-term borrowings and debentures as of December 31, 2016 are scheduled as follows:

		Korean won (millions)		
		Borrowings	Debentures	Total
Within 1 year	₩	903,320	2,626,860	3,530,180
1 ~ 2 years		913,281	3,547,305	4,460,586
2 ~ 3 years		605,967	2,182,550	2,788,517
3 ~ 4 years		186,872	810,000	996,872
More than 4 years		750	1,190,000	1,190,750
Total	₩	<u>2,610,190</u>	<u>10,356,715</u>	<u>12,966,905</u>

19. Unearned Revenues

The details of unearned revenues as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Current:			
Membership point	₩	100,674	93,222
Other points		80,392	85,018
Unearned rental income		8,133	8,492
Others		32,243	30,842
Subtotal		<u>221,442</u>	<u>217,574</u>
Non-current:			
Unearned rental income		<u>10,736</u>	<u>8,086</u>
Subtotal		<u>10,736</u>	<u>8,086</u>
Total	₩	<u>232,178</u>	<u>225,660</u>

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December 31, 2016 and 2015

20. Provisions

(a) Changes in provisions for the year ended December 31, 2016 are as follows:

		Korean won (millions)			
		2016			
		Beginning balance	Increase	Utilization	Balance as of December 31, 2016
Current:					
Provision for bonus points reward program	₩	27,962	54,063	(52,766)	29,259
Provision for bonus payable		8,525	39,426	(41,216)	6,735
Provision for sales return		9,023	9,347	(9,008)	9,362
Other provisions (*1)		14,849	25,057	(16,507)	23,399
Subtotal		<u>60,359</u>	<u>127,893</u>	<u>(119,497)</u>	<u>68,755</u>
Non-current:					
Provision for unused credit card limits (*2)		27,291	6,269	-	33,560
Other provisions		5,167	2,590	(1,293)	6,464
Subtotal		<u>32,458</u>	<u>8,859</u>	<u>(1,293)</u>	<u>40,024</u>
Total	₩	<u>92,817</u>	<u>136,752</u>	<u>(120,790)</u>	<u>108,779</u>

(*1) Other provisions include provisions for litigation, provision for closing up stores and others. During 2016, Qingdao LOTTE Mart Commercial Co., Ltd., which is a subsidiary of the Company, closed five discount stores. In connection with closing the stores, the Group estimated the expenditures that have incurred in connection with the closures and recognized other provision of ₩4,919 million as of December 31, 2016.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

20. Provisions, Continued

(b) Changes in provisions for the year ended December 31, 2015 are as follows:

		Korean won (millions)			
		2015			
		Beginning balance	Increase	Utilization	Balance as of December 31, 2015
Current:					
Provision for bonus points reward program	₩	24,443	74,389	(70,870)	27,962
Provision for bonus payable		9,896	49,206	(50,577)	8,525
Provision for sales return		9,186	9,242	(9,405)	9,023
Other provisions (*1)		11,388	62,415	(58,954)	14,849
Subtotal		54,913	195,252	(189,806)	60,359
Non-current:					
Provision for unused credit card limits (*2)		25,546	1,745	-	27,291
Other provisions		1,257	4,352	(442)	5,167
Subtotal		26,803	6,097	(442)	32,458
Total	₩	81,716	201,349	(190,248)	92,817

(*1) Other provisions include provisions for litigation, provision for closing up stores and others. During 2015, Qingdao LOTTE Mart Commercial Co., Ltd., which is a subsidiary of the Company, closed five discount stores. In connection with closing the stores, the Group estimated the expenditures that have incurred in connection with the closures and recognized other provision of ₩5,417 million as of December 31, 2015.

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

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21. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current:			
Withholdings	₩	110,150	86,466
Withholdings of value added tax		92,354	96,059
Advances received		1,267,945	1,055,057
Other liabilities		<u>1,027</u>	<u>1,955</u>
Subtotal		<u>1,471,476</u>	<u>1,239,537</u>
Non-current:			
Other liabilities		<u>119,085</u>	<u>103,378</u>
Total	₩	<u><u>1,590,561</u></u>	<u><u>1,342,915</u></u>

22. Employee Benefits

(a) Details of defined benefit liabilities as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	₩	719,220	640,058
Fair value of plan assets		<u>(706,365)</u>	<u>(601,989)</u>
Total	₩	<u>12,855</u>	<u>38,069</u>

(b) Details of present value of other long-term employee benefits as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of other long-term employee benefits	₩	56,052	43,222

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December 31, 2016 and 2015

22. Employee Benefits, Continued

(c) Changes in employee benefits for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Beginning of the year	₩	640,058	525,909
Current service costs		118,847	109,805
Past service costs		(203)	66
Interest costs		21,761	21,168
Remeasurements :			
- Loss (gain) from change in demographic assumptions		5,829	(10,581)
- Loss (gain) from change in financial assumptions		(21,347)	19,420
- Loss (gain) experience adjustments		(1,720)	3,356
Payments		(48,389)	(50,054)
Business combination		-	15,596
Others		4,384	5,373
End of the year	₩	<u>719,220</u>	<u>640,058</u>

(d) During 2016 and 2015, changes on plan assets of an employee benefit plan are as follows:

		Korean won (millions)	
		2016	2015
Beginning of the year	₩	601,989	486,054
Return on plan assets		17,336	16,425
Actuarial loss		(5,244)	(5,262)
Employer contribution		131,652	129,264
Payments		(39,354)	(40,088)
business combination		-	14,188
Others		(14)	1,408
End of the year	₩	<u>706,365</u>	<u>601,989</u>

The estimated contributions to the plan for the next annual reporting period are ₩129,871 million.

(e) The components of plan assets as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Principal guaranteed insurance policies	₩	706,191	601,797
Others		174	192
Total	₩	<u>706,365</u>	<u>601,989</u>

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22. Employee Benefits, Continued

(f) Expenses recognized for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Current service costs	₩	118,847	109,805
Past service costs		(203)	66
Interest costs		21,761	21,168
Return on plan assets		(17,336)	(16,425)
Contributions to defined contribution plans		2,188	2,335
Long-term employee benefits		17,660	6,213
Total	₩	<u>142,917</u>	<u>123,162</u>

(g) The principal actuarial assumptions used as of December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016	December 31, 2015
Discount rate	1.77~8.20%	2.17~9.00%
Expected rate of promotion	0.90~4.00%	1.44~4.00%
Expected rate of increase in salaries	1.00~8.00%	2.00~8.00%

(h) Sensitivity analysis

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

	Increase	Decrease
Discount rate (1% movement)	(58,725)	70,111
Expected rate of promotion (1% movement)	57,555	(49,899)
Expected rate of increase in salaries (1% movement)	69,490	(59,309)

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

(i) Information about the maturity profile of the defined benefit obligation as of December 31, 2016 is as follows:

1 year or less	1 ~ 2 years	2 ~ 5 years	5 ~ 10 years	More than 10 years
49,647	48,983	150,651	237,365	1,204,809

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23. Derivative Instruments and Hedge Accounting

(a) Details of derivatives outstanding as of December 31, 2016 are as follows:

Purpose	Type	Description
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures and borrowings in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Pays fixed interest to receive floating rate
	Currency forward	At the maturity of the contract, purchase dollars at the fixed exchange rate
Trade	Total return swap	Exchanges beneficiary certificate of investor's total profit to constant flow of cash
	Stock options	Holds the right to buy preferred stocks or grants the right to sell preferred stocks of related companies

(b) Fair value of derivatives outstanding as of December 31, 2016 and 2015 are summarized as follows:

Description	Type	Korean won (millions)			
		December 31, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swap	₩ 197,076	2,178	101,273	11,516
	Interest swap	227	3,012	47	4,431
	Currency forward	22,467	-	61,067	-
Trade	Total return swap	15,722	-	-	-
	Stock option	1,312	26,281	-	24,608
	Total	₩ 236,804	31,471	162,387	40,555

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23. Derivative Instruments and Hedge Accounting, Continued

(c) Changes in the fair value of derivative instruments for the years ended December 31, 2016 are as follows:

Purpose	Type	Related accounts	Korean won (millions)
Cash flow hedge	Currency swap	Gain on valuation of derivative instruments	₩ 38,900
		Unrealized loss on valuation of derivative instruments	(2,568)
		Gain on valuation of derivatives instruments (card business)	35,166
	Interest swap	Loss on valuation of derivatives instruments (card business)	(9)
		Unrealized Gain on valuation of derivative instruments	1,830
	Currency forward	Gain on valuation of derivative instruments	7,300
Trade	Total return swap	Unrealized Gain on valuation of derivative instruments	5,498
		Gain on valuation of derivative instruments	15,722
	Stock option	Loss on valuation of derivative instruments	(1,640)

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24. Capital Stock and Capital Surplus

