

**Lotte Shopping Co., Ltd.**  
**Separate Financial Statements**  
**December 31, 2017**

**Lotte Shopping Co., Ltd.**  
**Index**  
**December 31, 2017 and 2016**

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying separate financial statements of Lotte Shopping (the Company) which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

### Management's Responsibilities for the Financial Statements

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

### Auditor's Responsibilities

Our responsibility is to express an opinion on the separate financial statements based on our audit. We conducted our audit 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 the auditor's 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, the auditor considers 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 significant 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 accompanying separate financial statements present fairly, in all material respects, the separate financial position of Lotte Shopping Co., Ltd. as at December 31, 2017, and its separate financial performance and its separate cash flows for the year then ended in accordance with Korean IFRS.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 41 to these financial statements. As discussed in Note 41, in accordance with the resolution of the Board of Directors on April 26, 2017 and the approval of the extraordinary meeting of shareholders on August 29, 2017, Lotte Shopping Co., Ltd., Lotte Chilsung Beverage Co., Ltd. and Lotte Food Co., Ltd., spun off each of their investment division from their businesses and merged them into the investment division of Lotte Confectionery Co. Ltd. as of October 1, 2017. As a result of this spin-off and merger, Lotte Shopping Co., Ltd. and the newly established corporation are jointly and severally liable for liabilities of Lotte Shopping Co., Ltd. that existed before the spin-off.

**Other Matters**

The separate financial statements of the Company as at and for the year ended December 31, 2016, were audited by Samjong KPMG Accounting Corp. who expressed an unqualified opinion on those statements on March 15, 2017.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea  
March 14, 2018

This report is effective as of March 14, 2018, 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 there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Lotte Shopping Co., Ltd.**  
**Separate Statements of Financial Position**  
**December 31, 2017 and 2016**

(in Korean won)

	Notes	2017	2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,33,35,40	₩ 1,687,990,452,840	₩ 882,890,128,352
Trade and other receivables	5,7,39,40	690,431,124,078	635,818,359,910
Other financial assets	6,7,22,33,40	524,593,338,902	290,383,304,998
Inventories	3,8	494,839,548,664	2,015,161,917,761
Other non-financial assets	9	77,864,269,706	72,439,619,561
		<u>3,475,718,734,190</u>	<u>3,896,693,330,582</u>
<b>Non-current assets</b>			
Investments in subsidiaries, associates and joint ventures	10,11,12,33	3,108,918,658,538	5,279,465,236,141
Other financial assets	6,7,22,33,40	1,272,572,859,924	1,370,676,364,348
Property and equipment, net	13	13,133,743,541,514	13,615,937,883,571
Investment property, net	14	758,673,160,729	297,152,727,262
Goodwill	15	229,567,686,369	400,032,344,212
Intangible assets, net	15	253,498,715,053	336,308,786,830
Other non-financial assets	9	588,173,316,243	786,543,394,073
		<u>19,345,147,938,370</u>	<u>22,086,116,736,437</u>
<b>Total assets</b>		<u>₩ 22,820,866,672,560</u>	<u>₩ 25,982,810,067,019</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings and debentures, net of issuance costs	7,17,33,40	₩ 1,468,536,247,270	₩ 1,226,181,798,458
Trade and other payables	3,7,16,39,40	2,722,960,092,916	3,749,301,641,683
Other financial liabilities	7,22,33,40	936,421,633,818	368,258,425,991
Income tax payables	34	64,239,737,216	77,199,401,439
Unearned revenues	3,18	124,270,243,359	56,448,783,843
Provisions	3,19	1,592,747,411	1,285,774,702
Other non-financial liabilities	20	828,862,399,197	783,057,823,358
		<u>6,146,883,101,187</u>	<u>6,261,733,649,474</u>
<b>Non-current liabilities</b>			
Borrowings and debentures, net of issuance costs	7,17,33,40	3,096,884,820,813	3,089,075,640,247
Other financial liabilities	7,22,33,40	86,228,682,141	66,117,905,951
Net of defined benefit liabilities and other long-term employee benefits	21	16,299,700,924	31,582,016,121
Deferred tax liabilities	34	924,083,178,875	1,002,760,987,632
Unearned revenues	18	4,392,653,637	5,111,157,588
Other non-financial liabilities	20	34,108,219,093	20,674,459,627
		<u>4,161,997,255,483</u>	<u>4,215,322,167,166</u>
<b>Total liabilities</b>		<u>10,308,880,356,670</u>	<u>10,477,055,816,640</u>
<b>Equity</b>			
Share capital	1,23	140,610,235,000	157,454,460,000
Capital Surplus	23	3,557,027,319,005	3,962,093,654,690
Hybrid securities	24	269,118,000,000	269,118,000,000
Capital adjustments	25	(2,802,985,678,651)	(1,805,705,449)
Retained earnings	26	11,309,446,385,538	11,065,343,685,832
Accumulated other comprehensive income	27	38,770,054,998	53,550,155,306
<b>Total equity</b>		<u>12,511,986,315,890</u>	<u>15,505,754,250,379</u>
<b>Total liabilities and equity</b>		<u>₩ 22,820,866,672,560</u>	<u>₩ 25,982,810,067,019</u>

The above separate statements of financial position should be read in conjunction with the accompanying notes.

**Lotte Shopping Co., Ltd.**  
**Separate Statements of Comprehensive Income**  
**Years Ended December 31, 2017 and 2016**

<i>(in Korean won)</i>	<b>Notes</b>	<b>2017</b>	<b>2016</b>
Sales	3,29,36,39	₩ 10,571,819,537,236	₩ 16,042,364,596,948
Cost of sales	3,8,32,39	<u>(5,253,990,625,015)</u>	<u>(10,637,641,431,954)</u>
<b>Gross profit</b>		<u>5,317,828,912,221</u>	<u>5,404,723,164,994</u>
Selling, general and administrative expenses	30,32,39	<u>(4,827,678,270,690)</u>	<u>(4,684,865,081,522)</u>
<b>Operating profit</b>		<u>490,150,641,531</u>	<u>719,858,083,472</u>
Other income	31	1,762,250,674,257	44,147,167,995
Other expenses	31	(401,179,281,207)	(283,065,263,281)
Finance income	33	372,822,090,055	189,426,680,991
Finance costs	33	<u>(1,714,424,521,751)</u>	<u>(517,336,770,497)</u>
<b>Profit before income tax</b>		<u>509,619,602,885</u>	<u>153,029,898,680</u>
Income tax expense	34	<u>(139,981,919,618)</u>	<u>(101,246,561,471)</u>
<b>Profit for the year</b>		<u>369,637,683,267</u>	<u>51,783,337,209</u>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities	21	402,981,067	6,756,384,399
Income tax on items that will not be reclassified to profit or loss		<u>316,283,774</u>	<u>(1,635,045,025)</u>
Total items that will not be reclassified to profit or loss		<u>719,264,841</u>	<u>5,121,339,374</u>
<i>Items that may be subsequently reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets	27	9,753,804,908	(7,599,017,383)
Gain (loss) on valuation of derivatives	22,27	20,233,739,575	(6,786,383,837)
Income tax on items that may be reclassified to profit or loss		<u>(9,021,691,718)</u>	<u>3,481,267,095</u>
Total items that may be subsequently reclassified to profit or loss		<u>20,965,852,765</u>	<u>(10,904,134,125)</u>
<b>Other comprehensive income for the year</b>		<u>21,685,117,606</u>	<u>(5,782,794,751)</u>
<b>Total comprehensive income for the year</b>		<u>₩ 391,322,800,873</u>	<u>₩ 46,000,542,458</u>
<b>Earnings per share</b>			
Basic earnings per share (in won)	28	₩ 12,209	₩ 1,317
Diluted earnings per share (in won)		12,209	1,317

The above separate statements of comprehensive income should be read in conjunction with the accompanying notes.

