

LOTTE SHOPPING CO., LTD.

Separate Financial Statements

**December 31, 2016 and 2015**

(With Independent Auditors' Report Thereon)

## Contents

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
Separate Statements of Financial Position	3
Separate Statements of Comprehensive Income	5
Separate Statements of Changes in Equity	6
Separate Statements of Cash Flows	8
Notes to the Separate Financial Statements	12

# 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 separate financial statements of Lotte Shopping Co., Ltd. (the "Company"), which comprise the separate statements of financial position as at December 31, 2016 and 2015, the separate 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 Separate Financial Statements**

Management is responsible for the preparation and fair presentation of these separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2016 and 2015 and its separate financial performance and its separate 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 separate financial statements may differ from those generally accepted and applied in other countries.

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

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

LOTTE SHOPPING CO., LTD.  
 Separate Statements of Financial Position

As of December 31, 2016 and 2015

	<i>Notes</i>	Korean won (millions)	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>			
Cash and cash equivalents	7,33,35,40 ₩	882,890	578,618
Trade and other receivables	5,7,39,40	635,818	563,375
Other financial assets	6,7,22,33,40	290,383	811,586
Inventories	8	2,015,162	2,036,792
Other non-financial assets	9	72,440	99,291
<b>Total current assets</b>		<b>3,896,693</b>	<b>4,089,662</b>
Investments in associates, joint ventures and subsidiaries	10,11,12,33,39	5,279,465	5,266,106
Other financial assets	6,7,22,33,40	1,370,676	1,226,294
Property and equipment, net	13	13,615,938	13,471,597
Investment property, net	14	297,153	289,454
Goodwill	15	400,032	484,277
Intangible assets, net	15	336,309	410,621
Other non-financial assets	9	786,544	782,695
<b>Total non-current assets</b>		<b>22,086,117</b>	<b>21,931,044</b>
<b>Total assets</b>	₩	<b>25,982,810</b>	<b>26,020,706</b>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.  
Separate Statements of Financial Position, Continued

As of December 31, 2016 and 2015

	Notes	Korean won (millions)	
		December 31, 2016	December 31, 2015
<b>Liabilities</b>			
Borrowings and debentures, net of issuance costs	7,17,33,40 ₩	1,226,182	1,082,579
Trade and other payables	7,16,39,40	3,749,302	3,719,808
Other financial liabilities	7,22,33,40	368,258	309,762
Income taxes payable	34	77,199	75,504
Unearned revenues	18	56,449	56,478
Provisions	19	1,286	1,404
Other non-financial liabilities	20	783,058	718,526
<b>Total current liabilities</b>		<b>6,261,734</b>	<b>5,964,061</b>
Borrowings and debentures, net of issuance costs	7,17,33,40	3,089,076	3,351,529
Other financial liabilities	7,22,33,40	66,118	72,672
Employee benefit liabilities	21	31,582	44,784
Deferred tax liabilities	34	1,002,761	1,043,023
Unearned revenues	18	5,111	3,373
Other non-financial liabilities	20	20,674	9,557
<b>Total non-current liabilities</b>		<b>4,215,322</b>	<b>4,524,938</b>
<b>Total liabilities</b>		<b>10,477,056</b>	<b>10,488,999</b>
Equity			
Common stock of ₩5,000 par value			
Authorized - 60,000,000 shares	1,23		
Issued and outstanding – 31,490,892 shares		157,454	157,454
Capital surplus	23	3,962,094	3,962,094
Hybrid securities	24	269,118	269,118
Capital adjustments	25	(1,806)	(1,806)
Retained earnings	26	11,065,344	11,080,393
Accumulated other comprehensive income	27	53,550	64,454
<b>Total equity</b>		<b>15,505,754</b>	<b>15,531,707</b>
<b>Total liabilities and equity</b>	₩	<b>25,982,810</b>	<b>26,020,706</b>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

	<i>Notes</i>	Korean won (millions, except for earnings per share)	
		<b>2016</b>	<b>2015</b>
Sales	29,36,39 ₩	16,042,365	16,177,332
Cost of sales	8,29,32,39	(10,637,642)	(10,923,566)
<b>Gross profit</b>		<b>5,404,723</b>	<b>5,253,766</b>
Selling, general and administrative expenses	30,32,39	(4,684,865)	(4,539,023)
<b>Operating profit</b>		<b>719,858</b>	<b>714,743</b>
Other income	31	44,147	37,163
Other expenses	31	(283,065)	(248,840)
Finance income	33	189,427	243,553
Finance costs	33	(517,337)	(929,751)
<b>Profit (loss) before income tax</b>		<b>153,030</b>	<b>(183,132)</b>
Income tax expense	34	(101,247)	(121,280)
<b>Profit (loss) for the year</b>		<b>51,783</b>	<b>(304,412)</b>
<b>Other comprehensive income (loss):</b>	26,27		
<b>Items that will never be reclassified to profit or loss:</b>			
Remeasurements of net defined benefit liabilities	21	6,756	(10,793)
Income tax on items that will never be reclassified to profit or loss		(1,635)	2,613
<b>Total items that will never be reclassified to profit or loss</b>		<b>5,121</b>	<b>(8,180)</b>
<b>Items that are or may be reclassified to profit or loss:</b>			
Net change in unrealized fair value of available-for-sale financial assets	27	(7,599)	(58,744)
Effective portion of unrealized changes in fair values of cash flow hedges	22,27	(6,786)	(5,422)
Income tax on items that are or may be reclassified to profit or loss		3,481	15,527
<b>Total items that are or may be reclassified to profit or loss</b>		<b>(10,904)</b>	<b>(48,639)</b>
<b>Other comprehensive income (loss), net of tax</b>		<b>(5,783)</b>	<b>(56,819)</b>
<b>Total comprehensive income (loss) for the year</b>		<b>46,000</b>	<b>(361,231)</b>
<b>Earnings (loss) per share</b>	28		
- Basic earnings (loss) per share (in won)		1,317	(10,731)
- Diluted earnings (loss) per share (in won)	₩	1,317	(10,731)

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.  
Separate Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

Korean won (millions)

		<u>Capital stock</u>	<u>Capital surplus</u>	<u>Hybrid securities</u>	<u>Capital adjustments</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
<b>Balance at January 1, 2015</b>	₩	157,454	3,962,094	269,118	(1,806)	11,464,811	113,093	15,964,764
<b>Total comprehensive income (loss) for the year</b>								
Profit (loss) for the year		-	-	-	-	(304,412)	-	(304,412)
<b>Other comprehensive income (loss):</b>								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	(44,528)	(44,528)
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	(4,111)	(4,111)
Remeasurements of net defined benefit liabilities		-	-	-	-	(8,180)	-	(8,180)
Subtotal		-	-	-	-	(8,180)	(48,639)	(56,819)
Total comprehensive income (loss) for the year		-	-	-	-	(312,592)	(48,639)	(361,231)
<b>Transactions with owners of the Company, recognized directly in equity:</b>								
Interest payment of hybrid securities		-	-	-	-	(12,721)	-	(12,721)
Dividends		-	-	-	-	(59,105)	-	(59,105)
Subtotal		-	-	-	-	(71,826)	-	(71,826)
<b>Balance at December 31, 2015</b>	₩	<u>157,454</u>	<u>3,962,094</u>	<u>269,118</u>	<u>(1,806)</u>	<u>11,080,393</u>	<u>64,454</u>	<u>15,531,707</u>

See accompanying notes to the separate financial statement



LOTTE SHOPPING CO., LTD.  
Separate Statements of Changes in Equity, Continued

For the years ended December 31, 2016 and 2015

Korean won (millions)

		<u>Capital stock</u>	<u>Capital surplus</u>	<u>Hybrid securities</u>	<u>Capital adjustments</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
<b>Balance at January 1, 2016</b>	₩	157,454	3,962,094	269,118	(1,806)	11,080,393	64,454	15,531,707
<b>Total comprehensive income (loss) for the year</b>								
Profit for the year		-	-	-	-	51,783	-	51,783
<b>Other comprehensive income (loss):</b>								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	-	(5,760)	(5,760)
Effective portion of unrealized changes in fair values of cash flow hedges		-	-	-	-	-	(5,144)	(5,144)
Remeasurements of net defined benefit liabilities		-	-	-	-	5,121	-	5,121
Subtotal		-	-	-	-	5,121	(10,904)	(5,783)
Total comprehensive income (loss) for the year		-	-	-	-	56,904	(10,904)	46,000
<b>Transactions with owners of the Company, recognized directly in equity:</b>								
Interest payment of hybrid securities		-	-	-	-	(12,849)	-	(12,849)
Dividends		-	-	-	-	(59,104)	-	(59,104)
Subtotal		-	-	-	-	(71,953)	-	(71,953)
<b>Balance at December 31, 2016</b>	₩	<u>157,454</u>	<u>3,962,094</u>	<u>269,118</u>	<u>(1,806)</u>	<u>11,065,344</u>	<u>53,550</u>	<u>15,505,754</u>

See accompanying notes to the separate financial statement

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

For the years ended December 31, 2016 and 2015

	Korean won (millions)	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Profit (loss) for the year	₩ 51,783	(304,412)
Income tax expense	101,247	121,280
Post-employment benefits expense	76,827	72,803
Long-term employee benefits expense	15,035	3,546
Depreciation	537,102	539,207
Amortization	69,204	87,063
Impairment loss on property and equipments	32,513	5,695
Impairment loss on intangible assets	127,032	149,321
Loss on foreign currency translation	52,704	90,282
Loss on foreign currency transactions	26	20,174
Loss on disposal of property and equipment	2,962	8,154
Loss on disposal of intangible assets	184	775
Bad debt expenses	47	149
Other bad debt expenses	434	18
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 disposal of available-for-sale financial assets	420	792
Loss on valuation of derivative instruments	3,930	12,279
Loss on transactions of derivative instruments	17,533	-
Loss on redemption of debentures	20,060	-
Rental expenses (Amortization of discount on deposit, etc.)	62,892	56,197
Loss on disposal of investments in subsidiaries and associates and joint venture	59	351
Impairment of investments in subsidiaries and associates and joint venture	282,981	655,680
Gain on foreign currency translation	(754)	(357)
Gain on foreign currency transactions	(9,735)	(59)
Gain on disposal of property and equipment	(2,371)	(1,476)
Gain on valuation of derivative instruments	(61,954)	(94,791)
Gain on transactions of derivative instruments	(13,362)	(8,050)
Reversal of impairment of other non-financial assets	(9)	(1)
Gain on disposal of investments in subsidiaries and associates and joint venture	(1,982)	-
Gain on disposal of available-for-sale financial assets	(8)	(28,270)
Impairment loss on available-for-sale financial assets	1,971	6,905
Financial guarantee expense	19,899	-
Miscellaneous losses	31,558	-
Rental income	(1,982)	(2,295)
Interest expense	117,778	135,222
Interest income	(51,670)	(54,448)
Dividend income	(50,715)	(57,935)
Trade receivables	(60,938)	79,071
Other receivables	(20,499)	(14,273)
Other financial assets	(25,884)	2,889
Inventories	21,630	69,980
Other non-financial assets	(29,833)	(57,018)
Trade payables	(105,282)	(101,615)
Other payables	157,155	(72,803)
Other financial liabilities	13,205	(65,000)
Other non-financial liabilities	63,033	66,097
Unearned revenues	1,034	(3,727)
Provisions	(118)	(7)
Payment of post-employment benefits and long-term employee benefits	(38,090)	(40,109)

LOTTE SHOPPING CO., LTD.  
Separate Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

	Korean won (millions)	
	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities, continued</b>		
Plan assets	(66,239)	(66,603)
Income tax paid	<u>(137,967)</u>	<u>(214,353)</u>
<b>Net cash provided by operating activities</b>	<u>₩ 1,218,462</u>	<u>1,017,987</u>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.

Separate Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets	₩	917,851	490,683
Decrease of short-term loans		6,500	8,126
Decrease of opening a checking account deposit		-	1
Proceeds from sale of available-for-sale financial assets		1,334	122,715
Proceeds from sale of investments in subsidiaries, associates and joint venture		1,923	1,941
Proceeds from disposal of property and equipment		56,665	133,987
Proceeds from disposal of other intangible assets		3	726
Cash inflows from capital distribution from subsidiaries and associates		6,296	7,012
Cash inflows from business combination		413	-
Purchase of short-term financial assets		(426,553)	(1,043,351)
Purchase of long-term financial assets		-	(2,000)
Increase of short-term loans		(1,500)	(25)
Increase of long-term loans		(5,000)	-
Purchase of available-for-sale financial assets		(53,244)	(6,304)
Purchase of investments in subsidiaries, associates and joint venture		(302,636)	(215,961)
Acquisition of property and equipment		(763,836)	(722,065)
Acquisition of other intangible assets		(64,886)	(54,225)
Interest received		20,360	22,976
Dividends received		50,767	57,992
<b>Net cash used in investing activities</b>	₩	<b>(555,543)</b>	<b>(1,197,772)</b>

See accompanying notes to the separate financial statements.