- (a) Pursuant to its amended Articles of Incorporation, the Company's authorized capital stock is 60,000,000 shares, which consist of common shares and preferred shares each with a par value of ₩5,000 per share. The Company is authorized to issue non-voting preferred shares of up to one-fourth of the Company's total issued and outstanding capital stock. Holders of preferred shares may, upon a resolution of the board of directors at the time of the issuance of the preferred shares, be entitled to receive dividends prior to the holders of common shares. The preferred shares will be automatically converted to common shares within ten years of issuance as determined by the Company's board of directors. However, if the holders of preferred shares do not receive the minimum dividends as prescribed, the prescribed conversion date will be extended to the time when all such minimum dividend amount is paid to the holders of preferred shares. As of December 31, 2015, the Company has not issued any preferred stock and 31,490,892 shares of common stock were issued and outstanding as of December 31, 2016.
- (b) Capital surplus as of December 31, 2016 and 2015 consists of the following:

	Korean won (millions)	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Additional paid-in capital	₩ 3,786,431	3,786,431
Others	124,321	124,321
	<u>₩ 3,910,752</u>	<u>3,910,752</u>

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25. Hybrid securities classified as equity

Hybrid securities classified as equity as of December 31, 2016 and 2015 are as follows:

	Date of issue	Date of maturity	Interest rate (%)	Korean won (millions)	
				December 31, 2016	December 31, 2015
Hybrid security 1-1 (*)	Nov.15, 2013	Nov.15, 2043	4.723	₩ 240,000	240,000
Hybrid security 1-2 (*)	Nov.15, 2013	Nov.15, 2043	4.723	30,000	30,000
Issuance cost				(882)	(882)
Total				₩ 269,118	269,118

(*) Details of hybrid securities are as follows:

	Korean won (millions)	
	Hybrid security 1-1	Hybrid security 1-2
Issue price	240,000	30,000
Maturity date	30 years (The Company has the unconditional right to extend the maturity date)	
Interest rate	Issue date ~ November 15, 2018: 4.723%, reset every 5 years as follows: After 5 years: treasury rate (5 years) + 1.5% After 10 years: additionally +1% according to Step-up clauses	
Interest payments condition	February 15, May 15, August 15 and November 15 of each calendar year (Conditional deferral of interest payments is available to the Company)	March 30, June 30, September 30, December 30 of each calendar year (Conditional deferral of interest payments is available to the Company)
Others	The Group can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preference stock holders; higher than the common stock holders but lower than other creditors.	

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

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26. Capital Adjustments

As of January 1, 2013, the Company merged with Lotte Midopa Co., Ltd. In connection with the merger, the Company issued 1,933,873 shares of common stocks in exchange for 51,475,843 shares of Lotte Midopa Co., Ltd. which the Company had held and 228 shares of treasury stocks of Lotte Midopa Co., Ltd. The Company recognized the acquisition cost of the treasury stocks as zero ("0"). In addition, the Company acquired 4,815 shares of fractional shares for ₩1,806 million in 2013 and, as a result, the Company holds 1,938,688 shares of treasury stocks as of December 31, 2016.

27. Retained Earnings

Details of retained earnings as of December 31, 2016 and 2015 are as follows:

	Korean won (millions)	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Legal reserve	₩ 195,917	190,006
Voluntary reserve	10,810,052	11,190,052
Unappropriated retained earnings	<u>989,641</u>	<u>513,605</u>
	<u>₩ 11,995,610</u>	<u>11,893,663</u>

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28. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)			
		2016			
		Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2016
Net change in unrealized fair value of available for-sale financial assets	₩	90,698	(12,107)	3,731	82,322
Exchange rate differences on translating foreign operations		(32,385)	10,287	(115)	(22,213)
Effective portion of unrealized changes in fair values of cash flow hedges		(12,264)	4,489	897	(6,878)
Change in equity of equity method investments		49,453	(16,184)	1,453	34,722
Total	₩	<u>95,502</u>	<u>(13,515)</u>	<u>5,966</u>	<u>87,953</u>

		Korean won (millions)			
		2015			
		Beginning balance	Changes for the year	Tax effects for the year	Balance as of December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩	145,678	(76,939)	21,959	90,698
Exchange rate differences on translating foreign operations		(70,788)	38,458	(55)	(32,385)
Effective portion of unrealized changes in fair values of cash flow hedges		(10,950)	(3,050)	1,736	(12,264)
Change in equity of equity method investments		42,896	12,131	(5,574)	49,453
Total	₩	<u>106,836</u>	<u>(29,400)</u>	<u>18,066</u>	<u>95,502</u>

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29. Earnings (loss) per Share

(a) Basic earnings (loss) per share

(i) Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows:

	Korean won (millions, except per share amount)	
	<u>2016</u>	<u>2015</u>
Profit (loss) for the year attributable to the owners of the Company	₩ 168,195	(383,067)
Interests of hybrid securities, net of tax	(12,849)	(12,721)
Weighted average number of common shares outstanding	<u>29,552,204</u>	<u>29,552,204</u>
Basic earnings (loss) per share	₩ <u>5,257</u>	<u>(13,393)</u>

(ii) Weighted average number of ordinary shares

	Number of shares	
	<u>2016</u>	<u>2015</u>
Issued ordinary shares at January 1	31,490,892	31,490,892
Effect of treasury shares	<u>(1,938,688)</u>	<u>(1,938,688)</u>
Weighted average number of ordinary shares	<u><u>29,552,204</u></u>	<u><u>29,552,204</u></u>

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29. Earnings (loss) per Share, Continued

(b) Diluted earnings (loss) per share

(i) Diluted earnings (loss) per share for the years ended December 31, 2016 and 2015 are as follows:

	Korean won (millions, except per share amount)	
	2016	2015
Profit (loss) for the year attributable to the owners of the Company (basic)	₩ 168,195	(383,067)
Interests of hybrid securities, net of tax	(12,849)	(12,721)
Effect of convertible bonds, net of tax (*)	(302)	(1)
Effect of exchange of exchangeable bond, net of tax (*)	-	(6,455)
Diluted profit attributable to ordinary shareholders	155,044	(402,244)
Diluted weighted average number of ordinary shares	29,552,204	29,552,204
Diluted earnings (loss) per share	₩ 5,246	(13,611)

(*) For the year ended 31, 2016, the shares related to USD convertible bonds, JPY convertible bonds and exchangeable bonds were excluded from diluted earnings (loss) per share calculation as their effect would have been anti-dilutive. For the year ended 31, 2015, the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings (loss) per share calculation as their effect would have been anti-dilutive.

(ii) Diluted weighted average number of ordinary shares

	Number of shares	
	2016	2015
Basic weighted average number of ordinary shares	29,552,204	29,552,204
Effect of conversion of convertible bonds	-	-
Diluted weighted average number of ordinary shares	29,552,204	29,552,204

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30. Sales and Cost of Sales

(a) Details of sales for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Sales of merchandise(*)	₩	24,413,576	24,166,462
Sales of products		55,396	54,982
Other operating revenue		3,571,908	3,409,872
Revenue of card business		<u>1,485,533</u>	<u>1,496,339</u>
Total	₩	<u>29,526,413</u>	<u>29,127,655</u>

(*) Sales of merchandise include the VAT refund for sales in the amount of mileage accruals, which is 136,784 million won.

(b) Details of cost of sales for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Cost of merchandise sold	₩	18,896,251	18,876,180
Cost of products sold		31,076	31,691
Cost of other operating revenue		421,756	435,447
Cost of card business		<u>847,198</u>	<u>873,826</u>
Total	₩	<u>20,196,281</u>	<u>20,217,144</u>

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31. Selling, General and Administrative Expenses:

Details of selling, general and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

	Korean won (millions)	
	2016	2015
Salaries	₩ 1,538,496	1,456,508
Retirement and termination benefits	124,854	116,484
Other employee benefits	17,619	6,159
Employee welfare	328,430	317,500
Education and training	23,754	22,117
Travel	38,129	38,369
Maintenance fee for car	4,488	4,127
Insurance premium	21,090	19,165
Taxes and dues (*)	166,946	181,279
Entertainment expenses	11,189	12,266
Supplies and stationery	88,101	83,137
Communications	42,738	44,202
Utilities	385,628	386,600
Maintenance	88,962	90,537
Rent	1,173,251	1,106,415
Depreciation	810,413	818,732
Amortization of intangible assets	96,918	88,117
Commissions and fees	1,288,430	1,183,261
Service commission expenses	979,039	893,871
Advertising	317,911	340,481
Sales promotion expenses	598,974	552,648
Decoration	20,859	16,656
Bad debt expenses	(25,817)	39,331
Transportation	232,088	218,560
Provisions	3,314	5,007
Others	13,967	15,269
Total	₩ <u>8,389,771</u>	<u>8,056,798</u>

(*) Taxes and dues exclude the comprehensive real estate holding tax refunds of ₩24,303 million won.

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32. Other income and expenses

Details of other income and expenses for the years ended December 31, 2016 and 2015 are as follows:

	Korean won (millions)	
	2016	2015
Other income:		
Gain on foreign currency transactions	₩ 1,944	2,069
Gain on foreign currency translation	829	441
Gain on disposal of investment property	-	699
Gain on disposal of property, plant and equipment	2,786	2,295
Gain on disposal of intangible assets	56	-
Reversal of impairment losses on other non-current assets	-	1
Reversal of impairment losses on intangible assets	9	41
Others (*1)	155,567	76,010
Total	₩ 161,191	81,556
Other expenses:		
Loss on foreign currency transactions	₩ 3,786	3,306
Loss on foreign currency translation	704	99
Loss on disposal of property, plant and equipment	7,404	41,306
Impairment loss on property, plant and equipment	73,528	17,670
Loss on disposal of intangible assets	184	805
Impairment loss on intangible assets	201,523	618,638
Impairment loss of Non-current assets held for sale	432	-
Loss on disposal of other non-current assets	59	38
Impairment loss on other non-current assets	15,616	13,543
Donation	25,158	32,721
Other bad debt expenses	6,217	3,631
Taxes and dues	481	7,961
Others (*2)	160,087	113,587
Total	₩ 495,179	853,305

(*1) Others primarily relates to income from unused gift certificates after expiration date and penalty from suppliers on delayed delivery of merchandise.