**Lotte Shopping Co., Ltd.**  
**Separate Statements of Changes in Equity**  
**Years Ended December 31, 2017 and 2016**

<i>(in Korean won)</i>	Notes	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income	Total
<b>Balance at January 1, 2016</b>	W	157,454,460,000	W 3,962,093,654,690	W 269,118,000,000	W (1,805,705,449)	W 11,080,392,565,190	W 64,454,289,431	W 15,531,707,263,862
<b>Total comprehensive income (loss) for the year</b>								
Profit for the year		-	-	-	-	51,783,337,209	-	51,783,337,209
Other comprehensive income								
Changes in the fair value of available-for-sale financial assets		-	-	-	-	-	(5,760,055,177)	(5,760,055,177)
Loss on valuation of derivatives		-	-	-	-	-	(5,144,078,948)	(5,144,078,948)
Remeasurements of net defined benefit liabilities		-	-	-	-	5,121,339,374	-	5,121,339,374
<b>Total comprehensive income (loss) for the year</b>		-	-	-	-	5,121,339,374	(10,904,134,125)	(5,782,794,751)
		-	-	-	-	56,904,676,583	(10,904,134,125)	46,000,542,458
<b>Transactions with owners</b>								
Interests paid for hybrid securities		-	-	-	-	(12,849,147,941)	-	(12,849,147,941)
Dividends		-	-	-	-	(59,104,408,000)	-	(59,104,408,000)
<b>Total transactions with owners</b>		-	-	-	-	(71,953,555,941)	-	(71,953,555,941)
<b>Balance at December 31, 2016</b>	W	157,454,460,000	W 3,962,093,654,690	W 269,118,000,000	W (1,805,705,449)	W 11,065,343,685,832	W 53,550,155,306	W 15,505,754,250,379
<b>Balance at January 1, 2017</b>	W	157,454,460,000	W 3,962,093,654,690	W 269,118,000,000	W (1,805,705,449)	W 11,065,343,685,832	W 53,550,155,306	W 15,505,754,250,379
Changes in accounting policies		-	-	-	-	(54,401,622,324)	-	(54,401,622,324)
<b>Adjusted balance at January 1, 2017</b>		157,454,460,000	3,962,093,654,690	269,118,000,000	(1,805,705,449)	11,010,942,063,508	53,550,155,306	15,451,352,628,055
<b>Total comprehensive income (loss) for the year</b>								
Loss for the year		-	-	-	-	369,637,683,267	-	369,637,683,267
Other comprehensive income								
Changes in the fair value of available-for-sale financial assets		-	-	-	-	-	5,474,481,716	5,474,481,716
Gain on valuation of derivatives		-	-	-	-	-	15,491,371,049	15,491,371,049
Remeasurements of net defined benefit liabilities		-	-	-	-	719,264,841	-	719,264,841
<b>Total comprehensive income for the year</b>		-	-	-	-	719,264,841	20,965,852,765	21,685,117,606
		-	-	-	-	370,356,948,108	20,965,852,765	391,322,800,873
<b>Transactions with owners</b>								
Spin-off		(16,844,225,000)	(405,066,335,685)	-	(2,799,190,203,950)	-	(35,745,953,073)	(3,256,846,717,708)
Acquisition of treasury shares		-	-	-	(1,989,769,252)	-	-	(1,989,769,252)
Interests paid for hybrid securities		-	-	-	-	(12,748,218,078)	-	(12,748,218,078)
Dividends		-	-	-	-	(59,104,408,000)	-	(59,104,408,000)
<b>Total transactions with owners</b>		(16,844,225,000)	(405,066,335,685)	-	(2,801,179,973,202)	(71,852,626,078)	(35,745,953,073)	(3,330,689,113,038)
<b>Balance at December 31, 2017</b>	W	140,610,235,000	W 3,557,027,319,005	W 269,118,000,000	W (2,802,985,678,651)	W 11,309,446,385,538	W 38,770,054,998	W 12,511,986,315,890

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

**Lotte Shopping Co., Ltd.**  
**Separate Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

<i>(in Korean won)</i>	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Cash generated from operations			
Profit for the period	₩	369,637,683,267	51,783,337,209
Adjustments		886,144,069,757	1,395,471,450,351
Changes in operating assets and liabilities		520,887,788,855	(90,825,933,314)
		<u>1,776,669,541,879</u>	<u>1,356,428,854,246</u>
Income taxes paid		(120,796,638,604)	(137,966,916,902)
<b>Net cash inflow from operating activities</b>		<u>1,655,872,903,275</u>	<u>1,218,461,937,344</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets		182,387,839,593	917,850,544,310
Collection of short-term loans		1,835,444,000	6,500,000,000
Collection of long-term loans		6,164,556,000	-
Proceeds from sale of available-for-sale financial assets		12,924,905,272	1,334,098,416
Proceeds from sale of investments in subsidiaries, associates and joint ventures		25,030,420	1,923,033,717
Proceeds from disposal of property and equipment		32,986,343,184	56,665,024,402
Proceeds from disposal of intangible assets		32,777,276	2,584,705
Cash inflows from capital distribution from subsidiaries, associates and joint ventures		1,381,562,879	6,295,749,254
Cash inflows from business combination		-	413,370,864
Cash inflows from settlement of derivative instruments		2,567,293,802	-
Purchase of short-term financial assets		(409,334,924,793)	(426,552,914,800)
Increase in short-term loans		-	(1,500,000,000)
Increase in long-term loans		-	(5,000,000,000)
Purchase of available-for-sale financial assets		(1,756,588,053)	(53,244,017,065)
Purchase of investments in subsidiaries, associates and joint ventures		(322,451,074,699)	(302,636,350,936)
Acquisition of property and equipment		(650,241,339,400)	(763,835,079,223)
Acquisition of intangible assets		(45,345,936,770)	(64,886,391,403)
Interest received		16,219,778,536	20,360,097,049
Dividend received		98,997,363,364	50,767,295,700
<b>Net cash outflow from investing activities</b>		<u>(1,073,606,969,389)</u>	<u>(555,542,955,010)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		1,027,759,094,020	-
Proceeds from long-term borrowings		149,602,740,320	-
Proceeds from issuance of debentures		957,444,500,000	695,479,625,888
Repayment of borrowings		(250,000,000,000)	-
Acquisition of treasury shares		(3,795,474,701)	-
Cash outflows due to spin-off		(586,748,348,806)	-
Repayment of current portion of long-term liabilities		(876,098,800,000)	(868,140,349,578)
Payment of hybrid securities interests		(12,748,218,078)	(12,849,147,941)
Interest paid		(124,271,920,891)	(114,035,152,534)
Dividends paid		(59,104,408,000)	(59,104,408,000)
<b>Net cash inflow (outflow) from financing activities</b>		<u>222,039,163,864</u>	<u>(358,649,432,165)</u>
<b>Net increase in cash and cash equivalents</b>		804,305,097,750	304,269,550,169
Cash and cash equivalents at the beginning of the financial year		882,890,128,352	578,617,977,821
Effects of exchange rate changes on cash and cash equivalents		795,226,738	2,600,362
<b>Cash and cash equivalents at the end of the year</b>		<u>₩ 1,687,990,452,840</u>	<u>882,890,128,352</u>