LOTTE SHOPPING CO., LTD.  
 Separate Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debentures	₩	695,480	1,236,356
Repayment of short-term borrowings		-	(150,000)
Redemption of current portion of long-term debt		(868,140)	(1,054,778)
Payment of hybrid securities interests		(12,849)	(12,721)
Interest paid		(114,036)	(119,194)
Dividend paid		(59,104)	(59,104)
<b>Net cash provided by (used in) financing activities</b>		<b>(358,649)</b>	<b>(159,441)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>304,270</b>	<b>(339,226)</b>
<b>Cash and cash equivalents at January 1</b>		<b>578,618</b>	<b>917,846</b>
<b>Impact of foreign currency exchange rates on cash and cash equivalents</b>		<b>2</b>	<b>(2)</b>
<b>Cash and cash equivalents at December 31</b>	₩	<b>882,890</b>	<b>578,618</b>

See accompanying notes to the separate financial statements.

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

December 31, 2016 and 2015

1. General Description of Reporting Entity

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, 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 stock	1,938,688	6.16
Others	9,521,302	30.24
Total	31,490,892	100.00

2. Basis of Accounting

(a) Statement of compliance

The separate 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*.

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

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

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

December 31, 2016 and 2015

**2. Basis of Accounting, Continued**

**(b) Basis of measurement**

The separate 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**

These separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

**(d) Use of estimates and judgments**

The preparation of the separate 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 15 – Goodwill and Intangible Assets
- Note 19 – Provisions
- Note 21 – Employee benefits
- Note 34 – Income taxes
- Note 38 – Contingent liabilities and financial commitments
- Note 40 – Risk Management

(ii) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company 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 valuation techniques should be classified.

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

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

December 31, 2016 and 2015

**2. Basis of Accounting, Continued**

**(d) Use of estimates and judgments, continued**

(ii) Measurement of fair value, continued

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

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets 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 might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company 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 the following note:

Note 7 - Fair value of financial instruments



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

**December 31, 2016 and 2015**

**3. Changes in accounting policies**

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

The Company 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'
- ✓ Amendments to K-IFRS 1027 'Separate 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.

(ii) Separate Financial Statements

These choices permitted the use of one of three methods to measure these investments: the cost method, the equity method, or as available for sale financial assets in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Amendments to K-IFRS 1027 introduced equity accounting as a third option in the entity's separate financial statements, in addition to the existing cost and fair value options, in accordance K-IFRS 1028 'Investments in Associates and Joint Ventures'.

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

December 31, 2016 and 2015

**4. Significant Accounting Policies**

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

**(a) Investments in subsidiaries, associates and joint ventures**

These separate financial statements are prepared and presented in accordance with K-IFRS 1027 Separate Financial Statements. Investments in subsidiaries, associates and joint ventures are carried at cost less impairment, if any, in accordance with K-IFRS 1027. Dividends from a subsidiary, associate or joint venture are recognized in profit or loss when the right to receive the dividend is established.

**(b) Cash and cash equivalents**

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

**(c) 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 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.

**(d) Non-derivative financial assets**

The Company 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 Company recognizes financial assets in the separate statement of financial position when the Company 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 assets is 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.

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(d) Non-derivative financial assets, continued**

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company 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.

(iii) Loans and receivables

Loans and receivables are non-derivative 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 unless 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 Company derecognizes non-derivative financial assets when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows from the financial asset as well as substantially all the risks and rewards of ownership of the financial asset. Any interest in a transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company 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 separate statement of financial position only when the Company 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

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

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with 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 separate statement of comprehensive income.

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

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

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(e) Derivative financial instruments, including hedge accounting, continued**

(iii) 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.

**(f) 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. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(g) Property and equipment

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

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

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

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

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

	Useful lives (years)
Buildings	10 ~ 50
Structures	7 ~ 40
Machinery	5 ~ 30
Vehicles	5
Display fixtures	5
Furniture and fixtures	5

Depreciation methods, useful lives and residual values 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(h) 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 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
Rights to use facility	10 ~ 20
Other intangible assets	4 ~ 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.

(i) Investment Property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment properties, except for land, are depreciated on a straight-line basis over 10 to 50 years as estimated useful lives.

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

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(j) 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 Company 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 No. 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).

**(k) Impairment of non-financial assets**

The carrying amounts of the Company'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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(l) Leases**

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

**(m) Borrowing costs**

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

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(n) Non-derivative financial liabilities**

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

**(o) Employee benefits**

- (i) Short-term employee benefits  
Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.
- (ii) Other long-term employee benefits  
Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses 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 Company during a period, the Company 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 Company 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.

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(o) Employee benefits, continued**

(iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit liability is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, 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 assets ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (assets) 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 (assets), taking into account any change in the net defined benefit liability (assets) 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 plans are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Company recognized gains and losses on the settlement of a defined benefit plan when the settlement occurs.

**(p) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made 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 shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(q) Foreign currencies**

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

**(r) 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 Company 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 Company 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 Company 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 Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the Company's hybrid securities are classified as equity instruments.

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(s) Revenue**

Revenue from sale of goods, rendering of services or use of the Company 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 Company recognizes sales on a gross basis for merchandise of which the Company 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 Company recognizes sales on a net basis for merchandise that may be returned to vendors at any time.

(ii) Customer loyalty programmes

For customer loyalty programs, 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 Company 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 Company has fulfilled its obligations to supply its products.

(iii) Commissions

When the Company 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 Company.

(iv) Rental income

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

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(t) 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 Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, 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.

**(u) Income taxes**

Income tax expense comprises current and deferred tax. Pursuant to the income tax laws and regulations in Korea, the Company and its subsidiaries file separate tax returns therefore the Company's income tax is determined on a separate standalone basis. 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.

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(u) Income taxes, continued**

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

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures except to the extent that the Company 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. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. And the Company 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 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 Company 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(v) Earnings per share**

The Company 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.

**(w) Emission Rights**

The Company accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission 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 Company derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

**(ii) Emission liability**

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



# LOTTE SHOPPING CO., LTD.

## Notes to the Separate Financial Statements

December 31, 2016 and 2015

#### 4. Significant Accounting Policies, Continued

##### (x) 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 Company for annual periods beginning on January 1, 2016, and the Company has not early adopted them.

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

##### (i) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015 which replaces existing guidance in the 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 Company 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 Company 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 '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 Company 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 Company's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Company 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 characteristic. 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 cash flow characteristic are as follows:

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

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(x) 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 Company 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 Company.

As of December 31, 2016, the Company has financial assets at fair value through profit or loss amounting to ₩17,034 million, loans and receivables amounting to ₩1,885,181 million, available-for-sale financial assets amounting ₩324,222 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 Company 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 Company has ₩8,249 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 Company has ₩315,973 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 Company has no debt instruments and equity instruments classified as financial assets at fair value through profit or loss.

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

December 31, 2016 and 2015

4. Significant Accounting Policies, Continued

(x) 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 Company has financial liability at fair value through profit or loss amounting to ₩28,538 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 Company 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 Company 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 Company may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

(\*2) The Company 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(x) New standards and interpretations not yet adopted, continued**

K-IFRS 1109 allows the Company 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 Company has debt instruments recognized as amortized cost amounting to ₩1,885,181 million won (loans and receivables), recognized as available-for-sale financial assets amounting to ₩8,249 million won and set a loss allowance amounting to ₩7,515 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 Company'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 Company 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 Company recognized the total amount of ₩70,441 million as hedged assets and ₩2,332 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩18,879 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 Company 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 Company 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 Company 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 Company does not restate the consolidated financial statements.

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

December 31, 2016 and 2015

**4. Significant Accounting Policies, Continued**

**(x) 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 Company 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 Company will complete the analysis of the financial impact of adopting the standard in 2017.

(iii) K-IFRS 1007, 'Statement of Cash Flows'

K-IFRS 1007 requires disclosure of changes in liabilities arising from financial activities. The Company will adopt K-IFRS 1007 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, i.e. 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 Company will adopt K-IFRS 1012 from the beginning of the financial year beginning on or after January 1, 2017.

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

December 31, 2016 and 2015

5. 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	₩	451,338	398,451
Other receivables		188,011	169,569
Allowance for doubtful accounts		(3,531)	(4,645)
Trade and other receivables	₩	635,818	563,375

6. Restricted Deposits

Restricted deposits included in current and non-current other financial assets as of December 31, 2016 and 2015 are summarized as follows:

		Korean won (millions)	
Description	Depository	December 31, 2016	December 31, 2015
Current:			
Time deposits	Busan Bank	₩ 3,053	2,851
Special deposits	Industrial Bank of Korea and others	109,000	95,500
Non-current:			
Time deposits	Busan Bank	2,000	2,000
Special deposits	Shinhan Bank and others	15	15
Available-for-sale financial assets	Busan City Hall and others	16,424	21,408
Total		₩ 130,492	121,774

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

December 31, 2016 and 2015

7. 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	₩ 882,890	882,890	578,618	578,618
Financial assets at fair value through profit or loss	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	17,034	17,034	-	-
Loans and receivables (*1)	Current:				
	Trade and other receivables	635,818	635,818	563,375	563,375
	Short-term financial instruments	162,053	162,053	653,351	653,351
	Short-term loans	8,000	8,000	6,500	6,500
	Accrued income	2,531	2,531	3,827	3,827
	Deposits	86,752	86,752	102,663	102,663
	Non-current:				
	Long-term financial instruments	2,000	2,000	2,000	2,000
	Opening a checking account deposit	15	15	15	15
	Long-term loans	44,000	44,000	45,500	45,500
Deposits	944,011	944,011	857,583	857,583	
	Subtotal	1,885,180	1,885,180	2,234,814	2,234,814
Available-for-sale financial assets	Marketable available-for-sale equity securities (*2)	174,105	174,105	171,174	171,174
	Non-marketable available-for-sale equity securities (*3)	61,510	61,510	34,448	34,448
	Equity securities valued by acquisition cost (*4)	80,358	80,358	76,552	76,552
	Non-marketable debt securities (*5)	8,249	8,249	120	120
	Subtotal	324,222	324,222	282,294	282,294
Derivative assets held for the purpose of hedging	Current derivative assets-hedge	29,735	29,735	45,245	45,245
	Non-current derivative assets-hedge	40,706	40,706	38,902	38,902
	Subtotal	70,441	70,441	84,147	84,147
	Total	₩ 3,179,767	3,179,767	3,179,873	3,179,873

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

December 31, 2016 and 2015

7. 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

(\*1) Book value is considered as a fairly 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.

(\*3) Some of non-marketable available-for-sale equity securities that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies.

(\*4) Others are recorded based on acquisition cost because fair value cannot be reliably measured and difference between fair value and acquisition cost is immaterial.

(\*5) Non-marketable available-for-sale debt securities that do not have a quoted market price in an active market are measured at fair value based on valuation of external valuation agencies.

(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	₩	162,053	653,351
Short-term loans		8,000	6,500
Accrued income		2,531	3,827
Deposits		86,752	102,663
Derivative assets held for the purpose of trading		29,735	45,245
Derivative assets held for the purpose of hedging		1,312	-
Subtotal		<u>290,383</u>	<u>811,586</u>
Non-current:			
Long-term financial instruments		2,000	2,000
Opening a checking account deposit		15	15
Available-for-sale financial assets		324,222	282,294
Long-term loans		44,000	45,500
Deposits		944,011	857,583
Derivative assets held for the purpose of trading		40,706	38,902
Derivative assets held for the purpose of hedging		15,722	-
Subtotal		<u>1,370,676</u>	<u>1,226,294</u>
Total	₩	<u><u>1,661,059</u></u>	<u><u>2,037,880</u></u>



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

December 31, 2016 and 2015

7. Fair Value of Financial Instruments, Continued

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

Description	Korean won (millions)				December 31, 2015 Carrying amount
	December 31, 2016			Carrying amount	
	Number of shares	Percentage of ownership	Acquisition Cost		
<b>Marketable available-for-sale financial assets:</b>					
BNK 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.	7,319,420	5.15%	35,956	53,121	55,491
Others			2,736	2,126	3,356
Subtotal			107,285	174,105	171,174
<b>Non-marketable available-for- sale financial assets:</b>					
LOTTE LOGISTICS CORP.	66,308	4.64%	4,000	17,729	13,865
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	65,680	7.76%	22,012	13,136	15,107
Lotte Global Logistics Co.,LTD. (Formerly, Hyundai 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			8,508	8,249	120
Others			45,460	43,792	40,109
Subtotal			147,068	150,117	111,120
Total			₩ 254,353	324,222	282,294

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

December 31, 2016 and 2015

7. 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)			
		<b>December 31, 2016</b>		<b>December 31, 2015</b>	
		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	16,677	16,677	13,362	13,362
	Non-current derivative liabilities held for the purpose of trading	11,861	11,861	24,608	24,608
	Subtotal	<u>28,538</u>	<u>28,538</u>	<u>151,410</u>	<u>151,410</u>
Financial liabilities based on amortized cost (*)	Current :				
	Trade and other payables	3,749,302	3,749,302	3,719,808	3,719,808
	Short-term borrowings	200,000	200,000	200,000	200,000
	Current portion of long-term borrowings	99,913	99,913	-	-
	Current portion of long-term debentures	926,269	926,269	769,139	769,139
	Financial guarantee liabilities	26,883	26,883	6,778	6,778
	Accrued expenses	120,564	120,564	84,921	84,921
	Current portion of withholding deposit	203,979	203,979	204,427	204,427
	Non-current :				
	Long-term borrowings	103,681	103,681	196,820	196,820
	Long-term debentures	2,985,395	2,985,395	3,154,709	3,154,709
	Withholding deposit	40,380	40,380	44,283	44,283
Other liabilities	11,700	11,700	-	-	
Subtotal	<u>8,468,066</u>	<u>8,468,066</u>	<u>8,380,885</u>	<u>8,380,885</u>	
Derivative liabilities held for the purpose of hedging	Current	155	155	274	274
	Non-current	2,177	2,177	3,781	3,781
	Subtotal	<u>2,332</u>	<u>2,332</u>	<u>4,055</u>	<u>4,055</u>
Total	₩ <u>8,498,936</u>	<u>8,498,936</u>	<u>8,536,350</u>	<u>8,536,350</u>	