(*2) Others primarily relates to non-deductible value added tax.

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33. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Purchase of inventories	₩	18,915,692	18,942,312
Changes in inventories		(48,088)	(96,736)
Employee benefits expense		2,017,487	1,905,347
Rent		1,184,722	1,116,273
Depreciation and amortization		973,164	986,190
Sales commissions		808,075	759,712
Sales promotion expenses		600,275	552,772
Commissions		968,171	871,652
Service commission expenses		1,075,306	954,167
Advertising		341,480	368,333
Utilities		389,096	390,072
Taxes and dues		173,362	183,584
Others		1,187,310	1,340,264
Total	₩	<u>28,586,052</u>	<u>28,273,942</u>

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34. Finance Income and Finance Costs

(a) Details of finance income and finance costs for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Finance income:			
Interest income	₩	87,037	92,885
Dividend income		7,070	8,364
Gain on foreign currency transactions		12,670	808
Gain on foreign currency translation		38,986	21,406
Gain on valuation of financial assets and liabilities at fair value through profit or loss		22	-
Gain on disposal of available-for-sale financial assets		8	28,270
Gain on valuation of derivative instruments held for the purpose of hedging		46,200	97,027
Gain on valuation of derivative instruments held for the purpose of trading		15,754	1,169
Gain on transaction of derivative instruments held for the purpose of hedging		-	8,445
Gain on disposal of investments in subsidiaries, associates and joint ventures		5,519	12,595
		<u>213,266</u>	<u>270,969</u>
Total	₩	<u>213,266</u>	<u>270,969</u>
Finance costs:			
Interest expense	₩	237,072	254,350
Loss on foreign currency transactions		723	28,379
Loss on foreign currency translation		96,723	128,528
Loss on valuation of financial assets and liabilities at fair value through profit or loss		-	8,115
Loss on disposal of available-for-sale financial assets		420	803
Impairment loss on available-for-sale financial assets		1,971	6,905
Loss on valuation of derivative instruments held for the purpose of trading		1,673	12,279
Loss on transaction of derivative instruments held for the purpose of hedging		19,996	239
Loss on redemption of debentures		20,060	-
Financial guarantee costs		7,697	-
Loss on disposal of investments in associates, joint ventures and subsidiaries		59	16
Impairment loss on investments in subsidiaries, associates and joint ventures		5,233	-
		<u>391,627</u>	<u>439,614</u>
Total	₩	<u>391,627</u>	<u>439,614</u>

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34. Finance Income and Finance Costs, Continued

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)						
		2016						
		Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost	Total
Recognized in profit or loss :								
Interest income	₩	45,136	778,856	54	132	-	-	824,178
Interest expense		-	-	-	-	-	(412,446)	(412,446)
Dividend income		-	-	7,115	-	-	-	7,115
Valuation / Disposal		-	31,263	(255)	14,103	86,658	-	131,769
Impairment		-	(186,692)	(4,496)	-	-	-	(191,188)
Gain (loss) on foreign currency translation/transactions		180	7,176	53	-	-	(83,000)	(75,591)
Commission revenue		-	846,135	-	-	-	-	846,135
Others		-	(811,409)	-	(834)	(20,084)	(26,923)	(859,250)
Subtotal		45,316	665,329	2,471	13,401	66,574	(522,369)	270,722
Recognized in other comprehensive income (loss) (*):								
Gain (loss) on valuation of available-for-sale financial assets		-	-	(15,689)	-	-	-	(15,689)
Loss on valuation of derivative instruments		-	-	-	-	4,760	-	4,760
Subtotal		-	-	(15,689)	-	4,760	-	(10,929)
Total	₩	45,316	665,329	(13,218)	13,401	71,334	(522,369)	259,793

(*) The gain/loss on valuation of available-for-sale finance assets and of derivative assets and liabilities held for the purpose of hedging (other comprehensive income/loss) are amounts before offsetting effects of income taxes.

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34. Finance Income and Finance Costs, Continued

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 2016 and 2015 are as follows:, continued

		Korean won (millions)						
		2015						
		Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for the purpose of hedging	Financial liabilities based on amortized cost	Total
Recognized in profit or loss :								
Interest income	₩	39,400	782,917	417	76	-	-	822,810
Interest expense		-	-	-	-	-	(425,459)	(425,459)
Dividend income		-	-	8,301	-	-	-	8,301
Valuation / Disposal		-	27,429	27,728	(17,034)	147,621	-	185,744
Impairment		-	(248,935)	(15,661)	-	-	-	(264,596)
Gain (loss) on foreign currency translation/transactions		426	689	-	-	-	(191,130)	(190,015)
Commission revenue		-	837,198	-	-	-	-	837,198
Others		-	(754,689)	-	-	22,544	-	(732,145)
Subtotal		39,826	644,609	20,785	(16,958)	170,165	(616,589)	241,838
Recognized in other comprehensive income (loss) (*):								
Gain (loss) on valuation of available-for-sale financial assets		-	-	(99,835)	-	-	-	(99,835)
Loss on valuation of derivative instruments		-	-	-	-	(2,880)	-	(2,880)
Subtotal		-	-	(99,835)	-	(2,880)	-	(102,715)
Total	₩	39,826	644,609	(79,050)	(16,958)	167,285	(616,589)	139,123

(*) The gain/loss on valuation of available-for-sale finance assets and of derivative assets and liabilities held for the purpose of hedging (other comprehensive income/loss) are amounts before offsetting effects of income taxes.

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35. Income Taxes

(a) The components of income tax expense for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Current tax	₩	271,491	249,283
Deferred tax		(32,180)	(12,561)
Income taxes directly (charged) credited to equity		<u>3,235</u>	<u>29,015</u>
Income tax expense	₩	<u>242,546</u>	<u>265,737</u>

(b) During 2016 and 2015, the details of income tax expense recognized directly to equity are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Change in fair value of available-for-sale financial assets	₩	4,597	27,502
Exchange differences on translating foreign operations		(115)	(55)
Effective portion of changes in fair value of cash flow hedges		832	1,695
Defined benefit plan actuarial gain		(3,685)	5,000
Change in equity of equity method investments		1,590	(5,184)
Others		<u>16</u>	<u>57</u>
Income tax directly (charged) credited to equity	₩	<u>3,235</u>	<u>29,015</u>

Income tax related to actuarial losses (gains), losses (gains) on valuation of available-for-sale financial assets, cumulative effect of foreign currency translation, losses (gains) on valuation of derivatives, and changes in equity using equity method of accounting are recognized in other comprehensive income.

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35. Income Taxes, Continued

(c) During 2016 and 2015, statutory to actual effective tax rates are reconciled as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Profit before income tax	₩	489,421	(79,764)
Tax rates (%)		25.53%	23.60%
Income tax using statutory tax rates		124,970	(18,827)
Adjustment:			
Tax effects on non-taxable income		(21,306)	(15,074)
Tax effects on non-deductible expense		19,891	31,904
Tax credit		(276)	(1,067)
Adjustments for prior periods		11,786	1,847
Tax effects on share of net income of subsidiaries, associates and joint ventures		27,391	33,949
Unused tax losses for which no deferred tax asset is recognized		75,288	229,838
Others		4,802	3,167
Income tax expenses	₩	<u>242,546</u>	<u>265,737</u>
Effective tax rate (%) (*)		<u>49.56%</u>	<u>-</u>

(*)The Group has not present effective tax rate due to loss incurred in 2015.