The above separate statements of cash flows should be read in conjunction with the accompanying notes.



**Lotte Shopping Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

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**1. General Information**

*(a) The Company*

Lotte Shopping Co., Ltd. (the Company) was established on July 2, 1970, in the Republic of Korea to engage in retail operations through department stores, outlet stores, discount stores, supermarkets and H&B stores. In addition to the retail operations, the Company's business includes a chain of multiplex movie theaters under the brand name of Lotte Cinema. The Company listed its stock on the Korea Stock Exchange on February 9, 2006. The Company also listed its stock on the London Stock Exchange on February 8, 2006 and delisted it from London Stock Exchange on May 30, 2017.

The shareholders of the Company as of December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>Number of shares</b>	<b>Amount</b>	<b>Percentage of ownership (%)</b>
Lotte Corporation	7,275,675	₩ 36,378,375	25.87
Shin, Dong Bin	2,781,409	13,907,045	9.89
Hotel Lotte Co., Ltd.	2,484,338	12,421,690	8.83
Korea Fuji Film Co., Ltd.	2,209,819	11,049,095	7.86
Lotte IT Tech Co., Ltd.	1,353,510	6,767,550	4.81
Shin, Kyuk Ho	262,438	1,312,190	0.93
Hotel Lotte Pusan Co., Ltd.	220,326	1,101,630	0.78
Shin, Young Ja	207,911	1,039,555	0.74
Shin, Dong Ju	133,953	669,765	0.48
Treasury share	18,074	90,370	0.06
Others	11,174,594	55,872,970	39.75
	<u>28,122,047</u>	<u>₩ 140,610,235</u>	<u>100.00</u>

**2. Basis of Accounting**

*(a) Statement of compliance*

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean 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 Korean IFRS 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 issue by the Board of Directors on March 6, 2018, which will be submitted for approval to the shareholders' meeting to be held on March 23, 2018.

**Lotte Shopping Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

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*(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

*(c) Functional and presentation currency*

The financial statements of the Company are prepared in functional currency of the respective operation. 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 Korean 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 13 – Property and equipment

Note 15 – Goodwill and Intangible assets

Note 19 – Provisions

Note 21 – Employee benefits

Note 34 – Tax expense

Note 39 – Contingencies and commitments

Note 42 – Risk management

**Lotte Shopping Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

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(ii) Measurement of fair value

A number of 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 Korean IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is 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 following note:

Note 7 - Fair value of financial instruments

### **3. Changes in Accounting Policies**

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company early adopted of Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with Korean IFRS 1115, new standard was applied retrospectively, and the cumulative effects of applying the standard was adjusted on January 1, 2017, the initial date of application. The effects of the adoption of Korean IFRS 1115 adjustments are explained as below.

**Lotte Shopping Co., Ltd.**  
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*(a) Sales*

The Company previously recognized specific sales and cost of sales as gross amount in the status of principal. Under Korean IFRS 1115, the Company recognizes certain sales on a net basis after deducting the cost of specific sales, in the status of agent. As a result of this change, both sales and cost of sales during the year ended December 31, 2017 decreased by ₩ 4,522.6 billion. As at December 31, 2017, both inventories and trade payables decreased by ₩ 1,361.9 billion.

In addition, under Korean IFRS 1115, the Company deducted logistics consideration received from customers related to purchase of goods, previously recognized as sales, from purchase of goods. Accordingly, both sales and cost of sales during the year ended December 31, 2017 decreased by ₩ 226.4 billion.

The changes above do not have an impact on operating profit or profit for the year.

*(b) Accounting for return and refunds*

When the customer has a right to return the product within a given period, the Company previously recognized a provision for returns which was measured on a net basis at the margin on the sale. Sales were adjusted for the expected value of the returns and cost of sales were adjusted for the value of the corresponding goods expected to be returned.

Under Korean IFRS 1115, if the customer returns a product, the entity is obliged to refund the purchase price. Therefore, a gross contract liability (refund liability) for the expected refunds to customers is recognized and sales are adjusted. At the same time, the Company has a right to collect the product from the customer when the customer exercises the right of return and recognizes an asset and adjusts cost of sales. The asset is measured by carrying amount of the product. Accordingly, sales and cost of sales for the year ended December 31, 2017 increased by ₩ 2 billion and ₩ 2.1 billion, respectively. As at December 31, 2017, contract asset and contract liability increased by ₩ 0.6 billion and ₩ 0.7 billion, respectively. The costs incurred in the course of collecting products are not material as the customer usually returns the product in a saleable condition at the store.

*(c) Accounting for customer loyalty program*

Under Korean IFRS 1115, the total consideration is allocated to the points and goods based on the relative stand-alone selling prices. As a result of recognizing contractual liabilities in relation to VIP system, one of the Company's customer loyalty programs, sales during the year ended December 31, 2017 increased by ₩ 4.5 billion and contractual liabilities as at December 31, 2017 increased by ₩ 60.4 billion.

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(d) The impacts of Korean IFRS 1115 on the 2017 financial statements are as follows:

(i) Statement of financial position

With applying Korean IFRS 1115, assets decreased by ₩ 1,361.3 billion, including decrease in inventories by ₩1,361.3 billion. Liabilities decreased by ₩ 1,311.2 billion, including decrease in trade payables by ₩ 1,361.9 billion and increase in unearned revenues by ₩ 68.7 billion. In the statement of financial position as at December 31, 2017.

(ii) Statement of comprehensive income

With applying Korean IFRS 1115, sales and gross profit decreased by ₩ 4,752.1 billion and ₩ 9.2 billion, respectively, and operating profit and profit for the period increased by ₩ 3.3 billion and ₩ 4.3 billion, respectively, in the statement of comprehensive income for the year ended December 31, 2017.

(iii) Statement of cash flows

With applying Korean IFRS 1115, there is no significant impact on cash flows from operating activities, investing activities or financing activities for the year ended December 31, 2017.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note 35).

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Company does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales or discontinued operations in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112. The Company does not expect the amendment to have a significant impact on the financial statements.

#### **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

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to all periods presented in these separate financial statements, except for the changes in accounting policies as explained in Note 3.