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

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

December 31, 2016 and 2015

7. 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:		
Derivative liabilities held for the purpose of trading	₩ 16,677	13,362
Derivative liabilities held for the purpose of hedging	155	274
Financial guarantee liabilities	26,883	6,778
Accrued expenses	120,564	84,921
Deposits received	203,979	204,427
Subtotal	<u>368,258</u>	<u>309,762</u>
Non-current:		
Derivative liabilities held for the purpose of trading	11,861	24,608
Derivative liabilities held for the purpose of hedging	2,177	3,781
Deposit received	40,380	44,283
Other liabilities	11,700	-
Subtotal	<u>66,118</u>	<u>72,672</u>
Total	<u>₩ 434,376</u>	<u>382,434</u>

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

December 31, 2016 and 2015

7. 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	₩ 174,105	8,249	61,510	243,864
Derivative assets	-	70,441	17,034	87,475
Total financial assets	₩ 174,105	78,690	78,544	331,339
Derivative liabilities	-	2,332	28,538	30,870
Total financial liabilities	₩ -	2,332	28,538	30,870

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	₩ 171,174	120	34,448	205,742
Derivative assets	-	84,147	-	84,147
Total financial assets	₩ 171,174	84,267	34,448	289,889
Oversees convertible bonds	-	113,440	-	113,440
Derivative liabilities	-	4,055	37,970	42,025
Total financial liabilities	₩ -	117,495	37,970	155,465

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

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

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

December 31, 2016 and 2015

7. 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	₩ (3,522)	90,739
Transfer in of Level 3	-	(15,554)
Gain (loss) included in finance costs		
- Gain (loss) on valuation of derivative instruments	23,216	11,126
Gain (loss) included in OCI		
- Net change in unrealized fair value of available-for-sale financial assets	3,864	(5,834)
Purchases	26,448	-
Disposal	-	(83,999)
End of the year	₩ 50,006	(3,522)

(h) Sensitivity analysis

For the fair values of available-for-sale financial assets, stock options and embedded derivatives, 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	₩ 12,471	(8,762)	4,114	9,109

(ii) Stock options

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

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

December 31, 2016 and 2015

8. 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 inventory valuation	Book value	Acquisition cost	Allowance for inventory valuation	Book value
Merchandise	₩	2,032,653	(21,193)	2,011,460	2,047,850	(16,279)	2,031,571
Finished goods		84	-	84	3,918	(1,033)	2,885
Goods in process		-	-	-	213	-	213
Raw materials		-	-	-	183	-	183
Subsidiary materials		-	-	-	23	-	23
Supplies		148	-	148	98	-	98
Materials-in-transit		3,470	-	3,470	1,819	-	1,819
Total	₩	2,036,355	(21,193)	2,015,162	2,054,104	(17,312)	2,036,792

(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	₩ 10,371,765	10,653,978
-	Changes of allowance for valuation losses of inventories	3,881	10,207

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

**December 31, 2016 and 2015**

**9. Other Non-financial Assets**

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

		Korean won (millions)	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Current			
Advance payments	₩	10,419	36,229
Prepaid expenses		62,021	63,062
	Subtotal	<u>72,440</u>	<u>99,291</u>
Non-current			
Long-term advance payments		217,237	183,696
Long-term prepaid expenses		569,307	598,999
	Subtotal	<u>786,544</u>	<u>782,695</u>
	Total	<u>₩ 858,984</u>	<u>881,986</u>

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

December 31, 2016 and 2015

10. Investments in Associates

The details of investments in associates as of December 31, 2016 and 2015 are summarized as follows:

				<b>December 31, 2016</b>	
Company	Location	Principal business	Ownership (%)	₩	Korean won (millions) Balance at December 31, 2016
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36		77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00		24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00		9,823
Lotte Europe Holdings B.V. (*1)	Netherlands	Holding company	26.98		73,633
Coralis S.A.	Luxembourg	Holding company	45.00		59,605
S.M.CONTENTES INVESTMENT	Korea	Film producing company	25.00		250
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		284
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67		4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		1,650
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		9,423
Hemisphere Film Investors II LLC (*2)	America	Film producing company	100.00		16,362
TW No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01		4,000
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00		8,057
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50		15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		92,782
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
Lotte Incheon Town Co., Ltd.	Korea	Real estate lease	35.00		3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00		35,000
Lotte Accelerator Cooperation (*3)	Korea	Business consulting	16.67		2,500
BUSAN-LOTTE CREATIVE FILM FUND	Korea	Film producing company	47.62		6,000
IBK-ISU Contents Fund	Korea	Film producing company	35.00		1,750
CapitalOne Lotte-iMBC Contents Fund	Korea	Film producing company	49.98		1,500
Total				₩	<u>844,884</u>

(\*1) The Company performed an impairment test for the investee company using recoverable amount based on external valuation agency, as a result of an impairment test, the Company an impairment loss of ₩13,871 million during 2016.

(\*2) The Company is a non-managing partner of Hemisphere Film Investors II LLC and doesn't have power to govern its financial and operation policies, but has significant influence on the entity.

(\*3) Lotte Accelerator Cooperation was classified as associate due to holding 16.67% of its capital stock by LOTTE.COM INC



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

December 31, 2016 and 2015

10. Investments in Associates, Continued

The details of investments in associates as of December 31, 2016 and 2015 are summarized as follows:, continued

Company	Location	Principal business	Ownership (%)	December 31, 2015	
					Korean won (millions)
					Balance at December 31, 2015
Lotte Station Building Co., Ltd.	Korea	Distribution	25.00	₩	157,380
Daehong Communications Co., Ltd.	Korea	Advertisement agency	34.00		28,785
Lotte Capital Co., Ltd.	Korea	Capital	22.36		77,413
Lotteria Co., Ltd.	Korea	Restaurant chain	38.68		112,864
FRL Korea Co., Ltd.	Korea	Retail	49.00		24,827
Lotte Asset Development Co., Ltd.	Korea	Real estate development	39.14		72,890
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00		16,106
LOTTE Giants Co., Ltd.	Korea	Baseball club	30.00		823
Lotte Europe Holdings B.V. (*1)	Netherlands	Holding company	26.98		87,504
Coralis S.A.	Luxembourg	Holding company	45.00		55,131
S.M.CONTENTS INVESTMENT	Korea	Film producing company	25.00		1,750
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00		364
UNION INVESTMENT PARTNERS	Korea	Film producing company	26.67		4,000
Capital One Middle-Low Budget Cinema Fund	Korea	Film producing company	25.00		3,000
Hubei XL Cinema Co., Ltd.	China	Cinema	49.00		9,423
Hemisphere Film Investors II LLC (*2)	America	Film producing company	100.00		19,727
TW No.14 Culture Contents Fund	Korea	Film producing company	30.00		6,000
Leading Asia Contents Fund	Korea	Film producing company	21.01		4,000
Shandong Longzhile Cinema Co., Ltd.	China	Cinema	49.00		7,173
Lotte Incheon Development Co., Ltd.	Korea	Real estate lease	37.50		15,000
Lotte Trading Co., Ltd.	Korea	Product brokerage	27.68		92,782
Eunpyeong PFV	Korea	Real estate development	20.11		3,500
Lotte Incheon Town Co., Ltd. (*3)	Korea	Real estate lease	35.00		3,500
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00		35,000
Total				₩	<u>838,942</u>

(\*1) The Company performed an impairment test for the investee company using recoverable amount based on external valuation agency, as a result of an impairment test, the Company recognized an impairment loss of ₩12,168 million during 2015.

(\*2) The Company is a non-managing partner of Hemisphere Film Investors II LLC and doesn't have power to govern its financial and operation policies, but has significant influence on the entity.

(\*3) During 2015, the investment was reclassified from subsidiary to associate due to the decrease in percentage of ownership.

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

December 31, 2016 and 2015

11. Joint Ventures

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

				<b>December 31, 2016</b>	
Company	Location	Principal business	Ownership (%)	₩	Korean won (millions) Balance at December 31, 2016
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00		1,496
STL Co., Limited	Korea	Retail	50.00		4,000
Total				₩	5,496
				<b>December 31, 2015</b>	
Company	Location	Principal business	Ownership (%)	₩	Korean won (millions) Balance at December 31, 2015
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩	-
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00		1,496
STL Co., Limited	Korea	Retail	50.00		4,000
Total				₩	5,496

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

December 31, 2016 and 2015

12. Investments in Subsidiaries

(a) The details of subsidiaries of the Company as of December 31, 2016 and 2015 are as follows:

December 31, 2016					
Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%)(*1)	Korean won (millions) Balance at December 31, 2016
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩ 1,000,089
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03	393,213
Korea Seven Co.,Ltd.	Korea	Distribution	Dec. 31	51.14	82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00	300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00	94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30	60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80	20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95	255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25	1,248,068
Lotte Department Store Masan Co., LTD. (*8)	Korea	Distribution	Dec. 31	100.00	14,680
Lotte Members Co., Ltd (*3)	Korea	Business support service	Dec. 31	93.88	36,447
LOTTE.COM INC (*4)	Korea	E-commerce business	Dec. 31	50.01	23,177
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*5, 8)	Hong Kong	Holding company	Dec. 31	100.00	241,808
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*8)	Singapore	Holding company	Dec. 31	100.00	596,409
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	Dec. 31	23.36	-
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00	29,597
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46	160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00	6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00	14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02	-
LOTTE Ulsan Development	Korea	Real estate development	Dec. 31	94.84	23,900
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company		80.00	127,421
					₩ <u>4,429,085</u>

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

December 31, 2016 and 2015

12. Investments in Subsidiaries, Continued

(a) The details of subsidiaries of the Company as of December 31, 2016 and 2015 are as follows:, continued

Subsidiaries	Location	Products or services	Fiscal year	Percentage of ownership (%) (*1)	December 31, 2015	
						Korean won (millions) Balance at December 31, 2015
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78	₩	1,000,089
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03		393,213
Korea Seven Co.,Ltd.	Korea	Distribution	Dec. 31	51.14		82,473
Lotte Gimhae Development Co., Ltd.	Korea	Service company	Dec. 31	100.00		300
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00		94,810
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30		60,000
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80		20,059
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95		255,826
LOTTE Himart Co., Ltd. (*2)	Korea	Consumer electronics retail	Dec. 31	65.25		1,248,068
Lotte Department Store Masan Co., LTD. (*8)	Korea	Distribution	Dec. 31	100.00		16,500
Lotte Members Co., Ltd (*3)	Korea	Business support service	Dec. 31	93.78		12,065
LOTTE.COM INC (*4)	Korea	E-commerce business	Dec. 31	50.01		23,178
Lotte Shopping Holdings (Hong Kong) Co., Ltd. (*5, 8)	Hong Kong	Holding company	Dec. 31	100.00		376,712
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. (*8)	Singapore	Holding company	Dec. 31	100.00		298,959
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, Lotte Vietnam Shopping Co., Ltd.) (*7)	Vietnam	Distribution	Dec. 31	100.00		125,243
Qingdao LOTTE Mart Commercial Co., Ltd. (*5)	China	Distribution	Dec. 31	36.79		-
LOTTE MART COMPANY LIMITED (*6, 8)	China	Distribution	Dec. 31	100.00		-
Liaoning LOTTE Mart Co., Ltd. (*6, 8)	China	Distribution	Dec. 31	40.00		-
PT. LOTTE SHOPPING INDONESIA (*7)	Indonesia	Distribution	Dec. 31	55.00		214,068
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00		19,297
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46		160,391
Lotte (China) Management Co., Ltd.	China	Managing company	Dec. 31	70.00		6,232
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	20.00		14,185
LHSC Limited	Cayman Islands	Holding company	Dec. 31	16.02		-
					₩	<u>4,421,668</u>

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

December 31, 2016 and 2015

**12. Investments in Subsidiaries, Continued**

(a) The details of subsidiaries of the Company as of December 31, 2016 and 2015 are as follows:, continued

(\*1) Percentage of ownership represents an ownership of the Company. Percentage of ownership described in note 39 represents an ownership of the Company and its subsidiaries.

(\*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 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) During 2015, Lotte Members Co., Ltd. split off from Lotte Card Co., Ltd.

(\*4) During 2015, the investment was reclassified from associate to subsidiary upon acquisition of additional interests.

(\*5) Our Board of Directors decided to increase capital a total of USD 185 million until 2017 for Qingdao LOTTE Mart Commercial Co., Ltd. in September 2015. The Company increased capital to USD 38 million and USD 69 million during 2015 and 2016, respectively. Recoverable amounts of investments were less than its book value, therefore impairment losses were recognized totally.

(\*6) During 2016, these were reclassified to subsidiaries of Lotte Shopping Holdings (Hong Kong) Co., Limited.

(\*7) During 2016, these were reclassified to subsidiaries of LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.