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

35. Income Taxes, Continued

(e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:

	Korean won (millions)			
	2016			Balance as of December 31, 2016
	Beginning balance	Profit or loss	Other comprehensive income	
Impairment loss on available-for-sale financial assets	₩ 5,759	1,084	-	6,843
Buildings	(13,877)	1,059	-	(12,818)
Depreciation expense	46,462	16,771	-	63,233
Allowance for doubtful accounts	2,557	(586)	-	1,971
Accrued revenues	(1,380)	422	-	(958)
Unearned revenues	14,450	(811)	-	13,639
Non-current prepaid expenses	(40,002)	1,989	-	(38,013)
Losses on valuation of inventories	5,170	1,757	-	6,927
Provision for sales return	2,186	95	-	2,281
Property, plant and equipment (capitalization of borrowing costs)	(9,783)	421	-	(9,362)
Land	32,548	-	-	32,548
Land (asset revaluation)	(1,021,654)	(71)	-	(1,021,725)
Provision for mileage program	14,396	(6,946)	-	7,450
Accrued expense	24,152	1,132	-	25,284
Gain (loss) on foreign currency translation	1,831	(421)	-	1,410
Gain (loss) on valuation of convertible bonds	(450)	450	-	-
Construction-in-progress	1,651	(26)	-	1,625
Other intangible assets	(51,021)	2,491	-	(48,530)
Rental guarantee deposits	12,432	(354)	-	12,078
Goodwill	(50,987)	6,041	-	(44,946)
Exchangeable debenture	(4,706)	4,600	-	(106)
Other capital surplus	62,270	16	-	62,286
Investments in subsidiaries and associates	(332,893)	(29,834)	1,606	(361,121)
Loss (gain) on valuation of available- for-sale financial assets	(74,673)	-	4,597	(70,076)
Loss (gain) on valuation of derivatives	16,961	(5,102)	832	12,691
Salaries and retirement benefits	20,682	6,789	(3,685)	23,786
Translation difference of foreign subsidiaries	2,430	-	(115)	2,315
Others	29,561	27,979	-	57,540
Total	₩ (1,305,928)	28,945	3,235	(1,273,748)

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December 31, 2016 and 2015

35. Income Taxes, Continued

- (e) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:
continued

		Korean won (millions)		
		2015		
	Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2015
Impairment loss on available-for-sale financial assets	₩ 1,969	3,790	-	5,759
Buildings	(13,458)	(419)	-	(13,877)
Depreciation expense	42,624	3,838	-	46,462
Allowance for doubtful accounts	2,586	(29)	-	2,557
Accrued revenues	(1,404)	24	-	(1,380)
Unearned revenues	30,553	(16,103)	-	14,450
Non-current prepaid expenses	(40,445)	443	-	(40,002)
Losses on valuation of inventories	2,563	2,607	-	5,170
Provision for sales return	2,296	(110)	-	2,186
Property, plant and equipment (capitalization of borrowing costs)	(10,293)	510	-	(9,783)
Land	32,548	-	-	32,548
Land (asset revaluation)	(1,022,505)	851	-	(1,021,654)
Provision for mileage program	18,652	(4,256)	-	14,396
Accrued expense	24,082	70	-	24,152
Gain (loss) on foreign currency translation	5,201	(3,370)	-	1,831
Gain (loss) on valuation of convertible bonds	(891)	441	-	(450)
Construction-in-progress	1,707	(56)	-	1,651
Other intangible assets	(52,072)	1,051	-	(51,021)
Rental guarantee deposits	12,744	(312)	-	12,432
Goodwill	(72,574)	21,587	-	(50,987)
Exchangeable debenture	(6,874)	2,168	-	(4,706)
Other capital surplus	62,270	-	-	62,270
Investments in subsidiaries and associates	(290,708)	(37,058)	(5,127)	(332,893)
Loss (gain) on valuation of available-for-sale financial assets	(102,175)	-	27,502	(74,673)
Loss (gain) on valuation of derivatives	15,446	(180)	1,695	16,961
Salaries and retirement benefits	18,756	(3,074)	5,000	20,682
Translation difference of foreign subsidiaries	2,485	-	(55)	2,430
Others	18,428	11,133	-	29,561
Total	₩ (1,318,489)	(16,454)	29,015	(1,305,928)

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

35. Income Taxes, Continued

- (f) As of December 31, 2016 and 2015, the amounts of total deductible temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Investments in associates and joint ventures	₩	321,552	343,253
Investments in subsidiaries		<u>2,105,462</u>	<u>1,942,984</u>
Total	₩	<u>2,427,014</u>	<u>2,286,237</u>

36. Consolidated statements of cash flows

As of December 31, 2016 and 2015, the details of cash and cash equivalents are as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash	₩	54,892	37,243
Deposits		655,861	587,247
Other cash equivalents		<u>1,558,424</u>	<u>1,126,778</u>
Total	₩	<u>2,269,177</u>	<u>1,751,268</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

37. Operating Leases

(a) Lessee

The Group has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operating leases of land and buildings as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Within 1 year	₩	982,750	929,426
1 ~ 5 years		3,100,982	2,989,971
Thereafter		<u>7,577,035</u>	<u>7,471,285</u>
Total	₩	<u>11,660,767</u>	<u>11,390,682</u>

In lieu of rent, certain agreements require the Group to advance a non-interest bearing refundable security deposit to the landlord for the Group's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of ₩44,032 million and ₩44,778 million during 2016 and ₩41,380 million and ₩45,316 million during 2015, respectively. The related deposit balances amount to ₩1,888,208 million and ₩1,827,999 million as of December 31, 2016 and 2015 respectively. Such amounts were measured using the fixed interest rate for time deposits with similar maturities.

(b) Lessor

The Group has entered into operating leases of certain of its properties and equipment. Future minimum lease payments receivable under operating leases as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Within 1 year	₩	141,931	143,525
1 ~ 5 years		206,134	192,862
Thereafter		<u>129,860</u>	<u>150,477</u>
Total	₩	<u>477,925</u>	<u>486,864</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

38. Greenhouse Gases Emission Rights

(a) Emission Right

The Group participates in the allocation and trading system of emissions. The commitment period is from 2015 to 2017. The emissions were allocated to each compliance year as follows:

	Emissions (tCO ₂ -eq)
2015	860,971
2016	842,554
2017	819,895
Total	<u>2,523,420</u>

There is no pledged emission and the Group has 1,716,733tCO₂-eq of emissions.

(b) Emission liability

The Group has estimated to emit 836,954tCO₂-eq of CO₂ in 2016.

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December 31, 2016 and 2015

39. Operating Segments and Geographic Information

- (a) The Group's reportable segments consist of department stores (retail), discount stores (retail), finance business, consumer electronics retail, convenience stores and others (television home shopping, supermarkets, movie theaters and clothing retail) as follows:

	Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others
Main business	Retail stores for middle and higher-end merchandise	Retail and whole-sale stores for middle and discounted price merchandise	Credit financial services	Retail store for home appliance	General retail stores for mainly beverages and groceries	Others
Major products or services	Sales of merchandise and leasing	Sales of merchandise and leasing	Credit card and loan services	Sales of home appliance	Sales of merchandise and others	Sales of merchandise, leasing and others

- (b) Information about reportable segments as of and for the years ended December 31, 2016 and 2015 are as follows:

	Korean won (millions)						
	December 31, 2016						
	Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩ 7,997,835	8,147,208	1,588,514	3,934,231	3,688,009	4,170,616	29,526,413
Inter-segment sales	31,929	53,528	198,482	5,211	16,184	235,707	541,041
Total sales	8,029,764	8,200,736	1,786,996	3,939,442	3,704,193	4,406,323	30,067,454
Interest income	97,067	15,583	816	5,416	11,322	49,452	179,656
Interest expenses	11,391	217,434	3,181	17,790	7,368	75,695	332,859
Depreciation and amortization	363,461	233,027	50,504	52,413	65,105	194,261	958,771
Equity method income (loss) of investments in associates	65,039	(1,259)	3,237	-	-	(5,608)	61,409
Income tax expense	188,986	(72,795)	38,031	41,108	10,879	13,428	219,637
Segment profit	519,480	(510,990)	110,494	121,428	16,256	(641,037)	(384,369)
Segment assets	16,725,046	9,510,129	10,225,623	3,004,859	1,223,553	7,341,041	48,030,251
Segment liabilities	9,817,552	2,821,322	8,074,714	1,109,198	821,701	2,987,128	25,631,615

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

39. Operating Segments and Geographic Information, Continued

(b) Information about reportable segments as of and for the years ended December 31, 2016 and 2015 are as follows:
continued

		Korean won (millions)						
		December 31, 2015						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others	Total
External sales	₩	8,011,056	8,272,480	1,587,249	3,889,804	3,296,465	4,070,601	29,127,655
Inter-segment sales		21,476	51,212	202,699	6,333	18,349	257,534	557,603
Total sales		8,032,532	8,323,692	1,789,948	3,896,137	3,314,814	4,328,135	29,685,258
Interest income		93,536	15,965	767	5,865	11,643	44,111	171,887
Interest expenses		8,690	219,101	1,841	24,077	8,235	73,375	335,319
Depreciation and amortization		368,012	232,264	47,682	52,386	66,283	205,061	971,688
Equity method income (loss) of investments in associates		13,721	(1,325)	209	-	(849)	(4,839)	6,917
Income tax expense		144,202	(10,464)	41,792	36,631	12,161	20,337	244,659
Segment profit		447,010	(470,282)	119,811	106,595	(44,153)	(1,153,696)	(994,715)
Segment assets		16,704,343	9,742,640	9,402,558	2,905,213	1,149,742	6,813,434	46,717,930
Segment liabilities		9,886,930	2,678,163	7,365,241	1,122,386	762,710	2,668,690	24,484,120

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

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December 31, 2016 and 2015

39. Operating Segments and Geographic Information, Continued

- (c) Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		2016	
		Sales	Profit for the year
Department stores	₩	8,029,764	519,480
Discount stores		8,200,736	(510,990)
Finance business		1,786,996	110,494
Consumer electronics retail		3,939,442	121,428
Convenience stores		3,704,193	16,256
Others		4,406,323	(641,037)
Segment totals		30,067,454	(384,369)
		-	-
Elimination of inter-segment amounts		(541,041)	631,244
After consolidated adjustments	₩	29,526,413	246,875