**4.1 Investments in subsidiaries, associates and joint ventures**

These separate financial statements are prepared and presented in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, associates and joint ventures are carried at cost less impairment, if any, in accordance with Korean 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.

**4.2 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.

**4.3 Inventories**

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

The cost of inventories is based on the total-weighted average method, moving average method and retail method except for goods-in-transit of which cost 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 deducted from cost of sales for the period when such inventories are recognized as cost of sales.

**4.4 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

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attributable to the asset's acquisition or issuance.

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

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

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the 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 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) Derecognition of financial assets

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

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(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.

**4.5 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,



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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.

(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.

#### **4.6 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.

(i) Financial assets measured at amortized cost

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

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(ii) Financial assets carried at cost

The impairment loss of financial assets carried at cost 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.

#### **4.7 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.

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

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

	<b>Useful lives</b>
Buildings	10 - 50 years
Structures	7 - 40
Machinery	5 - 30
Vehicles	5
Display fixtures	5
Furniture and fixtures	5

The assets' depreciation method, residual values and useful lives are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss from the derecognition of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount, and recognized in profit or loss when derecognised.

#### **4.8 Intangible Assets**

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

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

	<b>Useful lives</b>
Industrial property rights	5 years
Rights to use facility	10 - 20
Other intangible assets <sup>1</sup>	4 - 10

<sup>1</sup> Among other intangible assets, copyrights for movies are recognized in 'cost of sales' during the periods that the related revenues are realized, and if the revenues are uncertain to be realized, the assets are recognized as impairment loss on intangible assets.

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

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are accounted for as changes in accounting estimates.

**4.9 Investment Property**

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

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

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

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

**4.10 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.

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).

**4.11 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.

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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.

#### **4.12 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.

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(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.

**4.13 Borrowing costs**

The Company capitalizes borrowing costs directly attributable to the acquisition or construction 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 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.

**4.14 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.

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(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).

**4.15 Employee benefits**

(i) Short-term employee benefits

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

(iii) Post-employment 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.

(iv) Post-employment benefits: defined benefit plans

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

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company,

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the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

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

#### **4.16 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 is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is presented as a separate asset.

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

#### **4.17 Foreign Currencies**

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



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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.

**4.18 Paid-in 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.

**4.19 Revenue**

(i) Sales of goods and rendering of services

The Company operates department stores, outlet stores, discount stores, supermarkets, H&B stores and movie theaters. Sales of goods from contracts with customers are recognized when the goods are delivered to the customers. Meanwhile, in the case of certain specific sales where the Company acts as an agent, the Company recognizes net sales, after deducting the cost of specific sales, as revenue upon the delivery to customers.

(ii) Customer loyalty program

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

(iii) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

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(iv) Commissions

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

(v) Rental income

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

**4.20 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, changes in the fair value of financial assets at fair value through profit or loss, losses on hedging instruments and impairment loss on investments in subsidiaries, associates and joint ventures 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.

**4.21 Income Taxes**

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

(i) Current tax

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

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the 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

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with investments in subsidiaries, associates, and interests in 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. The Company recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

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

#### **4.22 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, which comprise convertible notes.

#### **4.23 Emission Rights**

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

##### **(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.

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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.

**4.24 New Standards and Interpretations not yet Adopted by the Company**

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Company are set out below.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

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(a) *Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

<b><i>Business model for the contractual cash flows characteristics</i></b>	<b>Solely represent payments of principal and interest</b>	<b>All other</b>
<i>Hold the financial asset for the collection of the contractual cash flows</i>	Measured at amortized cost <sup>1</sup>	
<i>Hold the financial asset for the collection of the contractual cash flows and sale</i>	Recognized at fair value through other comprehensive income <sup>1</sup>	Recognized at fair value through profit or loss <sup>2</sup>
<i>Hold for sale</i>	Recognized at fair value through profit or loss	

<sup>1</sup> A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

<sup>2</sup> Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As at December 31, 2017, the Company owns financial assets at fair value through profit or loss of ₩ 35,615,810 thousand, loans and receivables of ₩ 2,218,529,022 thousand and financial assets available-for-sales of ₩ 232,081,802thousand.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Company measured loans and receivables at amortized costs.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As at December 31, 2017, the Company holds debt instruments of ₩ 8,686,144 thousand classified as financial

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assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Company holds equity instruments of ₩ 223,395,658 thousand classified as financial assets available-for-sale.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Company does not hold debt and equity instruments classified as financial assets at fair value through profit or loss.

*(b) Classification and Measurement of Financial Liabilities*

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease. As at December 31, 2017, total financial liabilities is ₩ 101,173 thousand which are designated at fair value through profit or loss.

*(c) Impairment: Financial Assets and Contract Assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

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Stage <sup>1</sup>		Loss allowance
1	No significant increase in credit risk after initial recognition <sup>2</sup>	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

<sup>1</sup> A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

<sup>2</sup> If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2017, the Company owns debt investment carried at amortized cost of ₩ 2,218,529,022 thousand (loans and receivables), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sales, of ₩ 8,686,144 thousand. And, the Company recognized loss allowance of ₩ 8,550,111 thousand for these assets.

*(d) Hedge Accounting*

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

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As at December 31, 2017, the Company applies the hedge accounting to its assets and liabilities amounting to ₩ 1,379,689 thousand and ₩ 87,468,309 thousand, respectively. As at December 31, 2017, the changes in fair values of cash flow hedging instruments recognized in accumulated other comprehensive income amount to ₩ 3,387,650 thousand of loss in valuation, net of tax.

Furthermore, when the Company first applies Korean IFRS 1109, it may choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of Korean IFRS 1039 instead of the requirements of Korean IFRS 1109.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. These amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements because the Company is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or



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receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactments to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets. In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

*Lessee accounting*

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has not yet elected the application method.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Company is analyzing the effects on the financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

*Lessor accounting*

The Company expects the effect on the financial statements applying the new standard will not be

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significant as accounting for the Company, as a lessor, will not significantly change.