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

December 31, 2016 and 2015

**12. Investments in Subsidiaries, Continued**

(a) The details of subsidiaries of the Company as of December 31, 2016 and 2015 are as follows:, continued

(\*8) For the years ended December 31, 2016 and 2015, the Company performed an impairment test and used DCF model for determining recoverable amount, the impairment loss and recoverable amount of the cash-generating units, which the Company recognized an impairment loss, are as follows:

Description	Korean won (millions)	
	2016	2015
Impairment loss	₩ 269,110	643,512
Recoverable amounts (*)	14,680	114,925

(\*) Recoverable amounts related to Lotte Shopping Holdings (Hong Kong) Co., Limited only included recoverable amounts of subsidiaries which conducted impairment testing.

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 analysis of past revenue growth rates. The revenues after the five-year period were assumed to grow constantly from zero to three percent in 2016 and at three percent in 2015.
- 8.96%~17.64% of weighted average cost of capital in 2016 and 8.29%~9.89% of weighted average cost of capital in 2015 were applied as the discount rate in determining recoverable amount.

(b) The fair value of marketable stock in subsidiaries as of December 31, 2016 and 2015 are summarized as follows:

Description	Korean won (millions)	
	December 31, 2016	December 31, 2015
LOTTE Himart Co., Ltd.	₩ 650,018	908,793

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

December 31, 2016 and 2015

13. Property and Equipment

(a) Property and equipment as of December 31, 2016 and December 31, 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	₩	7,610,673	-	-	7,610,673	7,608,263	-	-	7,608,263
Buildings		6,214,796	(2,057,748)	-	4,157,048	6,063,967	(1,888,832)	-	4,175,135
Structures		337,554	(111,707)	(2,959)	222,888	336,533	(97,454)	-	239,079
Machinery		95,811	(50,131)	(762)	44,918	90,195	(42,792)	(380)	47,023
Vehicles		5,149	(3,779)	(110)	1,260	5,296	(3,335)	(50)	1,911
Display fixtures		244,727	(169,806)	-	74,921	217,236	(147,490)	-	69,746
Furniture and fixtures		3,088,249	(2,292,881)	(34,378)	760,990	2,844,578	(2,032,972)	(5,265)	806,341
Tools and equipment		484	(484)	-	-	484	(484)	-	-
Construction-in-progress		743,240	-	-	743,240	524,099	-	-	524,099
Total	₩	<u>18,340,683</u>	<u>(4,686,536)</u>	<u>(38,209)</u>	<u>13,615,938</u>	<u>17,690,651</u>	<u>(4,213,359)</u>	<u>(5,695)</u>	<u>13,471,597</u>

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

		Korean won (millions)						
		2016						
		Book value as of January 1, 2016	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2016
Land	₩	7,608,263	6,974	-	-	(8,669)	4,105	7,610,673
Buildings		4,175,135	4,650	(160,852)	-	(3,801)	141,916	4,157,048
Structures		239,079	496	(14,152)	(2,959)	(130)	554	222,888
Machinery		47,023	6,214	(8,046)	(382)	(17)	126	44,918
Vehicles		1,911	238	(661)	(59)	(169)	-	1,260
Display fixtures		69,746	30,569	(25,135)	-	(770)	511	74,921
Furniture and fixtures		806,341	147,596	(325,470)	(29,113)	(4,535)	166,171	760,990
Tools and equipment		-	-	-	-	-	-	-
Construction-in-progress		524,099	546,268	-	-	(21,282)	(305,845)	743,240
Total	₩	<u>13,471,597</u>	<u>743,005</u>	<u>(534,316)</u>	<u>(32,513)</u>	<u>(39,373)</u>	<u>7,538</u>	<u>13,615,938</u>

(\*) Others include reclassifications of construction-in-progress to intangible assets and investment property, change in acquisition cost recognized in 2015 and so on.

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

December 31, 2016 and 2015

13. Property and Equipment, Continued

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

		Korean won (millions)					
		2015					
	Book value as of January 1, 2015	Acquisitions	Depreciation	Impairment	Disposals	Others (*)	Book value as of December 31, 2015
Land	₩ 7,564,061	4,081	-	-	(37,346)	77,467	7,608,263
Buildings	4,311,931	11,618	(164,640)	-	(152,265)	168,491	4,175,135
Structures	244,972	83	(14,078)	-	-	8,102	239,079
Machinery	48,996	2,647	(7,275)	(380)	(4)	3,039	47,023
Vehicles	2,204	496	(739)	(50)	(1)	1	1,911
Display fixtures	70,503	12,085	(23,670)	-	(246)	11,074	69,746
Furniture and fixtures	850,333	138,479	(325,178)	(5,265)	(3,370)	151,342	806,341
Tools and equipment	-	-	-	-	-	-	-
Construction- in-progress	530,200	457,108	-	-	(72,090)	(391,119)	524,099
Total	₩ 13,623,200	626,597	(535,580)	(5,695)	(265,322)	28,397	13,471,597

(\*) Others include reclassifications of construction-in-progress to intangible assets and investment property, change in acquisition cost recognized in 2014 and so on.

(d) For the years ended December 31, 2016 and 2015, the Company conducted impairment testing to discount stores and supermarkets. As a result, the impairment losses of the impaired cash-generating units which had indications of impairment as follows:

		Korean won (millions)	
		2016	2015
losses on property plant and equipment	₩	32,513	5,695
impairment losses on intangible assets		41,318	2
impairment losses on other non-current assets		11,559	12,985
Total	₩	85,390	18,682



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

December 31, 2016 and 2015

**13. Property and Equipment, Continued**

(e) Pledged property and equipment provided by the Company as of December 31, 2016 are as follows:

		Korean won (millions)			
		Book value	Guaranteed amount	Reason for offer	Guarantee recipient
	₩			Provisional attachment of land	Korea Environmental Industry&Technology Institute and others.
Land		64,503	2,158		
Buildings		74,861	51,639	Security for lease deposit	Shinhan Bank and others.

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

		Korean won (millions)	
		2016	2015
Capitalized borrowing costs	₩	66	1,830
Capitalization interest rates		2.59%	2.72%

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

December 31, 2016 and 2015

14. 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	₩	229,834	-	229,834	208,942	-	208,942
Buildings		114,777	(47,458)	67,319	133,698	(53,186)	80,512
Total	₩	344,611	(47,458)	297,153	342,640	(53,186)	289,454

(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	₩	208,942	-	-	20,892	229,834
Buildings		80,512	-	(2,786)	(10,407)	67,319
Total	₩	289,454	-	(2,786)	10,485	297,153

(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	Others	Book value as of December 31, 2015
Land	₩	221,515	-	-	(12,573)	208,942
Buildings		103,230	-	(3,627)	(19,091)	80,512
Total	₩	324,745	-	(3,627)	(31,664)	289,454

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

December 31, 2016 and 2015

**14. Investment Property, Continued**

(d) During 2016 and 2015, there was no recognition of impairment loss or reversal of impairment loss.

(e) 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	₩ 23,811	22,466
Direct operating expense (including maintenance and repair expenses)	9,015	7,687

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

Description	Korean won (millions)	
	Book value	Fair value
Land and Buildings	₩ 297,153	440,839

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

December 31, 2016 and 2015

15. Goodwill and Intangible Assets

(a) goodwill and 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	₩	641,729	-	(241,697)	400,032	640,261	-	(155,984)	484,277
Industrial property rights		6,504	(5,058)	-	1,446	5,375	(4,404)	-	971
Rights to use facility		525,064	(170,940)	(41,321)	312,803	524,395	(144,427)	(2)	379,966
Membership		16,260	-	-	16,260	16,260	-	-	16,260
Other intangible assets		233,433	(227,473)	(160)	5,800	199,020	(185,436)	(160)	13,424
Total	₩	<u>1,422,990</u>	<u>(403,471)</u>	<u>(283,178)</u>	<u>736,341</u>	<u>1,385,311</u>	<u>(334,267)</u>	<u>(156,146)</u>	<u>894,898</u>

(b) Changes in goodwill and Intangible assets for the year ended December 31, 2016 are as follows:

		Korean won (millions)						
		2016						
		Book value as of January 1, 2016	Acquisitions	Amortization	Impairment	Disposals	Others	Book value as of December 31, 2016
Goodwill	₩	484,277	1,125	-	(85,714)	(186)	530	400,032
Industrial property rights		971	1,130	(655)	-	-	-	1,446
Rights to use facility		379,966	485	(26,514)	(41,318)	-	184	312,803
Membership		16,260	-	-	-	-	-	16,260
Other intangible assets		13,424	34,411	(42,035)	-	-	-	5,800
Total	₩	<u>894,898</u>	<u>37,151</u>	<u>(69,204)</u>	<u>(127,032)</u>	<u>(186)</u>	<u>714</u>	<u>736,341</u>

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

December 31, 2016 and 2015

15. Goodwill and Intangible Assets, Continued

(c) Changes in goodwill and Intangible assets for the year ended December 31, 2015 are as follows:

		Korean won (millions)						
		2015						
		Book value as of January 1, 2015	Acquisitions	Amortization	Impairment	Disposals	Others	Book value as of December 31, 2015
Goodwill	₩	634,401	290	-	(149,319)	(1,323)	228	484,277
Industrial property rights		1,169	194	(629)	-	-	237	971
Rights to use facility		406,493	-	(26,541)	(2)	(14)	30	379,966
Membership		15,889	536	-	-	(165)	-	16,260
Other intangible assets		15,738	30,575	(59,893)	-	-	27,004	13,424
Total	₩	<u>1,073,690</u>	<u>31,595</u>	<u>(87,063)</u>	<u>(149,321)</u>	<u>(1,502)</u>	<u>27,499</u>	<u>894,898</u>

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

For the purpose of impairment testing, goodwill is allocated to the units of the lowest level at which the goodwill may be monitored in terms of internal management of the Company and cannot be higher than any of the operating segments of the Company.

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	₩	192,828	192,298
Discount stores		158,553	241,865
Supermarkets		41,042	43,631
Others		7,609	6,483
Total	₩	<u>400,032</u>	<u>484,277</u>

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

December 31, 2016 and 2015

15. Goodwill and Intangible Assets, Continued

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

As of December 31, 2016 and 2015, the recoverable amount of the part of cash-generating units in department stores, discount stores, supermarkets was less than the book value of the cash-generating units, including goodwill, therefore an impairment loss was recognized. For the years ended December 31, 2016 and 2015, the impairment loss and recoverable amount of the cash generating units, which the Company recognized an impairment loss, are as follows:

		Korean won (millions)			
		2016		2015	
		Impairment losses	Recoverable amounts	Impairment losses	Recoverable amounts
Department stores	₩	-	-	44,776	500,885
Discount stores		83,311	539,790	96,178	660,246
supermarkets		2,403	1,448	8,365	12,101
Total	₩	85,714	541,238	149,319	1,173,232

The value in use of the Company's cash-generating units was determined by discounting the estimated future cash flows from the continuing use of the cash-generating units. The approach used to determine value in use as of December 31, 2016 was consistent 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 results of operations and the Company's five-year business plan.
- The annual revenue growth rate included in the estimated future cash flows was estimated based on analysis of past revenue growth rates. The revenues after the five-year period were assumed to grow constantly at one percent in 2016 and from zero to one percent in 2015.
- 5.87% of weighted average cost of capital in 2016 and 7.20% of weighted average cost of capital in 2015 were applied as the discount rate in determining recoverable amount.

The value in use is based on management's estimation of future cash flows of distribution industry, and is calculated using external and internal sources of the company. As a result of the Company's impairment testing, recoverable amounts of the cash-generating units exceeded its book value except for some of discount stores and supermarkets.

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

December 31, 2016 and 2015

**15. Goodwill and Intangible Assets, Continued**

- (e) 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	₩	10,894	10,894
Discount stores		1,976	1,976
Supermarkets		1,941	1,941
Others		<u>1,448</u>	<u>1,448</u>
Total	₩	<u>16,259</u>	<u>16,259</u>

As a result of the impairment test on indefinite intangible assets, value in use exceeded the carrying amounts for all cash-generating units.