		Korean won (millions)	
		2015	
		Sales	Profit for the year
Department stores	₩	8,032,532	447,010
Discount stores		8,323,692	(470,282)
Finance business		1,789,948	119,811
Consumer electronics retail		3,896,137	106,595
Convenience stores		3,314,814	(44,153)
Others		4,328,135	(1,153,696)
Segment totals		29,685,258	(994,715)
Elimination of inter-segment amounts		(557,603)	649,214
After consolidated adjustments	₩	29,127,655	(345,501)

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December 31, 2016 and 2015

39. Operating Segments and Geographic Information, Continued

- (d) Reconciliation of segment assets and liabilities to their respective consolidated financial statement line items as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
		December 31, 2016	
		Assets	Liabilities
Department stores	₩	16,725,046	9,817,552
Discount stores		9,510,129	2,821,322
Finance business		10,225,623	8,074,714
Consumer electronics retail		3,004,859	1,109,197
Convenience stores		1,223,553	821,701
Others		7,341,041	2,987,129
Segment totals		<u>48,030,251</u>	<u>25,631,615</u>
Elimination of inter-segment assets and liabilities		(1,136,771)	(1,136,771)
Adjustments of business combinations		817,543	157,021
Investments in subsidiaries and associates		(5,795,116)	-
Subtotal		<u>(6,114,344)</u>	<u>(979,750)</u>
After consolidated adjustments	₩	<u>41,915,907</u>	<u>24,651,865</u>

		Korean won (millions)	
		December 31, 2015	
		Assets	Liabilities
Department stores	₩	16,704,343	9,886,930
Discount stores		9,742,640	2,678,163
Finance business		9,402,558	7,365,241
Consumer electronics retail		2,905,213	1,122,386
Convenience stores		1,149,742	762,710
Others		6,813,434	2,668,690
Segment totals		<u>46,717,930</u>	<u>24,484,120</u>
Elimination of inter-segment assets and liabilities		(1,041,480)	(1,041,480)
Adjustments of business combinations		851,662	162,884
Investments in subsidiaries and associates		(5,834,746)	-
Subtotal		<u>(6,024,564)</u>	<u>(878,596)</u>
After consolidated adjustments	₩	<u>40,693,366</u>	<u>23,605,524</u>

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39. Operating Segments and Geographic Information, Continued

(e) Sales by geographical areas for the years ended December 31, 2016 and 2015 are summarized as follows:

Region	Korean won (millions)	
	2016	2015
Domestic	₩ 27,346,192	26,893,998
China	1,243,675	1,475,706
Vietnam	339,419	278,390
Indonesia	1,138,168	1,037,164
Total	₩ 30,067,454	29,685,258

In presenting information on the basis of geographical areas, geographic sales is based on the physical location of customers.

(f) Non-current assets by geographical areas as of December 31, 2016 and 2015 are summarized as follows:

Region	Korean won (millions)	
	December 31, 2016	December 31, 2015
Domestic	₩ 18,078,815	18,082,243
China	514,094	467,401
Vietnam	469,497	374,769
Indonesia	227,431	214,477
Total	₩ 19,289,837	19,138,890

Non-current assets by geographic areas include investment property, property, plant and equipment, goodwill and other intangible assets.

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39. Operating Segments and Geographic Information, Continued

(g) Sales by types of products and services for each operating segment for the years ended December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)						
		December 31, 2016						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others (*)	Total
Sales of merchandise	₩	6,838,341	7,635,324	5,861	3,923,580	3,477,770	2,562,338	24,443,214
Sales of products		-	-	-	-	-	55,396	55,396
Financial income		-	-	1,681,742	-	-	-	1,681,742
Commissions		-	-	-	-	226,176	789,175	1,015,351
Rental income		1,106,113	209,433	-	1,143	247	43,911	1,360,847
Others		85,310	355,979	99,393	14,719	-	955,503	1,510,904
Total segment sales	₩	<u>8,029,764</u>	<u>8,200,736</u>	<u>1,786,996</u>	<u>3,939,442</u>	<u>3,704,193</u>	<u>4,406,323</u>	<u>30,067,454</u>

		Korean won (millions)						
		December 31, 2015						
		Department stores	Discount stores	Finance business	Consumer electronics retail	Convenience stores	Others (*)	Total
Sales of merchandise	₩	6,929,852	7,753,894	3,894	3,880,911	3,102,471	2,524,188	24,195,210
Sales of products		-	-	-	-	-	54,982	54,982
Financial income		-	-	1,697,784	-	-	-	1,697,784
Commissions		-	-	-	-	211,905	774,906	986,811
Rental income		1,034,857	227,416	-	1,403	438	55,836	1,319,950
Others		67,823	342,382	88,270	13,823	-	918,223	1,430,521
Total segment sales	₩	<u>8,032,532</u>	<u>8,323,692</u>	<u>1,789,948</u>	<u>3,896,137</u>	<u>3,314,814</u>	<u>4,328,135</u>	<u>29,685,258</u>

(*) Others represent television home shopping, supermarkets and etc.

(h) There are no customers whose sales represent 10% or more of consolidated sales.

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40. Contingent Liabilities and Financial Commitments

(a) As of December 31, 2016, the Group has the following credit facility commitments with financial institutions:

		Korean won (millions), Foreign currency (thousands)	
		Credit line	Amount used under credit facility
General loan	KRW	1,752,550	457,250
	CNY	3,559,578	2,353,724
	VND	3,103,030,000	2,985,760,442
	USD	943,970	943,872
	IDR	2,423,080,000	2,120,000,000
	HKD	8,000	8,000
Discount of bill	KRW	1,662,500	1,352,500
Buyer's credit	KRW	3,022,068	316,339
Bank overdraft	KRW	241,000	-
	CNY	300,000	207,887
Guarantee	KRW	10,002	3,854
Letter of credit	USD	38,800	6,612
Others	KRW	67,000	51

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services
Lotte Card Co., Ltd.	American Express Company, Master Card International, Visa International, JCB International and UNIONPAY INTERNATIONAL	Commissions based on credit card transaction amount
Woori Home Shopping & Television Co., Ltd.	Lotte Capital Co., Ltd.	Contract of operating leases
	Shinhan card	
	Lotte Card Co., Ltd.	Issuing credit cards
	BC CARD CO., LTD.	
	LOTTE LOGISTICS CORP.	Logistics services
Korea Seven Co., Ltd.	Lotte Global Logistics Co., LTD. (formerly, Hyundai Logistics Co.,Ltd.)	
	CJ Korea Express Corporation	
	HANJIN TRANSPORTATION CO., LTD.	
	Cable TV operators	Providing broadcast programs
NCF Co., Ltd.	7-Eleven, Inc.	Using the registered trademark and operating know-how
	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts

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40. Contingent Liabilities and Financial Commitments, Continued

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

Company	Contractor	Description of contract
Buy the way Inc.	7-Eleven, Inc.	Using the registered trademark and operating know-how
	KTOTO.CO.,LTD.	Renewal guarantees of payments for goods every year

- (c) As of December 31, 2016, the Group is the plaintiff in various lawsuits with damage claims totaling ₩64,920 million and the Group is the defendant in various lawsuits with damage claims totaling ₩101,289 million, among which ₩20,953 million is related to a claim against Lotte Card Co., Ltd., a subsidiary of the Company, related to personal data leaks. Regarding 93 lawsuits out of various with damage claims as the defendant, the Group recorded ₩14,428 million as other provision as of December 31, 2016. The management believes that the ultimate resolutions of other legal actions, except 93 lawsuits above, will not have a material effect of the financial position or results of operations of the Group. Among ₩101,289 million, ₩19,277 million is related to victims of humidifier disinfectant. The Group recognized other liabilities of ₩17,575 million in regard to the claim on victims of humidifier disinfectant as of December 31, 2016. Also, the Group cannot reliably estimate the outcome and financial impacts from lawsuit for the case of the first trial of which is ongoing, related to personal data leaks. However, the Group recognized other provision of ₩3,122 million in regard to the ongoing court appeals for the case of the first trials of which are lost or similar cases regarding personal data leaks cases. As Woori Home Shopping & Television Co., Ltd., a subsidiary of the Company, received the penalty of six months of administrative suspension (6 hours per day), the administrative litigation for cancellation of business suspension is in progress. The Group cannot reliably estimate the impacts from lawsuit results on this business suspension case.
- (d) Lotte Card Co., Ltd. has sold certain card assets to SPCs pursuant to the Assets-Backed Securitization Law of the Republic of Korea and assumed the liability to pay the outstanding card assets when the transferred card assets cannot meet the prescribed qualifications in the contract or fall into arrears in accordance with the terms of assets transfer agreement and other contracts. Accordingly, as prescribed in the assets transfer agreement and other contracts, the SPCs have obligations of early redemption of the asset-backed securities when average portfolio earnings ratio during three consecutive settlement periods is lower than the average primary cost ratio or when outstanding balance of adjusted securitized assets is less than the minimum principal balance as of closing date of each settlement period and others.
- (e) The Company has the right to purchase 5.1% of the Lotte Global Logistics Co.,LTD.(formerly, Hyundai Logistics Co., Ltd.) shares held by IGIS I Corporation and during 2016, the call option was exercised due to the coming of the event period. In connection with IGIS I Corporation's borrowings, all IGIS I Corporation shares (₩5,353 million of book value) held by the Company have been in pledge in Mizuho Corporate Bank. As the option exercise period was coming, the Company exercised the call options. Also, as IGIS I Corporation repaid its borrowings, the pledge is canceled.
- (f) The Company has provided, a joint guarantee for debentures of ₩16,000 million issued by Hi-Lotte Movie Co., Ltd. and related financial guarantee liabilities of ₩7,697 million was recognized as of December 31, 2016.