**5. Trade and Other Receivables**

Trade and other receivables as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Trade receivables	₩	534,801,394	₩	451,338,379
Other receivables		161,195,863		188,011,059
		<u>695,997,257</u>		<u>639,349,438</u>
Allowance for doubtful accounts		(5,566,133)		(3,531,078)
	₩	<u>690,431,124</u>	₩	<u>635,818,360</u>

**6. Restricted Deposits**

Restricted deposits included in short-term and long-term financial instruments as at December 31, 2017 and 2016, are as follows

<i>(in thousands of Korean won)</i>					
<b>Description</b>	<b>Depositary</b>	<b>2017</b>		<b>2016</b>	
Current:					
Time deposits	HSBC and others	₩	117,261,817	₩	3,052,915
Special deposits	Industrial Bank of Korea and others		109,000,000		109,000,000
Non-current:					
Time deposits	Busan Bank		2,000,386		2,000,217
Special deposits	Shinhan Bank and others		15,500		15,500
Available-for-sale financial assets	Busan City Hall and others		17,823,742		16,423,576
		₩	<u>246,101,445</u>	₩	<u>130,492,208</u>

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**7. Fair Value of Financial Instruments**

Carrying amount and fair value of financial assets as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 1,687,990,453	₩ 1,687,990,453	₩ 882,890,128	₩ 882,890,128
Financial assets at fair value through profit or loss	Current derivative assets held for trading	-	-	1,312,363	1,312,363
	Non-current derivative assets held for trading	35,615,810	35,615,810	15,721,640	15,721,640
		35,615,810	35,615,810	17,034,003	17,034,003
Loans and receivables <sup>1</sup>	Current :				
	Trade and other receivables	690,431,124	690,431,124	635,818,360	635,818,360
	Short-term financial instruments	389,000,000	389,000,000	162,052,915	162,052,915
	Short-term loans	11,500,000	11,500,000	8,000,000	8,000,000
	Accrued income	3,265,727	3,265,727	2,531,214	2,531,214
	Current portion of deposits	120,591,097	120,591,097	86,751,734	86,751,734
	Non-current :				
	Long-term financial instruments	2,000,386	2,000,386	2,000,217	2,000,217
	Opening a checking account deposit	15,500	15,500	15,500	15,500
	Long-term loans	32,500,000	32,500,000	44,000,000	44,000,000
	Deposits	969,225,188	969,225,188	944,011,286	944,011,286
	2,218,529,022	2,218,529,022	1,885,181,226	1,885,181,226	
Available-for-sale financial assets	Marketable equity securities <sup>2</sup>	155,075,734	155,075,734	174,104,665	174,104,665
	Non-marketable equity securities <sup>3</sup>	6,671,906	6,671,906	61,509,822	61,509,822
	Equity securities valued by acquisition cost <sup>4</sup>	61,648,018	61,648,018	80,358,314	80,358,314
	Non-marketable debt securities <sup>5</sup>	8,686,144	8,686,144	8,249,380	8,249,380
		232,081,802	232,081,802	324,222,181	324,222,181
Derivative assets held for hedging	Current	236,515	236,515	29,735,079	29,735,079
	Non-current	1,134,174	1,134,174	40,705,540	40,705,540
		1,370,689	1,370,689	70,440,619	70,440,619
	₩ 4,175,587,776	₩ 4,175,587,776	₩ 3,179,768,157	₩ 3,179,768,157	

<sup>1</sup> Carrying amount is considered as a reasonable approximation of fair value.

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<sup>2</sup> Marketable available-for-sale financial assets traded in the active market are measured at fair value based on the market prices.

<sup>3</sup> Non-marketable 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.

<sup>4</sup> Others are recorded based on acquisition cost because fair value cannot be reliably measured.

<sup>5</sup> Non-marketable 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.

Other financial assets as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Current:		
Short-term financial instruments	₩ 389,000,000	₩ 162,052,915
Short-term loans	11,500,000	8,000,000
Accrued income	3,265,727	2,531,214
Deposits	120,591,097	86,751,734
Derivative assets held for trading	236,515	29,735,079
Derivative assets held for hedging	-	1,312,363
	<u>₩ 524,593,339</u>	<u>₩ 290,383,305</u>
Non-current:		
Long-term financial instruments	₩ 2,000,386	₩ 2,000,217
Opening a checking account deposit	15,500	15,500
Available-for-sale financial assets	232,081,802	324,222,181
Long-term loans	32,500,000	44,000,000
Deposits	969,225,188	944,011,286
Derivative assets held for trading	1,134,174	40,705,540
Derivative assets held for hedging	35,615,810	15,721,640
	<u>₩ 1,272,572,860</u>	<u>₩ 1,370,676,364</u>

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Available-for-sale financial assets as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017				2016	
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount	
<b>Marketable available-for-sale financial assets:</b>						
BNK Financial Group Inc.	8,543,826	2.62%	₩ 56,179,407	₩ 80,482,841	₩	74,160,410
Shinhan Financial Group Co., Ltd.	311,118	0.07%	2,247,354	15,369,229		14,078,090
LOTTE FOOD CO.,LTD. <sup>1</sup>	-	-	-	-		30,619,820
momo.com Inc.	7,319,420	5.15%	35,956,169	57,183,701		53,120,983
Others	-	-	2,734,806	2,039,963		2,125,362
			<u>97,117,736</u>	<u>155,075,734</u>		<u>174,104,665</u>
<b>Non-marketable available-for-sale financial assets:</b>						
LOTTE Logistics Corp. <sup>1</sup>	-	-	-	-		17,729,234
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	65,680	7.76%	22,011,958	6,671,906		13,136,066
Lotte Global Logistics Co.,LTD. (Formerly, Hyundai Logistics Co., Ltd.) <sup>1</sup>	-	-	-	-		25,291,881
Lotte Properties (Shenyang) Limited	29,928,756	17.93%	41,918,952	41,918,952		41,918,952
Investment in government bonds	-	-	9,019,920	8,686,144		8,249,380
Others	-	-	31,456,391	19,729,066		43,792,003
			<u>104,407,221</u>	<u>77,006,068</u>		<u>150,117,516</u>
			<u>₩ 201,524,957</u>	<u>₩ 232,081,802</u>	<u>₩</u>	<u>324,222,181</u>

<sup>1</sup> The available-for-sale financial assets were included in spin-off of the investment division during the year ended December 31, 2017.

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Carrying amount and fair value of financial liabilities as at December 31, 2017 and 2016, are as follows:

		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<i>(in thousands of Korean won)</i>					
Financial liabilities at fair value through profit or loss	Current derivative liabilities held for trading	₩ -	₩ -	₩ 16,676,920	₩ 16,676,920
	Non-current derivative liabilities held for trading	101,173	101,173	11,861,174	11,861,174
		<u>101,173</u>	<u>101,173</u>	<u>28,538,094</u>	<u>28,538,094</u>
Financial liabilities at amortized cost <sup>1</sup>	Current :				
	Trade and other payables	2,722,960,093	2,722,960,093	3,749,301,642	3,749,301,642
	Short-term borrowings	400,000,000	400,000,000	200,000,000	200,000,000
	Current portion of long-term borrowings	94,911,000	94,911,000	99,913,005	99,913,005
	Current portion of long-term debentures	973,625,247	973,625,247	926,268,793	926,268,793
	Accrued expenses	120,165,712	120,165,712	120,564,386	120,564,386
	Current portion of guarantee deposit withheld	196,702,714	196,702,714	203,979,908	203,979,908
	Non-current :				
	Long-term borrowings	249,608,986	249,608,986	103,681,000	103,681,000
	Long-term debentures	2,847,275,835	2,847,275,835	2,985,394,640	2,985,394,640
	Guarantee deposit withheld	37,238,223	37,238,223	40,379,322	40,379,322
	Others	10,400,000	10,400,000	11,700,000	11,700,000
		<u>7,652,887,810</u>	<u>7,652,887,810</u>	<u>8,441,182,696</u>	<u>8,441,182,696</u>
Financial guarantee liabilities	570,574,185	570,574,185	26,882,644	26,882,644	
Other financial liabilities	48,979,023	48,979,023	154,568	154,568	
Derivative liabilities held for hedging	38,489,286	38,489,286	2,177,410	2,177,410	
	<u>87,468,309</u>	<u>87,468,309</u>	<u>2,331,978</u>	<u>2,331,978</u>	
	<u>₩ 8,311,031,477</u>	<u>₩ 8,311,031,477</u>	<u>₩ 8,498,935,412</u>	<u>₩ 8,498,935,412</u>	

<sup>1</sup> Carrying amount is considered as a reasonable approximation of fair value.