**16. 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	₩	2,708,173	2,813,445
Other payables		<u>1,041,129</u>	<u>906,363</u>
Total	₩	<u>3,749,302</u>	<u>3,719,808</u>

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

December 31, 2016 and 2015

17. 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	₩	200,000	200,000
Current portion of long-term borrowings		100,000	-
Current portion of discount on long-term borrowings		(87)	-
Current portion of long-term debentures		927,200	903,440
Current portion of discount on debentures		(493)	(1,418)
Exchange rights adjustment		(438)	(19,443)
Subtotal		<u>1,226,182</u>	<u>1,082,579</u>
Non-current:			
Long-term borrowings		103,681	197,201
Discount on long-term borrowings		-	(381)
Long-term debentures		2,988,500	3,159,200
Discount on debentures		(3,105)	(4,491)
Subtotal		<u>3,089,076</u>	<u>3,351,529</u>
Total	₩	<u>4,315,258</u>	<u>4,434,108</u>



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

December 31, 2016 and 2015

17. Borrowings and Debentures, Continued

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

Lender	Annual interest rate (%)	Korean won (millions)	
		December 31, 2016	December 31, 2015
Shinhan Bank	91days CD rate +0.30/0.15	₩ 200,000	200,000
Total		₩ 200,000	200,000

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

Lender	Annual interest rate (%)	Maturity	Korean won (millions)	
			December 31, 2016	December 31, 2015
Lotte Co., Ltd. (Japan)	3M Tibor+1.129	Aug. 31, 2018	₩ 103,681	97,201
Mizuho Bank, Ltd.	2.67	Mar. 17, 2017	100,000	100,000
	Subtotal		203,681	197,201
	Less: Discount on borrowings		(87)	(381)
	Subtotal		203,594	196,820
	Less: Current portion of long-term borrowings		(99,913)	-
	Total		₩ 103,681	196,820

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

December 31, 2016 and 2015

17. 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
61st placed	Mar. 21, 2018	3.05	100,000	100,000
62nd 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+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+0.55	120,850	-
69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD+0.02	120,850	-
70-1st placed	April. 04, 2019	1.77	100,000	-
70-2nd placed	April. 04, 2021	2.02	170,000	-
70-3rd placed	April. 04, 2026	2.48	70,000	-
71st placed (foreign currency)	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
Subtotal			₩ 3,915,700	4,062,640

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

December 31, 2016 and 2015

17. 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			₩ (3,598)	(5,909)
Less: Exchange rights adjustment			(438)	(19,443)
Total book value			3,911,664	4,037,288
Less: Current portion of debentures, net of discount			(926,269)	(882,579)
Total			₩ 2,985,395	3,154,709

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

December 31, 2016 and 2015

**17. Borrowings and Debentures, Continued**

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

(\*) The Company 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):  | 321,200,000,000                                  |
| (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:  |  |
| i. On the third anniversary of the date of payment (January 24, 2016);  |  |
| ii. If any change of control occurs in the LOTTE Himart; or   |  |
| iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.   |  |
| (g) Call option by the Company:   |  |
| The call option can be exercised if any of the following conditions occurs:   |  |
| i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 2014) 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

**17. 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	₩	100,000	927,200	1,027,200
1 ~ 2 years		103,681	1,055,950	1,159,631
2 ~ 3 years		-	862,550	862,550
3 ~ 4 years		-	400,000	400,000
More than 4 years		-	670,000	670,000
Total	₩	<u>203,681</u>	<u>3,915,700</u>	<u>4,119,381</u>

**18. 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:			
Other points	₩	50,874	51,218
Unearned rental income		1,727	1,660
Others		3,848	3,600
Subtotal		<u>56,449</u>	<u>56,478</u>
Non-current:			
Unearned rental income		5,111	3,373
Total	₩	<u>61,560</u>	<u>59,851</u>

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

December 31, 2016 and 2015

19. Provisions

Changes in provisions for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)			
		<b>2016</b>			
		Book value as of January 1, 2016	Increase	Utilization	Book value as of December 31, 2016
Current:					
Provision for bonus payable	₩	-	27,469	(27,469)	-
Provision for sales return		1,404	1,286	(1,404)	1,286
Total	₩	1,404	28,755	(28,873)	1,286

		Korean won (millions)			
		<b>2015</b>			
		Book value as of January 1, 2015	Increase	Utilization	Book value as of December 31, 2015
Current:					
Provision for bonus points reward program (*)	₩	496	-	(496)	-
Provision for bonus payable		-	36,823	(36,823)	-
Provision for sales return		1,410	1,404	(1,410)	1,404
Total	₩	1,906	38,227	(38,729)	1,404

(\*) On January 1, 2015, Lotte Members Co., Ltd split off from Lotte Card Co., Ltd. After the split off, the settlement method for membership points was changed and on a periodic basis, the Company has the obligations to make cash payments to Lotte Members Co., Ltd for membership points which were earned by customers who purchased the Company's products and services but not redeemed yet. Therefore, the balance in provisions was reclassified to other payables in the separate financial statements upon the split off.

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

**December 31, 2016 and 2015**

**20. Other Non-financial Liabilities**

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

		Korean won (millions)	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Current:			
Withholdings	₩	47,282	30,982
Withholdings of value added tax		68,999	77,427
Advances received		666,777	610,117
Subtotal		<u>783,058</u>	<u>718,526</u>
Non-current:			
Others		<u>20,674</u>	<u>9,557</u>
Total	₩	<u>803,732</u>	<u>728,083</u>

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

December 31, 2016 and 2015

21. Employee Benefits

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

		Korean won (millions)	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Present value of defined benefit obligations	₩	485,814	435,201
Fair value of plan assets		(500,520)	(425,742)
Total	₩	<u>(14,706)</u>	<u>9,459</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)	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Present value of other long-term employee benefits	₩	46,288	35,325

(c) Changes in the present value of defined benefit obligations for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Beginning of the year	₩	435,201	373,496
Current service costs		75,093	70,413
Interest costs		13,980	13,792
Remeasurements:			
- Gain from change in demographic assumptions		3,223	(1,712)
- Gain from change in financial assumptions		(20,672)	7,285
- Loss (gain) from experience adjustments		6,719	1,936
Payments		(33,632)	(35,739)
Others		5,902	5,730
End of the year	₩	<u>485,814</u>	<u>435,201</u>



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

December 31, 2016 and 2015

21. Employee Benefits, Continued

(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	₩	425,742	350,514
Return on plan assets		12,246	11,402
Actuarial loss		(3,974)	(3,284)
Employer contribution		90,900	94,007
Payments		(24,662)	(27,404)
Others		268	507
End of the year	₩	500,520	425,742

The estimated contributions to the plan for the next annual reporting period are ₩78,228 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	₩	500,489	425,704
Others		31	38
Total	₩	500,520	425,742

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

		Korean won (millions)	
		2016	2015
Current service costs	₩	75,093	70,413
Interest costs		13,980	13,792
Return on plan assets		(12,246)	(11,402)
Contributions to defined contribution plans		99	49
Long-term employee benefits		15,035	3,546
Total	₩	91,961	76,398

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

December 31, 2016 and 2015

21. Employee Benefits, Continued

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

(i) Actuarial assumptions

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount rate	1.77% ~ 3.37%	2.17% ~ 3.22%
Expected rate of promotion	1.48% ~ 2.81%	1.44% ~ 2.87%
Expected rate of increase in salaries	1.80% ~ 7.47%	2.00% ~ 6.70%

(ii) Sensitivity analysis

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

	Korean won (millions)	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	(36,973)	42,951
Expected rate of promotion (1% movement)	37,179	(37,277)
Expected rate of increase in salaries (1% movement)	42,746	(37,467)

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

(h) The maturity profile of the defined benefit obligation

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

Korean won (millions)				
<u>1 year or less</u>	<u>1 ~ 2 years</u>	<u>2 ~ 5 years</u>	<u>5 ~ 10 years</u>	<u>More than 10 years</u>
35,206	32,071	87,262	135,973	304,739

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

December 31, 2016 and 2015

**22. Derivative Instruments and Hedge Accounting**

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

Description	Type	Description
Cash flow hedge    Purpose of trading	Currency swap	At the maturity of the swap, the principal and the interest payments for debentures in USD based on floating rates are exchanged back with the principal and fixed interest rate payments in KRW.
	Interest rate swap	Pays fixed interest to receive floating rate in KRW short-term borrowings.
	Currency forward	At the maturity of the contract, purchase dollars at the fixed exchange rate.
	Embedded derivatives	The embedded option to exchange the bond for the common stocks of LOTTE Himart Co., Ltd.
	Total return swap	Exchanges beneficiary certificate of investor's total profit to constant flow of cash.
	Stock option	Holds the right to buy preferred stocks or grants the right to sell preferred stocks of related companies

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

December 31, 2016 and 2015

22. Derivative Instruments and Hedge Accounting, Continued

(b) Details of currency swaps, as of December 31, 2016 are as follows:

Type	Description	Principal amount (thousands)		Fixed exchange rate (won)	Variable rate	Swap rate	Maturity	
Currency swap	64-1st placed (foreign currency)	USD	150,000	1,105.90	3M USD Libor+0.50	2.24%	May. 25, 2018	
	64-2nd placed (foreign currency)	USD	100,000	1,105.90	3M USD Libor	2.25%	May. 25, 2018	
	64-3rd placed (foreign currency)	USD	100,000	1,109.80	3M USD Libor+0.02	2.25%	May. 25, 2018	
	67-1st placed (foreign currency)	USD	150,000	1,165.80	3M USD Libor+0.60	2.07%	Aug. 17, 2018	
	67-2nd placed (foreign currency)	USD	100,000	1,169.00	3M USD Libor+0.02	2.05%	Aug. 17, 2018	
	67-3rd placed (foreign currency)	USD	100,000	1,171.00	3M USD Libor+0.60	1.90%	Aug. 06, 2018	
	69-1st placed (foreign currency)	USD	100,000	1,199.50	3M USD Libor+0.55	1.96%	Jan. 29, 2019	
	69-2nd placed (foreign currency)	USD	100,000	1,200.50	3M USD Libor+0.02	1.94%	Jan. 29, 2019	
	71st placed (foreign currency)	USD	100,000	1,165.00	1M USD Libor	2.15%	Nov. 29, 2019	
	2nd placed (Global bond)	USD	100,000	1,135.70	3.38%	3.75%	May.09, 2017	
	Currency forward	2nd placed (Global bond)	USD	100,000	1,095.66	Not applicable	Not applicable	May. 04, 2017
			USD	60,000	1,093.80			
			USD	40,000	1,094.12			
Interest rate swap	Short term borrowings	KRW	150,000	Not applicable	91days CD rate+0.18%	1.95%	May. 29, 2017	
		KRW	200,000		91days CD rate+0.30%	1.63%	Sep. 22, 2017	
		KRW	100,000		91days CD rate+0.42%	1.93%	Apr. 19, 2019	

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

December 31, 2016 and 2015

**22. Derivative Instruments and Hedge Accounting, Continued**

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

Description	Type of derivatives	Related accounts	Korean won (millions)
	Currency swap	Gain on valuation of derivative instruments	₩ 38,900
		Unrealized loss on valuation of derivative instruments (*)	(12,912)
Cash flow hedge	Interest rate swap	Unrealized gain on valuation of derivative instruments (*)	627
	Currency forward	Gain on valuation of derivative instruments	7,300
		Unrealized gain on valuation of derivative instruments	5,498
Purpose of trading	Stock options	Loss on valuation of derivative instruments (*)	(3,897)
	Total return swap	Gain on valuation of derivative instruments	15,722

(\*) The aggregate amounts of loss on valuation derivative instruments incurred ₩24,906 million, until the December 31, 2016. The Company recognized accumulated other comprehensive loss ₩18,879 million (less tax effects ₩6,027 million).

**23. 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 amounts are paid to the holders of preferred shares. 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)	
	December 31, 2016	December 31, 2015
Additional paid-in capital	₩ 3,786,431	3,786,431
Other	175,663	175,663
	₩ 3,962,094	3,962,094

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

December 31, 2016 and 2015

24. 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 Company 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 Company 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 Company cannot declare or pay dividends attributable to common stock. Since the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the hybrid securities have been classified as equity instruments.

25. Capital Adjustments

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.

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

December 31, 2016 and 2015

26. Retained Earnings

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

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Legal reserve	₩	195,917	190,007
Voluntary reserve		10,810,052	11,190,052
Unappropriated retained earnings		59,375	(299,666)
Total	₩	11,065,344	11,080,393

(b) Details of appropriation of retained earnings for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
<b>I. Unappropriated retained earnings:</b>	₩	59,375	(299,666)
Balance at beginning of the year		15,320	25,649
Actuarial gains (losses) on defined benefit pension plans		5,121	(8,181)
Interests of hybrid securities		(12,849)	(12,722)
Profit (loss) for the year		51,783	(304,412)
<b>II. Relocation of voluntary reserve</b>		20,000	380,000
<b>III. Appropriation of retained earnings:</b>		65,014	65,014
Legal reserve		5,910	5,910
Cash dividends		59,104	59,104
<b>IV. Unappropriated retained earnings to be carried over to subsequent year</b>	₩	14,361	15,320

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

December 31, 2016 and 2015

**27. 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)				
		<b>2016</b>				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Balance as of December 31, 2016
Net change in unrealized fair value of available for-sale financial assets	₩	78,189	(7,599)	-	1,839	72,429
Effective portion of unrealized changes in fair values of cash flow hedges		<u>(13,735)</u>	<u>(13,213)</u>	<u>6,427</u>	<u>1,642</u>	<u>(18,879)</u>
Total	₩	<u>64,454</u>	<u>(20,812)</u>	<u>6,427</u>	<u>3,481</u>	<u>53,550</u>

		Korean won (millions)				
		<b>2015</b>				
		Beginning balance	Changes for the year	Reclassification adjustments	Tax effects for the year	Balance as of December 31, 2015
Net change in unrealized fair value of available for-sale financial assets	₩	122,717	(37,184)	(21,560)	14,216	78,189
Effective portion of unrealized changes in fair values of cash flow hedges		<u>(9,624)</u>	<u>(6,322)</u>	<u>900</u>	<u>1,311</u>	<u>(13,735)</u>
Total	₩	<u>113,093</u>	<u>(43,506)</u>	<u>(20,660)</u>	<u>15,527</u>	<u>64,454</u>



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

December 31, 2016 and 2015

**28. Earnings (loss) per Share**

(a) Basic earnings (loss) per share

(i) Basic earnings (loss) 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	₩ 51,783	(304,412)
Interests of hybrid securities	(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 (in won)	<u>₩ 1,317</u>	<u>(10,731)</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>29,552,204</u>	<u>29,552,204</u>

(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)	
	<u>2016</u>	<u>2015</u>
Profit (loss) for the year	₩ 51,783	(304,412)
Interests of hybrid securities	(12,849)	(12,721)
Diluted profit attributable to ordinary shareholders	38,934	(317,133)
Diluted weighted average number of ordinary shares	<u>29,552,204</u>	<u>29,552,204</u>
Diluted earnings (loss) per share (in won)	<u>₩ 1,317</u>	<u>(10,731)</u>

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

December 31, 2016 and 2015

**28. Earnings (loss) per Share, Continued**

(b) Diluted earnings (loss) per share, continued

(ii) Weighted average number of ordinary shares

	Share amount	
	<b>2016</b>	<b>2015</b>
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	<u>29,552,204</u>	<u>29,552,204</u>

(\*) For the twelve-months period ended December 31, 2016, the shares related to USD convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive. And for the twelve-months period ended December 31, 2015 the shares related to USD convertible bonds and JPY convertible bonds were excluded from diluted earnings per share calculation as their effect would have been anti-dilutive.