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

December 31, 2016 and 2015

40. Contingent Liabilities and Financial Commitments, Continued

- (g) The Group disposed of land and buildings to structured entities and the Group has been leasing the assets. The details are as follows:
- (i) The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
 - (ii) The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩595 billion in 2010 and 2011, and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.
 - (iii) The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and the Company has the preferential right of negotiation to purchase the building
 - (iv) In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KTB Confidence Private Real Estate Investment Trust for ₩602 billion and the Company has been leasing the assets. The Company disposed of land and buildings of 2 Lotte department stores including Dongnae store and 3 Lotte mart stores including Sungjung store to Capstone Private Real Estate Investment Trust for ₩500 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.
 - (v) In 2015, the Company disposed of land and buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩147 billion and the Company has been leasing the assets. And the Company disposed of land and buildings of Lotte mart Yangdeok to KB Lotte Master Lease Private Real Estate Investment Trust for ₩55 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.

The Group does not consolidate these structured entities.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

41. Inter-company Transactions and Balances with Consolidated Companies

(a) The Group has provided guarantees for consolidated companies as of December 31, 2016 as follows:

Consolidated company	Provided by	Guarantee recipient	2016	
			Type of borrowings	Guaranteed amount (thousands)
Lotte Business Management (Tianjin) Co., Ltd.	Lotte Shopping Co., Ltd.	BNP Paribas	Working capital	CNY 150,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	Lotte Shopping Co., Ltd.	KEB Hana Bank	Working capital	CNY 170,000
Lotte Department Store (Shenyang) Co., Ltd.	Lotte Shopping Co., Ltd.	BNP Paribas	Working capital	CNY 50,000
PT. LOTTE Shopping Avenue Indonesia	Lotte Shopping Co., Ltd.	DBS JP Morgan	Working capital	USD 20,000 IDR 200,000,000
Jiangsu Times Supermarket Co., Ltd.(*)	Lotte Shopping Co., Ltd.	DBS HSBC HSBC	Working capital	CNY 330,000 CNY 750,000 CNY 125,000
LOTTE MART COMPANY LIMITED	Lotte Shopping Co., Ltd.	HSBC	Working capital	CNY 200,000
Liaoning LOTTE Mart Co., Ltd.	Lotte Shopping Co., Ltd.	HSBC	Working capital	CNY 150,000
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	Lotte Shopping Co., Ltd.	HSBC	Working capital	CNY 50,000
LOTTE CINEMA VIETNAM CO., LTD.	Lotte Shopping Co., Ltd.	ING ING DBS DBS	Working capital	USD 5,000 USD 5,000 USD 8,000 USD 8,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Lotte Shopping Co., Ltd.	Standard Chartered Standard Chartered BNP Paribas Citibank, N.A., Hong Kong Branch SMBC ING Shinhan Bank HSBC BNP Paribas Shinhan Bank	Working capital	VND 112,000,000 USD 38,136 USD 38,135 USD 38,135 USD 38,135 USD 120,214 HKD 8,000 USD 95,298 USD 104,818
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Lotte Shopping Co., Ltd.	Shinhan Bank KEB Hana Bank	Working capital	USD 50,000 USD 140,000

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

December 31, 2016 and 2015

41. Inter-company Transactions and Balances with Consolidated Companies, Continued

(a) The Group has provided guarantees for consolidated companies as of December 31, 2016 as follows:, continued

Consolidated company	Provided by	Guarantee recipient	2016	
			Type of borrowings	Guaranteed amount (thousands)
Lucky Pai (Shanghai) Trading Co., Ltd.	Lotte Shopping Co., Ltd. and Woori Home Shopping & Television Co., Ltd.	KEB Hana Bank	Working capital	CNY 58,000
		KEB Hana Bank		CNY 39,900
		INDUSTRIAL BANK OF KOREA		CNY 46,000
		KEB Hana Bank		CNY 57,000
		Woori Bank		CNY 15,000
		Shinhan Bank		CNY 14,000
	KEB Hana Bank	CNY 20,100		

(*) The subsidiary is included in 'Swift Harvest Ltd. and its subsidiaries' in the note 1.(2)

- (b) In 2015, the Company entered into an agreement to provide financial support for Suwon Landmark the Second Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP," ₩250,000 million of par value in maturing in 36 months) issued by Suwon Landmark the Second Co., Ltd. on May 28, 2015, which was collateralized with the assets of LOTTE Suwon Station Shopping Town CO., LTD. In 2016, the Company entered into an agreement to provide financial support for KS the First Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP," ₩266,000 million of par value in maturing in 27 months) issued by KS the First Co., Ltd. on August 30, 2016, which was collateralized with the assets of Lotte Ulsan Development Co., Ltd.
- (c) The Company has provided guarantees for Lotte Suwon Station Shopping Town Co., Ltd. to pay the rent during the term of the lease (20 years) from the beginning of the lease contract in 2014.
- (d) The Company have warranted the execution of the contract with respect to the Korea Seven and 7-Eleven, Inc. (US corporation) royalties (0.6% of net sales) contract.

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

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42. Transactions and Balances with Related Companies

(a) Details of control and subsidiary relationships with the Company as of December 31, 2016 are as follows:

Related company	Ownership (%)	Control relationship (*)
Hotel Lotte Co., Ltd.	8.83	Affiliate of Lotte Group
Korea Fuji Film Co., Ltd.	7.86	Affiliate of Lotte Group
Lotte Confectionery Co., Ltd.	7.86	Affiliate of Lotte Group
LOTTE DATA COMMUNICATION COMPANY	4.81	Affiliate of Lotte Group
Lotte Chilsung Beverage Co., Ltd.	3.93	Affiliate of Lotte Group
Lotte Engineering & Construction Co., Ltd.	0.95	Affiliate of Lotte Group
Hotel Lotte Pusan Co., Ltd.	0.78	Affiliate of Lotte Group

(*) Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

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

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2016 and 2015 are summarized as follows:

Related company	Korean won (millions)				
	2016				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 91,919	44	392	529	120,626
Lotte Confectionery Co., Ltd.	16,132	164,823	18	-	18,775
Lotte Chilsung Beverage Co., Ltd.	17,232	110,741	-	146	731
Lotte Engineering & Construction Co., Ltd.	7,429	-	295,713	5	333
Hotel Lotte Pusan Co., Ltd.	9,736	-	-	10	20,760
LOTTE DATA COMMUNICATION COMPANY	3,211	1,331	83,921	228	209,590
Korea Fuji Film Co., Ltd.	1,377	842	-	-	45
Subtotal	147,036	277,781	380,044	918	370,860
Associates:					
DAEHONG COMMUNICATIONS INC.	39,409	144	582	-	85,743
Lotte Station Building Co., Ltd.	24,788	-	217	2,213	4,733
Lotteria Co., Ltd.	20,335	6,247	133	91	1,443
Lotte Trading Co., Ltd.	6,012	196,634	-	-	225
Others	103,059	83,356	8,942	84	69,533
Subtotal	193,603	286,381	9,874	2,388	161,677
Others:					
LOTTE FOOD CO., LTD.	24,504	262,140	-	-	8,849
Lotte Aluminum Co., Ltd.	3,503	21,023	36,886	-	32,552
Lotte Logistics Co., Ltd.	52,175	2,335,490	2,138	-	266,183
Others	64,265	39,741	24,883	20,294	219,143
Subtotal	144,447	2,658,394	63,907	20,294	526,727
Total	₩ 485,086	3,222,556	453,825	23,600	1,059,264

During 2016 the Group acquired shares and warrant of Lotte Global Logistics Co., LTD. (formerly, Hyundai Logistics Co., Ltd.) from IGIS I Corporation for ₩26,448 million.