**Lotte Shopping Co., Ltd.**  
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Other financial liabilities as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Current:				
Derivative liabilities held for trading	₩	-	₩	16,676,920
Derivative liabilities held for hedging		48,979,023		154,568
Finance guarantee liabilities		570,574,185		26,882,644
Accrued expenses		120,165,712		120,564,386
Guarantee deposit		196,702,714		203,979,908
	₩	<u>936,421,634</u>	₩	<u>368,258,426</u>
Non-current:				
Derivative liabilities held for trading	₩	101,173	₩	11,861,174
Derivative liabilities held for hedging		38,489,286		2,177,410
Guarantee deposit		37,238,223		40,379,322
Other		10,400,000		11,700,000
	₩	<u>86,228,682</u>	₩	<u>66,117,906</u>

*Fair value hierarchy*

The fair value measurements classified by fair value hierarchy as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available-for-sale financial assets	₩ 155,075,734	₩ 8,686,144	₩ 6,671,906	₩ 170,433,784
Derivative assets	-	1,370,689	35,615,810	36,986,499
	<u>₩ 155,075,734</u>	<u>₩ 10,056,833</u>	<u>₩ 42,287,716</u>	<u>₩ 207,420,283</u>
Derivative liabilities	₩ -	₩ 87,468,309	₩ 101,173	₩ 87,569,482
	<u>₩ -</u>	<u>₩ 87,468,309</u>	<u>₩ 101,173</u>	<u>₩ 87,569,482</u>

**Lotte Shopping Co., Ltd.**  
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<i>(in thousands of Korean won)</i>	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available-for-sale financial assets	₩ 174,104,665	₩ 8,249,380	₩ 61,509,822	₩ 243,863,867
Derivative assets	-	70,440,619	17,034,003	87,474,622
	<u>₩ 174,104,665</u>	<u>₩ 78,689,999</u>	<u>₩ 78,543,825</u>	<u>₩ 331,338,489</u>
Derivative liabilities	₩ -	₩ 2,331,978	₩ 28,538,094	₩ 30,870,072
	<u>₩ -</u>	<u>₩ 2,331,978</u>	<u>₩ 28,538,094</u>	<u>₩ 30,870,072</u>

In measuring Level 2 fair values, the Company used Strip & Bootstrapping method, etc. and the Company used the significant observable inputs such as 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 such as forecasted annual revenue growth rate and risk-adjusted discount rate, etc.

*Level 3 Fair values*

Changes in Level 3 fair values for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Beginning balance	₩ 50,005,731	₩ (3,522,031)
Transfer Level 3	-	-
Total profit or loss	20,276,201	27,079,495
Amount recognized in profit or loss	20,103,819	23,215,622
Amount recognized in other comprehensive income	172,382	3,863,873
Purchases	1,111,708	26,448,267
Disposal, etc.	(29,207,097)	-
Ending balance	<u>₩ 42,186,543</u>	<u>₩ 50,005,731</u>

*Sensitivity analysis*

For the fair values of Level 3 financial instruments, reasonably possible changes as at December 31, 2017, to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values.



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(i) Equity securities

<i>(in thousands of Korean won)</i>	Discount rate		Terminal growth rate	
	1% Decrease	1% Increase	0.5% Increase	1% Increase
Available-for-sale financial assets	₩ 641,365	₩ (541,597)	₩ 222,130	₩ 464,358

(ii) Stock options (liability-classified)

<i>(in thousands of Korean won)</i>	Discount rate		Stock price volatility	
	10% Decrease	10% Increase	1% Decrease	1% Increase
Stock options	₩ 48,917	₩ (48,881)	- ₩	-

**8. Inventories**

Inventories as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017			2016		
	Acquisition cost	Valuation allowance	Book amount	Acquisition cost	Valuation allowance	Book amount
Merchandise <sup>1</sup>	₩ 514,287,262	₩ (20,930,848)	₩ 493,356,414	₩ 2,032,652,953	₩ (21,192,752)	₩ 2,011,460,201
Finished goods	103,366	-	103,366	84,194	-	84,194
Supplies	252,134	-	252,134	148,137	-	148,137
Materials-in-transit	1,127,635	-	1,127,635	3,469,386	-	3,469,386
	₩ 515,770,397	₩ (20,930,848)	₩ 494,839,549	₩ 2,036,354,670	₩ (21,192,752)	₩ 2,015,161,918

<sup>1</sup> Inventories expected to be returned of ₩581,958 thousand are included.

For the years ended December 31, 2017 and 2016, the amount of inventories recognized as cost of goods sold and changes of allowance for valuation losses of inventories are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Cost of goods sold:		
- Amount of inventories recognized as cost of goods sold	₩ 4,970,109,377	₩ 10,371,765,142
- Increase(decrease) in valuation allowance of inventories	(261,904)	3,880,794

**Lotte Shopping Co., Ltd.**  
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**9. Other Non-financial Assets**

Other non-financial assets as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Current:		
Advance payments	₩ 6,740,002	₩ 10,418,729
Prepaid expenses	71,124,268	62,020,891
	<u>77,864,270</u>	<u>72,439,620</u>
Non-current:		
Long-term advance payments	96,111,001	217,236,937
Long-term prepaid expenses	492,062,315	569,306,457
	<u>588,173,316</u>	<u>786,543,394</u>
	<u>₩ 666,037,586</u>	<u>₩ 858,983,014</u>

**10. Investments in Associates**

The details of associates as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>			
<b>Name of entity</b>	<b>Location</b>	<b>Major operation</b>	<b>Percentage of ownership (%)</b>	<b>Book amount</b>
Lotte Station Building Co., Ltd. <sup>1,3</sup>	Korea	Distribution	-	₩ -
Daehong Communications Co., Ltd. <sup>3</sup>	Korea	Advertisement agency	-	-
Lotte Capital Co., Ltd. <sup>3</sup>	Korea	Capital	-	-
LotteGRS Co., Ltd. (Formerly, Lotteria Co., Ltd.) <sup>3</sup>	Korea	Restaurant chain	-	-
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	24,826,942
Lotte Asset Development Co., Ltd. <sup>3</sup>	Korea	Real estate development	-	-
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,105,746
LOTTE Giants Co., Ltd. <sup>3</sup>	Korea	Baseball club	-	-
Lotte Europe Holdings B.V. <sup>1</sup>	Netherlands	Holding company	26.98	72,379,532
Coralis S.A. <sup>1</sup>	Luxembourg	Holding company	45.00	54,594,863
S.M.CONTENTES INVESTMENT	Korea	Film producing company	-	-
Capital One Diversity Cinema Fund	Korea	Film producing company	-	-
UNION INVESTMENT PARTNERS <sup>1</sup>	Korea	Film producing company	26.67	2,348,255
Capital One Middle-Low Budget Cinema Fund <sup>1</sup>	Korea	Film producing company	25.00	173,847
Hubei XL Cinema Co., Ltd. <sup>1</sup>	China	Cinema	49.00	8,141,771
Hemisphere Film Investors II LLC <sup>2</sup>	America	Film producing	100.00	15,629,028