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

December 31, 2016 and 2015

29. Sales and Cost of Sales

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

		Korean won (millions)	
		2016	2015
Sales-merchandise(*)	₩	16,090,030	15,934,327
Sales-merchandise in direct management		14,620,508	14,707,408
Specific sales-merchandise		1,469,522	1,226,919
Discount store sales - merchandise		2,066,613	1,754,208
Sales allowance and discount		685,720	547,554
Reserve for returned goods unsold and deferred sales		204,041	227,595
Cost of specific merchandise sold		1,176,852	979,059
Sales-finished goods		7,707	11,365
Others		2,011,241	1,985,848
Total	₩	16,042,365	16,177,332

(\*) Sales of merchandise include the VAT refund for sales in the amount of mileage accruals, which is 127,009 million won.

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

		Korean won (millions)	
		2016	2015
Cost of merchandise sold	₩	10,440,703	10,652,784
Cost of products sold		3,967	5,772
Cost of other operating revenue		192,972	265,010
Total	₩	10,637,642	10,923,566

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

December 31, 2016 and 2015

30. 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	₩ 924,173	874,032
Retirement and termination benefits	76,926	72,765
Long-term employee benefits	15,035	3,547
Employee welfare	178,995	171,565
Education and training	11,258	11,176
Travel	20,671	19,931
Maintenance fee for car	1,367	974
Insurance premium	10,439	9,413
Taxes and dues (*)	112,241	128,113
Entertainment expenses	2,806	3,264
Supplies and stationery	53,932	56,208
Publication expenses	989	1,014
Communications	10,376	10,163
Utilities	246,491	246,967
Maintenance	25,008	25,489
Rent	705,388	648,846
Depreciation	537,102	539,207
Amortization of intangible assets	29,388	29,413
Commissions and fees	497,735	463,455
Service commission expenses	729,797	686,187
Advertising	135,890	141,704
Samples expenses	82	65
Sales commissions	197,399	213,824
Sales promotion expenses	119,206	142,789
Decoration	17,275	13,693
Bad debt expenses	47	149
Transportation	21,420	20,704
Research and development expenses	256	291
Compensation expenses	1,627	1,846
Others	1,546	2,229
Total	₩ 4,684,865	4,539,023

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

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

December 31, 2016 and 2015

31. Other incomes and expenses

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

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
<b>Other income:</b>			
Gain on foreign currency transactions	₩	929	1,239
Gain on foreign currency translation		754	357
Gain on disposal of property and equipment		2,371	1,476
Reversal of impairment on other non-financial assets		9	1
Others		40,084	34,090
Total	₩	<u>44,147</u>	<u>37,163</u>
<b>Other expenses:</b>			
Loss on foreign currency transactions	₩	1,062	919
Loss on foreign currency translation		24	45
Loss on disposal of property and equipment		2,962	8,154
Impairment of property and equipment		32,513	5,695
Loss on disposal of intangible assets		184	775
Impairment on intangible assets		127,032	149,321
Impairment on other non-current assets		15,616	13,543
Donation		15,538	20,621
Other bad debt expenses (Reversal of other bad debt expenses)		434	17
Taxes and dues		201	3,928
Others		87,499	45,822
Total	₩	<u>283,065</u>	<u>248,840</u>

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

December 31, 2016 and 2015

32. 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	₩ 10,359,873	10,526,802
Changes in inventories	23,330	69,174
Employee benefits expense	1,195,129	1,122,995
Rent	705,388	648,846
Depreciation and amortization	606,306	626,270
Sales commissions	197,399	213,824
Sales promotion expenses	119,206	142,789
Commissions	497,735	463,474
Service commission expenses	729,797	686,187
Advertising expenses	157,991	169,540
Utilities	246,491	246,967
Taxes and dues	118,241	128,113
Others	365,621	417,608
	<u>15,322,507</u>	<u>15,462,589</u>
Total	₩	

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

December 31, 2016 and 2015

33. 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)	
		2016	2015
<b>Finance income:</b>			
Interest income	₩	51,670	54,448
Dividend income		50,715	57,935
Gain on foreign currency transactions		9,735	59
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	92,599
Gain on valuation of derivative instruments held for the purpose of trading		15,754	2,192
Gain on transactions of derivative instruments held for the purpose of hedging		-	8,050
Gain on transactions of derivative instruments held for the purpose of trading		13,362	-
Gain on disposal of investments in associates, joint ventures and subsidiaries		1,982	-
Total	₩	<u>189,426</u>	<u>243,553</u>
<b>Finance costs:</b>			
Interest expense	₩	117,778	135,222
Loss on foreign currency transactions		26	20,170
Loss on foreign currency translation		52,680	90,237
Loss on valuation of financial liabilities at fair value through profit or loss		-	8,115
Impairment loss on available-for-sale financial assets		1,971	6,905
Loss on disposal of available-for-sale financial assets		420	792
Loss on valuation of derivative instruments held for the purpose of trading		3,930	12,279
Loss on transactions of derivative instruments held for the purpose of hedging		17,533	-
Loss on redemption of debentures		20,060	-
Financial guarantee expense		19,899	-
Impairment loss on investments in associates, joint ventures and subsidiaries.		282,981	655,680
Loss on disposal of investments in associates, joint ventures and subsidiaries.		59	351
Total	₩	<u>517,337</u>	<u>929,751</u>

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

December 31, 2016 and 2015

33. Finance Income and Finance Costs, Continued

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 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		17,605	34,025	40	-	-	-	51,670
Interest expense		-	-	-	-	-	(117,778)	(117,778)
Dividend income		-	-	3,539	-	-	-	3,539
Valuation / Disposal Impairment		-	-	(412)	24,352	28,668	(19,226)	33,382
Gain (loss) on foreign currency translation/ transactions		-	(45)	(1,971)	-	-	-	(2,016)
Others		-	309	53	-	-	(42,736)	(42,374)
		-	-	-	-	-	(19,899)	(19,899)
Subtotal		17,605	34,289	1,249	24,352	28,668	(199,639)	(93,476)
Recognized in other comprehensive income (loss) (*):								
Gain on valuation of available-for-sale financial assets		-	-	(7,599)	-	-	-	(7,599)
Loss on valuation of derivative assets		-	-	-	-	(6,786)	-	(6,786)
Subtotal		-	-	(7,599)	-	(6,786)	-	(14,385)
Total	₩	17,605	34,289	(6,350)	24,352	21,882	(199,639)	(107,861)

(\*) 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.



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

December 31, 2016 and 2015

33. Finance Income and Finance Costs, Continued

(b) Details of finance income and finance costs by financial instruments category for the years ended December 31, 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		19,967	34,070	411	-	-	-	54,448
Interest expense		-	-	-	-	-	(135,222)	(135,222)
Dividend income		-	-	3,990	-	-	-	3,990
Valuation / Disposal Impairment		-	-	27,479	(18,203)	92,599	-	101,875
Gain (loss) on foreign currency translation/ transactions		(2)	367	-	-	-	(110,082)	(109,717)
Others		-	-	-	-	8,050	-	8,050
Subtotal		19,965	34,271	24,975	(18,203)	100,649	(245,304)	(83,647)
Recognized in other comprehensive income (loss) (*):								
Gain on valuation of available-for-sale financial assets		-	-	(58,744)	-	-	-	(58,744)
Loss on valuation of derivative assets		-	-	-	-	(5,422)	-	(5,422)
Subtotal		-	-	(58,744)	-	(5,422)	-	(64,166)
Total	₩	19,965	34,271	(33,769)	(18,203)	95,227	(245,304)	(147,813)

(\*) 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.

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

December 31, 2016 and 2015

**34. Income Taxes**

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

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Current tax	₩	139,663	129,551
Deferred tax		(40,262)	(26,411)
Income tax directly (charged) credited to equity		1,846	18,140
Income tax expense	₩	<u>101,247</u>	<u>121,280</u>

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

		Korean won (millions)	
		<b>2016</b>	<b>2015</b>
Change in fair value of available-for-sale financial assets	₩	1,839	14,216
Effective portion of changes in fair value of cash flow hedges		1,642	1,312
Defined benefit plan actuarial loss (gain)		(1,635)	2,612
Income tax directly credited (charged) to equity	₩	<u>1,846</u>	<u>18,140</u>

Income tax related to actuarial losses (gains), losses (gains) on valuation of available-for-sale financial assets and losses (gains) on valuation of derivatives are recognized in other comprehensive income.

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

December 31, 2016 and 2015

**34. Income Taxes, Continued**

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

		Korean won (millions)	
		<u>2016</u>	<u>2015</u>
Profit (loss) before income tax	₩	153,030	(183,132)
Income tax using statutory tax rates		36,572	(44,318)
Adjustment:		64,675	165,598
Tax effects on non-taxable income		(10,868)	(7,195)
Tax effects on non-deductible expense		3,206	16,800
Tax credit		(1,211)	(1,644)
Adjustments for prior periods		4,900	1,128
Impairment of investments in subsidiaries and associates		68,481	158,675
Others		167	(2,166)
		<u>101,247</u>	<u>121,280</u>
Income tax expenses	₩		121,280
Effective tax rate		<u>66.16%</u>	<u>-</u>

(d) As of December 31, 2016, the tax effects of temporary difference were calculated by expected tax rate of the fiscal period when the temporary differences are expected to be reversed. The tax rates in 2017 and 2016 are expected to be 24.2%, respectively.

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

December 31, 2016 and 2015

34. Income Taxes, Continued

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

	<b>2016</b>			
	Korean won (millions)			
	Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2016
Impairment loss on available-for-sale financial assets	₩ 2,031	473	-	2,504
Investments in subsidiaries and associates	(180,434)	-	-	(180,434)
Depreciation	26,079	12,859	-	38,938
Allowance for doubtful accounts	735	(882)	-	(147)
Accrued revenues	(926)	313	-	(613)
Unearned revenue	53	(53)	-	-
Losses on valuation of inventories	3,940	1,189	-	5,129
Provision for sales return	340	(29)	-	311
Property, plant and equipment (capitalization of borrowing costs)	(9,783)	421	-	(9,362)
Land	32,548	-	-	32,548
Land (asset revaluation)	(988,403)	(71)	-	(988,474)
Accrued expense	20,578	934	-	21,512
Foreign currency translation gains (losses)	1,555	-	-	1,555
Losses on valuation of convertible bonds	(466)	466	-	-
Construction-in-progress	1,666	(26)	-	1,640
Other intangible assets	9,780	(473)	-	9,307
Rental guarantee deposits	10,368	(99)	-	10,269
Goodwill	(46,081)	6,253	-	(39,828)
Exchangeable bonds	(4,705)	4,599	-	(106)
Losses (gains) on valuation of available-for-sale financial assets	(24,963)	-	1,839	(23,124)
Losses (gains) on valuation of derivatives	13,574	(6,095)	1,642	9,121
Salaries and retirement benefits	14,324	4,793	(1,635)	17,482
Other capital surplus	62,286	-	-	62,286
Others	12,881	13,844	-	26,725
Total	₩ (1,043,023)	38,416	1,846	(1,002,761)

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

December 31, 2016 and 2015

34. Income Taxes, Continued

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

	<b>2015</b>			
	Korean won (millions)			
	Beginning balance	Profit or loss	Other comprehensive income	Balance as of December 31, 2015
Impairment loss on available-for-sale financial assets	₩ 360	1,671	-	2,031
Investments in subsidiaries and associates	(167,553)	(12,881)	-	(180,434)
Depreciation	22,267	3,812	-	26,079
Allowance for doubtful accounts	1,005	(270)	-	735
Accrued revenues	(774)	(152)	-	(926)
Unearned revenue	1,651	(1,598)	-	53
Losses on valuation of inventories	1,494	2,446	-	3,940
Provision for sales return	341	(1)	-	340
Property, plant and equipment (capitalization of borrowing costs)	(10,293)	510	-	(9,783)
Land	32,548	-	-	32,548
Land (asset revaluation)	(989,108)	705	-	(988,403)
Deferred revenue	9,583	(9,583)	-	-
Accrued expense	18,331	2,247	-	20,578
Foreign currency translation gains (losses)	5,344	(3,789)	-	1,555
Losses on valuation of convertible bonds	(907)	441	-	(466)
Construction-in-progress	1,721	(55)	-	1,666
Other intangible assets	11,803	(2,023)	-	9,780
Rental guarantee deposits	10,168	200	-	10,368
Goodwill	(68,033)	21,952	-	(46,081)
Exchangeable bonds	(6,873)	2,168	-	(4,705)
Losses (gains) on valuation of available-for-sale financial assets	(39,179)	-	14,216	(24,963)
Losses (gains) on valuation of derivatives	9,821	2,441	1,312	13,574
Salaries and retirement benefits	16,168	(4,456)	2,612	14,324
Other capital surplus	62,286	-	-	62,286
Others	8,395	4,486	-	12,881
Total	₩ (1,069,434)	8,271	18,140	(1,043,023)

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

December 31, 2016 and 2015

**34. Income Taxes, Continued**

- (f) Temporary differences not recognized as deferred tax assets related to investments in associates, joint ventures and subsidiaries as of December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Investments in associates, joint ventures and subsidiaries	₩	1,880,295	1,597,050

- (g) The aggregate amount of deferred tax liabilities, deferred tax assets, current tax liabilities and tax assets are as follows:

		Korean won (millions)	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Deferred tax assets	₩	407,630	351,729
Deferred tax liabilities		1,410,391	1,394,752
Current tax assets		60,292	54,312
Current tax liabilities		137,491	129,816

**35. 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	₩	21,545	15,377
Deposits		27,346	24,242
Other cash equivalents		833,999	538,999
Total	₩	<u>882,890</u>	<u>578,618</u>

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

December 31, 2016 and 2015

36. Operating Leases

(a) Lessee

- 1) The Company has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future minimum lease payments 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	₩	527,942	478,039
1 ~ 5 years		1,858,719	1,685,815
Thereafter		<u>4,621,064</u>	<u>4,227,498</u>
Total	₩	<u>7,007,725</u>	<u>6,391,352</u>

- 2) Lease payments for fixed rental and contingent rental recognized as expenses for the year ended December 31, 2016 were ₩592,434 million and ₩112,954 million, respectively.
- 3) In 2015, the Company disposed of buildings (book value of ₩151 billion) 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 (book value of ₩55 billion) of Lotte mart Yangdeok to KTB Confidence Private Real Estate Investment Trust for ₩55 billion and the Company has been leasing the assets.