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

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(b) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2016 and 2015 are summarized as follows:, continued

Related company	Korean won (millions)				
	2015				
	Sales	Purchase of inventories	Purchase of fixed asset	Other revenue	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 77,509	141	3,410	1,180	107,943
Lotte Confectionery Co., Ltd.	14,547	154,965	-	53	18,082
Lotte Chilsung Beverage Co., Ltd.	12,573	110,092	-	64	642
Lotte Engineering & Construction Co., Ltd.	6,837	-	292,022	-	128
Hotel Lotte Pusan Co., Ltd.	9,723	26	-	-	19,414
LOTTE DATA COMMUNICATION COMPANY	18,319	1,595	131,706	50	173,679
Korea Fuji Film Co., Ltd.	1,431	537	-	-	55
Subtotal	140,939	267,356	427,138	1,347	319,943
Associates:					
DAEHONG COMMUNICATIONS INC.	32,881	-	1,025	46	89,528
Lotte Station Building Co., Ltd.	28,586	38	16	1,474	5,548
Lotteria Co., Ltd.	22,692	5,681	55	63	1,920
Lotte Trading Co., Ltd.	5,172	230,181	-	615	299
Others	102,137	71,976	7,071	1,340	87,763
Subtotal	191,468	307,876	8,167	3,538	185,058
Others:					
LOTTE FOOD CO., LTD.	19,115	203,575	-	12	7,785
Lotte Aluminum Co., Ltd.	3,044	17,107	38,184	1	34,785
Lotte Logistics Co., Ltd.	35,488	2,118,619	2,100	9,797	257,159
Others	64,763	34,478	22,613	1,032	198,025
Subtotal	122,410	2,373,779	62,897	10,842	497,754
Total	₩ 454,817	2,949,011	498,202	15,727	1,002,755

During 2015, the Group disposed of shares of Lotte Aluminum Co., Ltd. to Hotel Lotte Co., Ltd. for ₩83,999 million.

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

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(c) Significant financial transactions with related companies for the years ended December 31, 2016 and 2015 are summarized as follows:

Related company	Korean won (millions)			
	2016			
	Borrowings	Repayment	Capital increase	Capital decrease
Associates:				
LOTTE Accelerator Corporation	₩ -	-	5,000	-
BUSAN-LOTTE CREATIVE FILM FUND	-	-	6,000	-
Coralis S.A.	-	-	4,474	-
LOTTE Giants Co., Ltd.	-	-	9,000	-
Stonebridge Innovation Quarter Fund	-	-	3,000	-
Capital One Middle-Low Budget Cinema Fund	-	-	-	1,350
Lotte Capital Co., Ltd.	20,000	21,125	-	-
Others	-	-	4,134	4,946
Subtotal	20,000	21,125	31,608	6,296
Joint ventures:				
LOTTE JTB Co., Ltd.	-	-	10,000	-
PT. INDO LOTTE MAKMUR	-	-	14,433	-
Subtotal	-	-	24,433	-
Others:				
LOTTE rental Co., Ltd.	3,806	350	27,055	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others	21,588	5,065	-	-
Subtotal	25,394	5,415	27,055	-
Total	₩ 45,394	26,540	83,096	6,296

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

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(c) Significant financial transactions with related companies for the years ended December 31, 2016 and 2015 are summarized as follows:, continued

Related company	Korean won (millions)			
	2015			
	Borrowings	Repayment	Capital increase	Capital decrease
Associates:				
Lotte Europe Holdings B.V.	₩ -	-	10,855	-
Lotte Asset Development Co., Ltd.	-	-	19,571	-
Shandong Longzhile Cinema Co., Ltd.	-	-	437	-
Hemisphere Film Investors II LLC	-	-	-	7,012
LOTTE Town Dongtan Co.,LTD	-	-	35,000	-
LOTTE CAPITAL CO., LTD.	15,000	10,000	-	-
Mybi.Co.Ltd	10,000	-	-	-
Others	-	-	3,450	636
Subtotal	25,000	10,000	69,313	7,648
Others:				
Lotte Capital Lease & Finance (China) Co., Ltd. and others	25,513	17,824	2,000	-
Total	₩ 50,513	27,824	71,313	7,648

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

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(d) Account balances with related companies as of December 31, 2016 and 2015 are summarized as follows:

Related company	Korean won (millions)				
	2016				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 2,920	94,288	1	-	50,789
Lotte Confectionery Co., Ltd.	598	12,311	21,422	-	3,275
Lotte Chilsung Beverage Co., Ltd.	1,049	57,290	6,594	-	6,243
Lotte Engineering & Construction Co., Ltd.	15	55,136	-	-	108,180
Hotel Lotte Pusan Co., Ltd.	150	12,382	-	-	7,597
LOTTE DATA COMMUNICATION COMPANY	31	72,736	368	-	56,644
Korea Fuji Film Co., Ltd.	10	124	167	-	1,549
Subtotal	<u>4,773</u>	<u>304,267</u>	<u>28,552</u>	<u>-</u>	<u>234,277</u>
Associates:					
DAEHONG COMMUNICATIONS INC.	4,309	2,334	99	-	30,412
Lotte Station Building Co., Ltd.	8,260	14,498	-	-	16,240
Lotteria Co., Ltd.	313	1,271	594	-	13,291
Lotte Trading Co., Ltd.	135	1,090	8,643	-	104
Others	2,476	15,933	14,490	15,000	38,977
Subtotal	<u>15,493</u>	<u>35,126</u>	<u>23,826</u>	<u>15,000</u>	<u>99,024</u>
Others:					
LOTTE FOOD CO., LTD.	293	5,361	25,472	-	8,410
Lotte Aluminum Co., Ltd.	-	12,497	3,039	-	12,471
Lotte Logistics Co., Ltd.	2	1,078	253,239	-	30,609
Others	2,451	112,417	4,312	31,654	84,754
Subtotal	<u>2,746</u>	<u>131,353</u>	<u>286,062</u>	<u>31,654</u>	<u>136,244</u>
Total	₩ <u>23,012</u>	<u>470,746</u>	<u>338,440</u>	<u>46,654</u>	<u>469,545</u>

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

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(d) Account balances with related companies as of December 31, 2016 and 2015 are summarized as follows:
continued

Related company	Korean won (millions)				
	2015				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 4,211	73,043	2	-	31,934
Lotte Confectionery Co., Ltd.	304	12,659	20,181	-	2,113
Lotte Chilsung Beverage Co., Ltd.	724	55,443	7,338	-	6,270
Lotte Engineering & Construction Co., Ltd.	-	39,842	-	-	112,970
Hotel Lotte Pusan Co., Ltd.	171	10,863	3	-	3,919
LOTTE DATA COMMUNICATION COMPANY	5	12,725	359	-	53,918
Korea Fuji Film Co., Ltd.	5	90	78	-	1,560
Subtotal	<u>5,420</u>	<u>204,665</u>	<u>27,961</u>	<u>-</u>	<u>212,684</u>
Associates:					
DAEHONG COMMUNICATIONS INC.	4,696	798	-	-	24,372
Lotte Station Building Co., Ltd.	9,111	12,630	-	-	11,180
Lotteria Co., Ltd.	343	1,598	389	-	11,224
Lotte Trading Co., Ltd.	26	978	8,756	-	78
Others	2,290	6,467	17,303	15,000	38,107
Subtotal	<u>16,466</u>	<u>22,471</u>	<u>26,448</u>	<u>15,000</u>	<u>84,961</u>
Others:					
LOTTE FOOD CO., LTD.	97	3,887	21,143	-	8,358
Lotte Aluminum Co., Ltd.	-	18,448	1,747	-	10,578
Lotte Logistics Co., Ltd.	2	2,629	236,535	-	25,537
Others	2,610	109,188	4,073	21,159	61,859
Subtotal	<u>2,709</u>	<u>134,152</u>	<u>263,498</u>	<u>21,159</u>	<u>106,332</u>
Total	₩ <u>24,595</u>	<u>361,288</u>	<u>317,907</u>	<u>36,159</u>	<u>403,977</u>

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

42. Transactions and Balances with Related Companies, Continued

(e) The Group has provided guarantees for related companies as of December 31, 2016 as follows:

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
Associates:			
Lotte Shopping Rus Ltd.	Korea Exchange Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank	Working capital	CNY 24,000
Joint ventures:			
International Business Center Company Limited	The Export-Import Bank of Korea	Working capital	USD 15,000
	Standard Chartered Bank Korea Limited	Working capital	VND 110,000,000
Others:			
Lotte Properties(Shenyang) Limited	The Export-Import Bank of Korea	Working capital	USD 30,500
	Woori Bank	Working capital	USD 31,500
	INDUSTRIAL BANK OF KOREA	Working capital	USD 57,500

(f) The fulfillment of the VPF contract between D-Cinema of Korea Co., Ltd. and Twentieth Century Fox Film Corporation was equally guaranteed by CGV and the Group in October 2008.

(g) The fulfillment of the loyalty contract between Burger King Japan Co., Ltd. and BK Asiapac, Pte. Ltd. was guaranteed by the Group.

(h) The Group entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able") and Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP"; ₩700,000 million of par value in maturing in 57 months) issued by HND able on May 27, 2013, which is collateralized with the assets of Lotte Incheon Development Co., Ltd. and on the asset backed loan (₩144,000 million of par value in maturing in 29 months) issued by Lotte Incheon Town Co., Ltd on December 26, 2016.

(i) In 2015, Lotte Incheon Town Co., Ltd., which is the Group's associate, entered into a land sale and purchase contract with the government of Incheon city. As a result of the contract, the Group collected a security deposit of ₩30,600 million, which was previously paid by the Group to the Incheon city from Lotte Incheon Town Co., Ltd.

(j) In 2013, the Group issued hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd. In 2016, the Group purchased hybrid securities (₩10,000 million) and subordinated bonds (₩4,000 million) issued by Lotte Non-Life Insurance Co., Ltd.

(k) In 2016, the Group entered into an jointly guarantee agreement with LOTTE Engineering & Construction Co.,Ltd and LOTTE ASSET DEVELOPMENT CO.,LTD to GAR The First Co., Ltd. The Group and others are obligated to pay compensations for damages incurred by LOTTE Town Dongtan Co.,LTD due to non-execution of loan agreement to GAR The First Co., Ltd.