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TW No.14 Culture Contents Fund <sup>1</sup>	Korea	company Film producing company	30.00	3,781,745
Leading Asia Contents Fund <sup>1</sup>	Korea	Film producing company	21.01	2,248,951
Shandong Longzhile Cinema Co., Ltd. <sup>1</sup>	China	Cinema	49.00	6,288,816
Lotte Incheon Development Co., Ltd. <sup>3</sup>	Korea	Real estate lease	-	-
Lotte Trading Co., Ltd. <sup>3</sup>	Korea	Product brokerage	-	-
Eunpyeong PFV	Korea	Real estate development	20.11	3,500,000
Lotte Incheon Town Co., Ltd. <sup>3</sup>	Korea	Real estate lease	-	-
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00	35,000,000
Lotte Accelerator Corporation <sup>3</sup>	Korea	Business consulting	-	-
BUSAN-LOTTE CREATIVE FILM FUND	Korea	Film producing company	47.62	6,000,000
IBK-ISU Contents Fund	Korea	Film producing company	35.00	2,800,000
CapitalOne Lotte-iMBC Contents Fund	Korea	Film producing company	49.98	3,000,000
				₩ 256,819,496

(in thousands of Korean won)

Name of entity	Location	Major operation	2016	
			Percentage of ownership (%)	Book amount
Lotte Station Building Co., Ltd. <sup>1,3</sup>	Korea	Distribution	25.00	₩ 157,380,026
Daehong Communications Co., Ltd. <sup>3</sup>	Korea	Advertisement agency	34.00	28,784,692
Lotte Capital Co., Ltd. <sup>3</sup>	Korea	Capital	22.36	77,412,668
LotteGRS Co., Ltd. (Formerly, Lotteria Co., Ltd.) <sup>3</sup>	Korea	Restaurant chain	38.68	112,864,136
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	24,826,942
Lotte Asset Development Co., Ltd. <sup>3</sup>	Korea	Real estate development	39.14	72,889,835
Zara Retail Korea Co., Ltd.	Korea	Retail	20.00	16,105,746
LOTTE Giants Co., Ltd. <sup>3</sup>	Korea	Baseball club	30.00	9,823,193
Lotte Europe Holdings B.V. <sup>1</sup>	Netherlands	Holding company	26.98	73,633,125
Coralis S.A. <sup>1</sup>	Luxembourg	Holding company	45.00	59,605,312
S.M.CONTENTS INVESTMENT	Korea	Film producing company	25.00	250,000
Capital One Diversity Cinema Fund	Korea	Film producing company	20.00	284,268
UNION INVESTMENT PARTNERS <sup>1</sup>	Korea	Film producing company	26.67	4,000,000
Capital One Middle-Low Budget Cinema Fund <sup>1</sup>	Korea	Film producing company	25.00	1,650,000
Hubei XL Cinema Co., Ltd. <sup>1</sup>	China	Cinema	49.00	9,423,339
Hemisphere Film Investors II LLC <sup>2</sup>	America	Film producing	100.00	16,361,805

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TW No.14 Culture Contents Fund <sup>1</sup>	Korea	company Film producing company	30.00	6,000,000
Leading Asia Contents Fund <sup>1</sup>	Korea	Film producing company	21.01	4,000,000
Shandong Longzhile Cinema Co., Ltd. <sup>1</sup>	China	Cinema	49.00	8,057,195
Lotte Incheon Development Co., Ltd. <sup>3</sup>	Korea	Real estate lease	37.50	15,000,000
Lotte Trading Co., Ltd. <sup>3</sup>	Korea	Product brokerage	27.68	92,781,834
Eunpyeong PFV	Korea	Real estate development	20.11	3,500,000
Lotte Incheon Town Co., Ltd. <sup>3</sup>	Korea	Real estate lease	35.00	3,500,005
LOTTE Town Dongtan Co.,LTD	Korea	Real estate development	50.00	35,000,000
Lotte Accelerator Corporation <sup>3</sup>	Korea	Business consulting	16.67	2,500,000
BUSAN-LOTTE CREATIVE FILM FUND	Korea	Film producing company	47.62	6,000,000
IBK-ISU Contents Fund	Korea	Film producing company	35.00	1,750,000
CapitalOne Lotte-iMBC Contents Fund	Korea	Film producing company	49.98	1,500,000
				<u>₩ 844,884,121</u>

<sup>1</sup> The Company performed an impairment test for the investee companies using recoverable amount based on external valuation agency, as a result of the impairment test, the Company recognized impairment loss for the years ended December 31, 2017 and 2016, as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Lotte Station Building Co., Ltd.	₩	76,061,311	₩	-
Lotte Europe Holdings B.V.		1,253,594		13,870,851
Coralis S.A.		5,010,449		-
UNION INVESTMENT PARTNERS		1,651,745		-
Capital One Middle-Low Budget Cinema Fund		1,001,153		-
Hubei XL Cinema Co., Ltd.		1,281,569		-
TW No.14 Culture Contents Fund		2,218,255		-
Leading Asia Contents Fund		1,751,049		-
Shandong Longzhile Cinema Co., Ltd.		1,768,379		-
	<u>₩</u>	<u>91,997,504</u>	<u>₩</u>	<u>13,870,851</u>

<sup>2</sup> 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.

<sup>3</sup> The investments in associates were included in spin-off of the investment division during the year ended December 31, 2017.

**Lotte Shopping Co., Ltd.**  
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**11. Investments in Joint Ventures**

When the Company has rights to the net assets of the joint venture entity, the Company classifies the investment in entity as a joint venture. The details of joint ventures as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

Name of entity	Location	Major operation	2017	
			Percentage of ownership (%)	Book amount
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ -
Shenyang SL Cinema Investment Management Co., Ltd. <sup>1</sup>	China	Cinema	49.00	688,646
STL Co., Limited	Korea	Import and selling of clothing	50.00	4,000,000
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	Vietnam	Movie investment and distribution	51.00	173,930
				₩ 4,862,576

*(in thousands of Korean won)*

Name of entity	Location	Major operation	2016	
			Percentage of ownership (%)	Book amount
D-Cinema of Korea Co., Ltd.	Korea	Film equipment	50.00	₩ -
Shenyang SL Cinema Investment Management Co., Ltd. <sup>1</sup>	China	Cinema	49.00	1,496,002
STL Co., Limited	Korea	Import and selling of clothing	50.00	4,000,000
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	Vietnam	Movie investment and distribution	-	-
				₩ 5,496,002