In 2014, the Company disposed of land and buildings (book value of ₩525 billion) of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust for ₩602 billion and the Company has been leasing the same assets, and the Company disposed of land and buildings (book value of ₩392 billion) of 2 Lotte department stores including Dongnae store, 3 Lotte mart stores including Sungjung store and Dongnae Lotte cinema to Capstone Private Real Estate Investment Trust for ₩500 billion and the Company has been leasing the same assets.

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 same assets. 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 same assets.

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

December 31, 2016 and 2015

**36. Operating Leases, Continued**

(b) Lessor

The Company has entered into the operating leases of its certain of 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	₩	73,661	69,336
1 ~ 5 years		42,250	70,595
Thereafter		139	2,020
Total	₩	<u>116,050</u>	<u>141,951</u>

Lease collection from fixed rental and contingent rental recognized as income for the year ended December 31, 2016 were ₩66,284 million and ₩1,101,365 million, respectively

**37. Greenhouse Gases Emission Rights**

(a) Greenhouse Gases Emission Right

The Company 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 <sub>2</sub> -eq)
2015	860,971
2016	842,554
2017	819,895
Total	<u>2,523,420</u>

There is no pledged emission and the Company has 1,716,733tCO<sub>2</sub>-eq of emissions.

(b) Greenhouse Gases Emission liability

The Company has estimated to emit 836,954tCO<sub>2</sub>-eq of CO<sub>2</sub> in 2016.



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

December 31, 2016 and 2015

**38. Contingent Liabilities and Financial Commitments**

- (a) As of December 31, 2016, the Company has various forms of credit facility commitments with financial institutions as follows:

	Credit line		Amount used under credit facility	
	Korean won (millions),		Korean won (millions),	
	Foreign currency (thousands)		Foreign currency (thousands)	
General loan	KRW	100,000	KRW	100,000
Discount of bill	KRW	450,000	KRW	200,000
Buyer's credit	KRW	325,000	KRW	33,198
Bank overdraft	KRW	55,000	KRW	-
Payment guarantees	USD	300	USD	300
Letter of credit	USD	25,000	USD	6,312

- (b) Material contracts of the Company are as follows:

Contractor	Description of contract
Lotte Station Building Co., Ltd.	Providing management services

- (c) As of December 31, 2016, the Company is the plaintiff in various lawsuits claiming damages totaling ₩14,275 million and the Company is the defendant in various lawsuits with damage claims totaling ₩56,295 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or results of operations of the Company.

Among the defendant in various lawsuits, ₩19,277 million is related to victims of humidifier disinfectant. The Company recognized other liabilities of ₩17,575 million in regard to it.

- (d) 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.

- (e) The Company has provided, a joint guarantee for debentures of ₩16,000 million issued by Hi-Lotte Movie Co., Ltd. and related financial guarantee expense of ₩7,697 million was recognized as of December 31, 2016.

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

December 31, 2016 and 2015

**39. 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.

December 31, 2016				
Subsidiaries	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	Korea	SPC	Dec. 31	0.90
The 7th Supreme	Korea	SPC	Dec. 31	0.90
The 8th Supreme	Korea	SPC	Dec. 31	0.90
The 9th Supreme	Korea	SPC	Dec. 31	0.90
The 10th Supreme	Korea	SPC	Dec. 31	0.50
PT. Lotte Members Indonesia	Indonesia	Business support services	Dec. 31	100.00
Lotte Members China	China	Business support services	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	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 SHOPPING CO., LTD.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

39. Transactions and Balances with Related Companies, Continued

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

Subsidiaries	December 31, 2016			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
LOTTE Himart Co., Ltd.	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	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution,	Dec. 31	100.00
Lotte Mart China Co., Ltd.	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00

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

December 31, 2016 and 2015

39. Transactions and Balances with Related Companies, Continued

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

Subsidiaries	December 31, 2016			
	Location	Products or services	Fiscal year	Percentage of ownership (%)
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	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 SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Plaza 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

39. 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	Purchases of inventories	Purchases of fixed assets	Other revenue(*1)	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 42,429	44	392	343	112,029
Lotte Confectionery Co., Ltd.	12,550	141,421	-	-	6,908
Lotte Chilsung Beverage Co., Ltd.	11,767	66,379	-	146	547
Lotte Engineering & Construction Co., Ltd.	6,606	-	290,200	5	293
Hotel Lotte Pusan Co., Ltd.	6,685	-	-	-	20,730
LOTTE DATA COMMUNICATION COMPANY	2,315	-	39,573	-	80,349
Korea Fuji Film Co., Ltd.	1,335	13	-	-	-
Subtotal	83,687	207,857	330,165	494	220,856
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.	9,892	-	-	807	145,759
Woori Home Shopping & Television Co., Ltd.	686	-	-	-	33,292
Korea Seven Co., Ltd.	7,589	7	-	-	50
LOTTE Himart Co., Ltd. (*2)	49,645	4,831	22	158	43
LOTTE.COM INC.	2,680	-	-	-	95,508
Others	15,170	16,179	536	7	85,071
Subtotal	85,662	21,017	558	972	359,723
<b>Associates:</b>					
Daehong Communications Co., Ltd.	37,989	3	475	-	45,704
Lotteria Co., Ltd.	16,431	6,124	133	1	448
Lotte Station Building Co., Ltd.	11,896	-	217	2	4,144
Lotte Trading Co., Ltd.	5,529	174,062	-	-	56
Others	59,604	82,666	-	-	36,178
Subtotal	131,449	262,855	825	3	86,530
<b>Others:</b>					
LOTTE FOOD CO., LTD.	13,594	147,116	-	-	7,629
Lotte Aluminum Co., Ltd.	2,730	9,706	11,712	-	13,250
Others	42,045	11,671	2,547	19,946	238,300
Subtotal	58,369	168,493	14,259	19,946	259,179
Total	₩ 359,167	660,222	345,807	21,415	926,288

(\*1) Other revenues included disposals of fixed assets.

(\*2) Aside from transactions listed above, the Company sold the LOTTE Himart Co., Ltd. gift card amounting ₩18,574 million and ₩6,652 million for the years ended December 31, 2016 and 2015, respectively.

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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

39. 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	Purchases of inventories	Purchases of fixed assets	Other revenue(*)	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 39,033	1,789	3,410	1,129	98,526
Lotte Confectionery Co., Ltd.	11,829	142,420	5	53	6,382
Lotte Chilsung Beverage Co., Ltd.	8,756	58,926	18	63	595
Lotte Engineering & Construction Co., Ltd.	6,596	190	281,692	-	126
Hotel Lotte Pusan Co., Ltd.	6,521	26	-	-	19,329
LOTTE DATA COMMUNICATION COMPANY	3,408	-	61,287	-	68,719
Korea Fuji Film Co., Ltd.	1,406	124	-	-	-
Subtotal	77,549	203,475	346,412	1,245	193,677
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.	5,903	-	-	467	152,760
Woori Home Shopping & Television Co., Ltd.	523	26	-	-	42,911
Korea Seven Co., Ltd.	4,486	-	-	-	73
LOTTE Himart Co., Ltd.	47,149	5,823	2	543	170
LOTTE.COM INC.	1,030	-	-	-	91,263
Others	12,666	19,398	1,093	564	77,171
Subtotal	71,757	25,247	1,095	1,574	364,348
<b>Associates:</b>					
Daehong Communications Co., Ltd.	31,484	-	136	65	48,661
Lotteria Co., Ltd.	16,558	5,679	20	-	518
Lotte Station Building Co., Ltd.	12,181	908	16	27	4,242
Lotte Trading Co., Ltd.	4,688	198,126	-	619	98
Others	56,940	70,181	-	1,135	34,443
Subtotal	121,851	274,894	172	1,846	87,962
<b>Others:</b>					
LOTTE FOOD CO., LTD.	10,625	120,685	198	12	6,642
Lotte Aluminum Co., Ltd.	2,511	11,920	18,681	1	15,426
Others	41,085	16,217	2,345	10,446	215,228
Subtotal	54,221	148,822	21,224	10,459	237,296
Total	₩ 325,378	652,438	368,903	15,124	883,283

(\*) Other revenues included disposals of fixed assets.

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

December 31, 2016 and 2015

39. Transactions and Balances with Related Companies, Continued

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

Related Company	Korean won (millions)	
	2016	
	Capital increase	Capital decrease
<b>Subsidiaries:</b>		
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩ 81,889	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	8,637	-
Lotte Ulsan Development Co., Ltd.	23,900	-
LOTTE CINEMA VIETNAM CO., LTD.	10,299	-
Lotte Members Co., Ltd	24,382	-
LOTTE Properties Hanoi (Singapore) Pte. Ltd.	127,421	-
Subtotal	276,528	-
<b>Associates:</b>		
Shandong Longzhile Cinema Co., Ltd.	884	-
LOTTE Accelerator Corporation	2,500	-
Capital One Diversity Cinema Fund	-	80
Hemisphere Film Investors II LLC	-	3,366
BUSAN-LOTTE CREATIVE FILM FUND	6,000	-
Coralis S.A.	4,474	-
LOTTE Giants Co., Ltd.	9,000	-
Capital One Middle-Low Budget Cinema Fund	-	1,350
Others	3,250	1,500
Subtotal	26,108	6,296
Total	₩ 302,636	6,296

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

December 31, 2016 and 2015

39. Transactions and Balances with Related Companies, Continued

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

Related Company	Korean won (millions)			
	2015			
	Loans	Collection	Capital increase	Capital decrease
<b>Subsidiaries:</b>				
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩ 26	26	116,333	-
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	-	-	2,173	-
LOTTE.COM INC.	-	-	11,563	-
Lotte Shopping Reit Management Singapore PTE. LTD.	-	-	-	1,305
Lotte Department Store Masan Co., Ltd.	-	-	12,000	-
Others	-	-	4,231	-
Subtotal	26	26	146,300	1,305
<b>Associates:</b>				
Lotte Europe Holdings B.V.	-	-	10,855	-
Shandong Longzhile Cinema Co., Ltd.	-	-	437	-
Lotte Incheon Town Co., Ltd.	-	-	3,450	-
Lotte Asset Development Co., Ltd.	-	-	19,571	-
Capital One Diversity Cinema Fund	-	-	-	636
Hemisphere Film Investors II LLC	-	-	-	7,012
LOTTE Town Dongtan Co.,LTD	-	-	35,000	-
Subtotal	-	-	69,313	7,648
Total	₩ 26	26	215,613	8,953



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

December 31, 2016 and 2015

39. 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	Other payables	
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩	121	51,946	-	46,348
Lotte Confectionery Co., Ltd.		538	720	16,319	1,967
Lotte Chilsung Beverage Co., Ltd.		133	625	4,159	6,173
Lotte Engineering & Construction Co., Ltd.		2	4,757	-	104,579
Hotel Lotte Pusan Co., Ltd.		29	11,374	-	6,972
LOTTE DATA COMMUNICATION COMPANY		-	61,031	-	20,676
Korea Fuji Film Co., Ltd.		4	-	-	1,536
Subtotal		827	130,453	20,478	188,251
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.		37,387	4,658	-	44,146
Woori Home Shopping & Television Co., Ltd.		24,268	225	1	5,593
Korea Seven Co., Ltd.		9	588	-	2,045
LOTTE Himart Co., Ltd.		293	9,176	485	3,984
LOTTE.COM INC.		57,617	630	-	1,031
Others		362	15,167	10,258	12,353
Subtotal		119,936	30,444	10,744	69,152
<b>Associates:</b>					
Daehong Communications Co., Ltd.		4,281	1,460	-	10,470
Lotteria Co., Ltd.		98	513	576	10,588
Lotte Station Building Co., Ltd.		8,245	13,762	-	11,082
Lotte Trading Co., Ltd.		119	610	8,105	16
Others		5	8,035	9,908	27,531
Subtotal		12,748	24,380	18,589	59,687
<b>Others:</b>					
LOTTE FOOD CO., LTD.		253	4,528	13,559	8,254
Lotte Aluminum Co., Ltd.		-	197	966	2,728
Others		122	4,226	1,237	36,071
Subtotal		375	8,951	15,762	47,053
Total	₩	133,886	194,228	65,573	364,143