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

December 31, 2016 and 2015

43. Risk Management

(a) Management of financial risks

Objectives and Policies of the Group

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

In order to install and implement the financial risk management system, the Group has established risk management policies in an integrated perspective, and is complying with the risk management policies and procedures by strictly performing control and review of internal managers.

Credit Risk

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

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

1) Exposure to credit risk

The book value of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2016 and 2015 are as follows:

Account	Korean won (millions)	
	December 31, 2016	December 31, 2015
Cash equivalent (*1)	₩ 2,214,285	1,714,025
Trade and other receivables	1,031,338	918,851
Other financial assets (current)	9,979,329	9,672,512
Other financial assets (non-current) (*2)	1,706,519	1,527,522
Total	₩ 14,931,471	13,832,910

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

(*2) Equity securities within available-for-sale financial assets are excluded as there is no exposure to credit risk.

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

December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, continued

2) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as of December 31, 2016 and 2015 are summarized as follows:

Description	Korean won (millions)			
	December 31, 2016			
	Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired(*)	Total
Trade and other receivables	₩ 999,280	31,633	29,258	1,060,171
Other financial assets (current)	9,777,180	196,388	215,577	10,189,145
Other financial assets (non-current)	1,706,519	-	4,621	1,711,140
Total	₩ 12,482,979	228,021	249,456	12,960,456

(*) The Group sets up an allowance for doubtful account when financial assets are individually determined to be impaired.

Description	Korean won (millions)			
	December 31, 2015			
	Receivables that are neither past due nor impaired	Receivables that are past due as at the end of the reporting period but not impaired	Receivables impaired(*)	Total
Trade and other receivables	₩ 882,488	36,363	51,228	970,079
Other financial assets (current)	9,296,172	316,064	267,265	9,879,501
Other financial assets (non-current)	1,527,522	-	4,057	1,531,579
Total	₩ 11,706,182	352,427	322,550	12,381,159

(*) The Group sets up an allowance for doubtful account when financial assets are individually determined to be impaired.

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December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, continued

3) Allowance for doubtful trade and other receivables

The movement in the allowance for doubtful trade and other receivables for the years ended December 31, 2016 and 2015 are summarized as follow:

		Korean won (millions)	
		2016	2015
Balance at beginning of the year	₩	51,228	16,131
Impairment loss		13,106	38,334
Reversal of Impairment loss		(34,924)	(144)
Write-offs		(7,275)	(3,310)
Recoveries		50	83
Others		6,648	134
Balance at end of the year	₩	28,833	51,228

The movement in the allowance for doubtful other financial assets (current) for the years ended December 31, 2016 and 2015 are summarized as follow:

		Korean won (millions)	
		2016	2015
Balance at beginning of the year	₩	206,990	179,106
Impairment loss		206,406	211,963
Write-offs		(221,663)	(198,400)
Recoveries		18,079	14,321
Replacement		5	-
Balance at end of the year	₩	209,817	206,990

The movement in the allowance for doubtful other financial assets (non-current) for the years ended December 31, 2016 and 2015 are summarized as follow:

		Korean won (millions)	
		2016	2015
Balance at beginning of the year	₩	4,057	4,000
Impairment loss		2,250	5,400
Write-offs		-	(5,368)
Business combination		(1,681)	25
Replacement		(5)	-
Balance at end of the year	₩	4,621	4,057

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December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, continued

4) Financial assets that are past due as at the end of the reporting period but not impaired

An analysis of the age of trade and other receivables, other financial assets (current), and other financial assets (non-current) that are past due as at the end of the reporting period but not impaired are summarized as follows:

Description	Korean won (millions)				
	December 31, 2016				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 31,633	19,328	4,822	2,975	4,508
Other financial assets (current)	196,388	193,703	2,685	-	-
Total	₩ 228,021	213,031	7,507	2,975	4,508

Description	Korean won (millions)				
	December 31, 2015				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 36,363	27,275	2,472	3,240	3,376
Other financial assets (current)	316,064	315,324	740	-	-
Total	₩ 352,427	342,599	3,212	3,240	3,376

5) Guarantees

As of December 31, 2016, the Group has provided financial guarantees to associates and joint ventures. Should the Group be liable for payment upon defaults of the associates and joint ventures, the expected amounts which the Group is liable to pay within 1 year are ₩178,585 million.

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43. Risk Management, Continued

(a) Management of financial risks, continued

Liquidity Risks

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as of December 31, 2016 are as follows:

Description	Korean won (millions)			
	December 31, 2016			
	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Current portion of borrowings and debentures	₩ 1,107,678	1,740,827	2,293,621	-
Trade and other payables	5,726,582	57,584	1,185	-
Other financial liabilities (current)	525,019	32,730	69,356	-
Borrowings and debentures (non-current)	57,400	59,022	120,175	9,794,532
Other financial liabilities (non-current)	716	644	1,234	269,871
Acceptances and guarantees	178,585	-	-	-
Total	₩ 7,595,980	1,890,807	2,485,571	10,064,403

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

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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43. Risk Management, Continued

(a) Management of financial risks, continued

Market Risks

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

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

1) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Group functional currencies as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)			
		December 31, 2016		December 31, 2015	
		Assets	Liabilities	Assets	Liabilities
USD	₩	17,657	3,286,332	11,685	3,415,862
EUR		33	1,105	65	2,191
JPY		145	103,699	257	188,311
VND		3	-	-	-
CNY		514	25,553	1,249	-
HKD		-	1,247	-	38,636
Total	₩	18,352	3,417,936	13,256	3,645,000

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December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, continued

The closing rates as of December 31, 2016 and 2015 and the average rates for the years ended December 31, 2016 and 2015 are as follows:

		Average rate		Closing rate	
		2016	2015	December 31, 2016	December 31, 2015
USD	₩	1,160.50	1,131.49	1,208.05	1,172.00
EUR		1,283.30	1,255.16	1,267.60	1,280.53
JPY		10.6817	9.3456	10.3681	9.7201
VND		0.0519	-	0.0531	-
CNY(*)		174.40	180.06	173.26	180.55
HKD		149.51	145.95	155.83	151.21

(*) The Group had translated with CNY rate calculated by arbitrating USD/KRW and USD/CNY until December 31, 2015. However, the exchange rate has not been announced any longer from January 4, 2016, the Group applies direct CNH/KRW exchange rate in translation from January 1, 2016

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)			
		December 31, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	(32,793)	32,793	(30,468)	30,468
EUR		(107)	107	(213)	213
JPY		(10,355)	10,355	(9,695)	9,695
VND		-	-	-	-
CNY		(2,504)	2,504	125	(125)
HKD		(125)	125	(3,864)	3,864
Total	₩	(45,884)	45,884	(44,115)	44,115

Borrowings and debentures with currency swaps and overseas convertible bonds designated as financial liabilities at fair value through profit or loss are not included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Group's functional currency, as of December 31, 2016 and 2015 of the Group entities in Korea.

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December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, continued

2) Interest rate risk

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

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

At the reporting date the interest rate profile of the Group's variable interest-bearing financial instruments was:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Variable rate instruments:			
Financial assets	₩	1,029,846	820,038
Financial liabilities		4,147,528	3,424,414

Sensitivity analysis of interest income and expenses from changes in interest rates as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)			
		<u>December 31, 2016</u>		<u>December 31, 2015</u>	
		100bps up	100bps down	100bps up	100bps down
Interest income	₩	10,298	(10,298)	8,200	(8,200)
Interest expense		6,781	(6,781)	5,900	(5,900)

Borrowings and debentures for which the Group has entered into interest rate swap transactions are not included.

LOTTE SHOPPING CO., LTD. AND SUBSIDIARIES
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December 31, 2016 and 2015

43. Risk Management, Continued

(a) Management of financial risks, continued

3) Price risk

The Group is exposed to fluctuations of price in available-for-sale financial assets. The book values of the marketable available-for-sale financial assets as of December 31, 2016 and 2015 are ₩280,520 million and ₩282,887 million, respectively.

The Group assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period, and others variables are not changed. Sensitivity analysis of other comprehensive income from changes of price as of December 31, 2016 and 2015 are as summarized as follows:

		Korean won (millions)			
		December 31, 2016		December 31, 2015	
		10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩	28,052	(28,052)	28,289	(28,289)

(b) Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Liabilities (a)	₩	24,651,865	23,605,524
Equity (b)		17,264,042	17,087,842
Financial instruments (*) (c)		3,129,595	2,998,383
Borrowings (d)		14,482,948	14,083,577
Liabilities to equity ratio (a/b)		142.79%	138.14%
Net borrowings to equity ratio ((d-c)/b)		65.76%	64.87%

(*) Financial instruments mainly consist of ordinary deposits, checking accounts, short-term and long-term financial instruments.

44. Subsequent Events

In March 2017, some distribution stores (discount stores) operated by the Group in China have been suspended for about a month due to fire control inspection by Chinese authorities. Currently, it is difficult to predict the financial impacts on the consolidated financial statements. Therefore, the Group does not reflect the effect from such event in the consolidated financial statements.