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

December 31, 2016 and 2015

39. 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	Other payables	
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩	779	53,154	1	26,446
Lotte Confectionery Co., Ltd.		281	1,000	18,911	1,511
Lotte Chilsung Beverage Co., Ltd.		145	1,009	4,832	6,215
Lotte Engineering & Construction Co., Ltd.		-	4,922	-	93,005
Hotel Lotte Pusan Co., Ltd.		-	9,694	3	3,306
LOTTE DATA COMMUNICATION COMPANY		-	322	-	19,764
Korea Fuji Film Co., Ltd.		5	-	-	1,555
Subtotal		1,210	70,101	23,747	151,802
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.		24,565	1,672	-	37,808
Woori Home Shopping & Television Co., Ltd.		28,042	288	1	4,592
Korea Seven Co., Ltd.		-	550	106	2,043
LOTTE Himart Co., Ltd.		51	11,890	1,210	3,874
LOTTE.COM INC.		61,633	683	-	1,279
Others		35	36,068	11,242	14,710
Subtotal		114,326	51,151	12,559	64,306
<b>Associates:</b>					
Daehong Communications Co., Ltd.		4,679	255	-	6,727
Lotteria Co., Ltd.		2	467	388	8,708
Lotte Station Building Co., Ltd.		7,881	11,571	-	5,122
Lotte Trading Co., Ltd.		20	656	8,132	-
Others		37	3,206	10,068	29,085
Subtotal		12,619	16,155	18,588	49,642
<b>Others:</b>					
LOTTE FOOD CO., LTD.		92	3,059	12,542	8,205
Lotte Aluminum Co., Ltd.		-	188	769	1,507
Others		731	5,160	1,066	30,539
Subtotal		823	8,407	14,377	40,251
Total	₩	128,978	145,814	69,271	306,001

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

December 31, 2016 and 2015

39. Transactions and Balances with Related Companies, Continued

(e) Key management personnel compensation for the years ended December 31, 2016 and 2015 are as follows:

		Korean won (millions)	
		2016	2015
Short-term benefits	₩	36,467	33,480
Retirement benefits		9,353	8,719
Other long-term benefits		89	105
Total	₩	45,909	42,304

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

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
<b>Subsidiaries:</b>			
Lotte Business Management (Tianjin) Co., Ltd.	BNP Paribas	Working capital	CNY 150,000
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	KEB Hana Bank	Working capital	CNY 170,000
Lotte Department Store (Shenyang) Co., Ltd	BNP Paribas	Working capital	CNY 50,000
PT. LOTTE Shopping Avenue Indonesia	DBS JP Morgan	Working capital	USD 20,000 IDR 200,000,000
Jiangsu Times Supermarket Co., Ltd (*1)	DBS HSBC HSBC	Working capital	CNY 330,000 CNY 750,000 CNY 125,000
LOTTE MART COMPANY LIMITED	HSBC	Working capital	CNY 200,000
Liaoning LOTTE Mart Co., Ltd.	HSBC	Working capital	CNY 150,000
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	HSBC	Working capital	CNY 50,000
LOTTE CINEMA VIETNAM CO., LTD.	ING	Working capital	USD 5,000
	ING		USD 5,000
	DBS		USD 8,000
	DBS		USD 8,000
	Standard Chartered		VND 112,000,000
Lotte Shopping Holdings (Hong Kong) Co., Limited	Standard Chartered	Working capital	USD 38,136
	BNP Paribas		USD 38,135
	Citibank N.A., Hong Kong Branch		USD 38,135
	SMBC		USD 38,135
	ING		USD 120,214
	Shinhan Bank		HKD 8,000
	HSBC		USD 95,298
BNP Paribas	USD 104,818		

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

December 31, 2016 and 2015

**39. Transactions and Balances with Related Companies, Continued**

(f) The Company has provided guarantees for related companies as of December 31, 2016 as follows:, continued

Related company	Guarantee recipient	Type of borrowings	Guaranteed amount (thousands)
<b>Subsidiaries:, continued</b>			
LuckyPai (Shanghai) Trading Co., Ltd. (*2)	KEB Hana Bank	Working capital	CNY 58,000
	KEB Hana Bank		CNY 39,900
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Shinhan Bank	Working capital	USD 50,000
	KEB Hana Bank		USD 140,000
<b>Associates:</b>			
Lotte Shopping RUS Ltd.	KEB Hana Bank	Working capital	USD 5,000
Shandong Longzhile Cinema Co., Ltd.	Shinhan Bank		CNY 24,000
<b>Joint ventures:</b>			
International Business Center Company Limited	The Export-Import Bank of Korea	Working capital	USD 15,000
	Standard Chartered		VND 110,000,000
<b>Others:</b>			
Lotte Properties(Shenyang) Limited	The Export-Import Bank of Korea	Working capital	USD 30,500
	Woori Bank		USD 31,500
	KDB		USD 57,500

(\*1) The subsidiary included in 'Swift Harvest Ltd. and its subsidiaries'

(\*2) Financial guarantee liabilities of ₩11,791 million was recognized as of December 31, 2016.

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

December 31, 2016 and 2015

**39. Transactions and Balances with Related Companies, Continued**

- (g) 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 Company in October 2008.
- (h) The fulfillment of the loyalty contract between Burger King Japan Co., Ltd., BK Asiapac, Pte. Ltd. and KOREA SEVEN CO., LTD. was guaranteed by the Company.

The Company 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. In addition, 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.

- (i) In 2015, Lotte Incheon Town Co., Ltd., which is the Company's associate, entered into a land sale and purchase agreement with the government of Incheon city. As a result of the agreement, the Company collected a security deposit of ₩30.6 billion, which was previously paid by the Company to the city government on behalf of Lotte Incheon Town Co., Ltd., from Lotte Incheon Town Co., Ltd.
- (j) The company has provided guarantee in regard to rent in which Lotte Suwon Station Shopping Town Co., Ltd. needs to pay lessor for the twenty years of period of lease
- (k) In 2013, the Company issued hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd.
- (l) In 2016, the Company entered into a jointly guarantee agreement with LOTTE Engineering & Construction Co.,Ltd and LOTTE ASSET DEVELOPMENT CO.,LTD to GAR The First Co., Ltd. The Company 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

40. Risk Management

(a) Management of financial risks

**Objectives and Policies of the Company**

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

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

**Credit Risk**

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

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

i) Exposure to credit risk

The book value of a financial asset represents its 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 equivalents (*1)	₩ 861,345	563,241
Trade and other receivables	635,818	563,375
Other financial assets (current)	290,383	811,586
Other financial assets (non-current) (*2)	1,054,704	944,120
Total	₩ 2,842,250	2,882,322

(\*1) Cash held by the Company 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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

40. Risk Management, Continued

(a) Management of financial risks, continued

ii) Impairment loss

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

		Korean won (millions)			
		<b>December 31, 2016</b>			
Description		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	₩	630,463	5,355	3,531	639,349
Other financial assets (current)		290,383	-	34	290,417
Other financial assets (non-current)		1,054,704	-	3,950	1,058,654
Total	₩	<u>1,975,550</u>	<u>5,355</u>	<u>7,515</u>	<u>1,988,420</u>

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

		Korean won (millions)			
		<b>December 31, 2015</b>			
Description		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	₩	549,959	13,416	4,645	568,020
Other financial assets (current)		811,586	-	34	811,620
Other financial assets (non-current)		944,120	-	3,950	948,070
Total	₩	<u>2,305,665</u>	<u>13,416</u>	<u>8,629</u>	<u>2,327,710</u>

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

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

December 31, 2016 and 2015

40. Risk Management, Continued

(a) Management of financial risks, continued

iii) 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)	
		<u>2016</u>	<u>2015</u>
Balance at beginning of the year	₩	4,645	5,799
Impairment loss		58	225
Reversal of Impairment loss		(34)	(58)
Write-offs		(1,138)	(1,321)
Balance at end of the year	₩	<u>3,531</u>	<u>4,645</u>

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)	
		<u>2016</u>	<u>2015</u>
Balance at beginning of the year	₩	34	34
Reversal of Impairment loss		-	-
Balance at end of the year	₩	<u>34</u>	<u>34</u>

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)	
		<u>2016</u>	<u>2015</u>
Balance at beginning of the year	₩	3,950	3,950
Impairment loss		20	-
Write-offs		(20)	-
Balance at end of the year	₩	<u>3,950</u>	<u>3,950</u>



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

December 31, 2016 and 2015

40. Risk Management, Continued

(a) Management of financial risks, continued

iv) 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 that are past due as at the end of the reporting period but not impaired are summarized as follows:

Description	Korean won (millions)				
	<b>December 31, 2016</b>				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 5,355	3,967	246	841	301

Description	Korean won (millions)				
	<b>December 31, 2015</b>				
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	₩ 13,416	9,377	1,549	2,024	466

v) Guarantees

As of December 31, 2016, the Company has provided financial guarantees to associates and joint ventures. Should the Company be liable for payment upon defaults of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩1,419,559 million.

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

December 31, 2016 and 2015

40. Risk Management, Continued

(a) Management of financial risks, continued

**Liquidity Risks**

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

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

The Company has historically been able to satisfy its cash requirements from cash flows from operations and debt financing. To the extent that the Company does not generate sufficient cash flows from operations to meet its capital requirements, the Company may rely on other financing activities, such as renewal of short-term borrowings, external long-term borrowings and offerings of debt securities, and other debt securities.

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

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	₩ 118,598	495,659	633,235	-
Trade and other payables	3,749,302	-	-	-
Other financial liabilities (current)	280,825	16,216	54,127	-
Borrowings and debentures (*)	15,787	16,822	35,514	3,252,019
Other financial liabilities (non-current)	306	252	425	68,312
Acceptances and guarantees	1,419,559	-	-	-
Total	₩ 5,584,377	528,949	723,301	3,320,331

(\*) Interest expense included

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.  
Notes to the Separate Financial Statements

December 31, 2016 and 2015

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

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

i) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Company's functional 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	₩	7,037	1,695,995	6,641	1,780,349
EUR		33	1,105	65	2,191
JPY		-	103,681	-	188,301
IDR		255	-	181	-
HKD		6	-	12	-
CNY		1,428	11,952	440	-
VND		63	-	-	-
Total	₩	8,822	1,812,733	7,339	1,970,841

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

December 31, 2016 and 2015

40. 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	1,208.50	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
IDR		0.0872	0.0846	0.0898	0.0850
HKD		149.51	145.95	155.83	151.21
CNY(*)		174.40	180.06	173.26	180.55
VND		0.0519	0.0516	0.0531	0.0522

(\*) The Company 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 Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period, 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	₩	294	(294)	663	(663)
EUR		(107)	107	(212)	212
JPY		(10,368)	10,368	(9,720)	9,720
IDR		25	(25)	18	(18)
HKD		1	(1)	1	(1)
CNY		(1,052)	1,052	44	(44)
VND		6	(6)	-	-
Total	₩	(11,201)	11,201	(9,206)	9,206

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 Company's functional currency, as of December 31, 2016 and December 31, 2015

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

December 31, 2016 and 2015

40. Risk Management, Continued

(a) Management of financial risks, continued

ii) Interest rate risk

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

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

At the reporting date the interest rate profile of the Company'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	₩	47,000	53,950
Financial liabilities		1,511,860	1,117,141

Sensitivity analysis of interest income and expenses from changes of interest rates as of December 31, 2016 and 2015 are as 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	₩	470	(470)	540	(540)
Interest expense		1,037	(1,037)	972	(972)

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

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

December 31, 2016 and 2015

40. Risk Management, Continued

(a) Management of financial risks, continued

iii) Price risk

The Company 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 ₩174,105 million and ₩171,174 million, respectively.

The Company 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	₩	17,410	(17,410)	17,117	(17,117)

(b) Capital Management

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

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

		Korean won (millions)	
		December 31, 2016	December 31, 2015
Liabilities (a)	₩	10,477,056	10,488,999
Equity (b)		15,505,754	15,531,707
Financial instruments (c) (*)		1,025,398	1,218,592
Borrowings (d)		4,315,258	4,434,108
Liabilities to equity ratio (a/b)		67.57%	67.53%
Net borrowings to equity ratio ((d-c)/b)		21.22%	20.70%

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

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

December 31, 2016 and 2015

**41. Business Combination**

(a) General description

The Company entered into an agreement to acquire Central Square department stores with Lotte Department Store Masan Co., Ltd. which was the Company's subsidiary on April 12, 2016 and consummated the acquisition on April 30, 2016.

(b) The following summarizes fair value of identifiable net assets.

Accounts		Korean won (millions)
		<b>2016</b>
Assets	₩	1,441
Liabilities		1,306
Net assets	₩	135

(c) Goodwill recognized as a result of business combination is as follows:

		Korean won (millions)
		<b>2016</b>
Total consideration transferred (*)	₩	665
Fair value of identifiable net assets		135
Goodwill	₩	530

(\*) Total consideration transferred consists of cash.

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

**December 31, 2016 and 2015**

**42. Subsequent Events**

In March 2017, some distribution stores (discount stores) operated by the Company 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 Company does not reflect the effect from such event in the consolidated financial statements.