<sup>1</sup> The Company performed an impairment test for the investee companies, as a result of the impairment test, the Company recognized impairment loss for the years ended December 31, 2017 and 2016, as follows:

*(in thousands of Korean won)*

	2017		2016	
	₩		₩	
Shenyang SL Cinema Investment Management Co., Ltd.	₩	807,356	₩	-

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**12. Investments in Subsidiaries**

The details of subsidiaries as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

Name of entity	Location	Major operation	2017	
			Percentage of ownership (%)	Book amount
Lotte Card Co., Ltd. <sup>4</sup>	Korea	Credit card, financing	-	₩ -
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	393,213,074
Korea Seven Co.,Ltd. <sup>4</sup>	Korea	Distribution	-	-
Lotte Gimhae Development Co., Ltd.	Korea	Service company	100.00	300,000
Lotte Suwon Station Shopping Town Co., Ltd. <sup>3</sup>	Korea	Real estate development	95.00	89,418,772
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	56.30	60,000,000
NCF Co., Ltd.	Korea	Apparel manufacturing and selling	99.80	20,058,653
CS Mart Co., Ltd. <sup>3</sup>	Korea	Distribution	99.95	212,741,024
LOTTE Himart Co., Ltd. <sup>2</sup>	Korea	Consumer electronics retail	65.25	1,248,068,468
Lotte Department Store Masan Co., LTD. <sup>3</sup>	Korea	Distribution	100.00	5,721,101
Lotte Members Co., Ltd <sup>4</sup>	Korea	Business support service	-	-
LOTTE.COM INC <sup>4</sup>	Korea	E-commerce business	-	-
Lotte Shopping Holdings (Hong Kong) Co., Ltd. <sup>3</sup>	Hong Kong	Holding company	100.00	9,001,948
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. <sup>3</sup>	Singapore	Holding company	100.00	444,878,740
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	20.63	-
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	90.00	29,596,472
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	73.46	160,391,209
Lotte (China) Management Co., Ltd. <sup>3</sup>	China	Managing company	70.00	3,495,160
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	20.00	14,185,072
LHSC Limited <sup>3</sup>	Cayman Islands	Holding company	17.58	-
LOTTE Ulsan Development	Korea	Real estate development	94.84	23,900,000
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00	127,420,700
Lotte Cinema Co., Ltd.	Korea	Cinema	100.00	500,000
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	99.98	4,346,193
				₩ 2,847,236,586

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(in thousands of Korean won)

Name of entity	Location	Major operation	2016	
			Percentage of ownership (%)	Book amount
Lotte Card Co., Ltd. <sup>4</sup>	Korea	Credit card, financing	93.78	₩ 1,000,089,416
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	53.03	393,213,074
Korea Seven Co.,Ltd. <sup>4</sup>	Korea	Distribution	51.14	82,473,151
Lotte Gimhae Development Co., Ltd.	Korea	Service company	100.00	300,000
Lotte Suwon Station Shopping Town Co., Ltd. <sup>3</sup>	Korea	Real estate development	95.00	94,810,000
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	56.30	60,000,000
NCF Co., Ltd.	Korea	Apparel manufacturing and selling	99.80	20,058,653
CS Mart Co., Ltd. <sup>3</sup>	Korea	Distribution	99.95	255,825,924
LOTTE Himart Co., Ltd. <sup>2</sup>	Korea	Consumer electronics retail	65.25	1,248,068,468
Lotte Department Store Masan Co., LTD. <sup>3</sup>	Korea	Distribution	100.00	14,680,000
Lotte Members Co., Ltd <sup>4</sup>	Korea	Business support service	93.88	36,446,920
LOTTE.COM INC <sup>4</sup>	Korea	E-commerce business	50.01	23,177,384
Lotte Shopping Holdings (Hong Kong) Co., Ltd. <sup>3</sup>	Hong Kong	Holding company	100.00	241,807,633
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD. <sup>3</sup>	Singapore	Holding company	100.00	596,409,348
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	23.36	-
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	90.00	29,596,472
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	73.46	160,391,209
Lotte (China) Management Co., Ltd. <sup>3</sup>	China	Managing company	70.00	6,231,689
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	20.00	14,185,072
LHSC Limited <sup>3</sup>	Cayman Islands	Holding company	16.02	-
LOTTE Ulsan Development	Korea	Real estate development	94.84	23,900,000
LOTTE PROPERTIES HANOI (SINGAPORE) PTE. LTD.	Singapore	Holding company	80.00	127,420,700
Lotte Cinema Co., Ltd.	Korea	Cinema	-	-
PT. LOTTE CINEMA INDONESIA	Indonesia	Cinema	-	-
				₩ 4,429,085,113

<sup>1</sup> 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.

<sup>2</sup> During 2013, the Company issued exchangeable bonds which are exchangeable to ordinary 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. Therefore, the total number of the

**Lotte Shopping Co., Ltd.**  
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exchangeable ordinary shares for the issued bond is changed from 3,538,224 to 152,016 shares. If all exchangeable bonds are exchanged to the ordinary shares 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%.

<sup>3</sup> The Company performed an impairment test for the investee companies using recoverable amount based on external valuation agency, as a result of the impairment test, the Company recognized impairment loss for the years ended December 31, 2017 and 2016, as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Lotte Suwon Station Shopping Town Co., Ltd.	₩	5,391,228	₩	-
CS Mart Co., Ltd.		43,084,900		-
Lotte Department Store Masan Co., LTD.		8,958,899		1,820,000
Lotte Shopping Holdings (Hong Kong) Co., Ltd.		511,033,005		216,792,880
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		178,880,805		50,497,510
Lotte (China) Management Co., Ltd.		2,736,528		-
LHSC Limited		9,303,436		-
	₩	<u>759,388,801</u>	₩	<u>269,110,390</u>

<sup>4</sup> The investments in subsidiaries were included in spin-off of the investment division during the year ended December 31, 2017.

The fair value of marketable shares in subsidiaries as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
LOTTE Himart Co., Ltd.	₩	1,061,285,579	₩	650,018,163



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**13. Property and Equipment**

Details of property and equipment as at December 31, 2017 and 2016, are as follows:

*(in thousands of  
Korean won)*

	<b>2017</b>			
	<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book amount</b>
Land	₩ 7,232,377,656	₩ -	₩ -	₩ 7,232,377,656
Buildings	6,363,308,570	(2,179,379,223)	(11,809)	4,183,917,538
Structures	328,209,532	(113,956,449)	(3,264,653)	210,988,430
Machinery	99,447,874	(58,021,980)	(1,108,845)	40,317,049
Vehicles	5,214,094	(4,165,946)	(198,424)	849,724
Display fixtures	262,304,537	(196,078,202)	(1,918,944)	64,307,391
Furniture and fixtures	3,307,412,838	(2,528,548,191)	(93,828,862)	685,035,785
Tools and equipment	483,649	(483,629)	-	20
Construction-in-progress	715,949,949	-	-	715,949,949
	<u>₩ 18,314,708,699</u>	<u>₩ (5,080,633,620)</u>	<u>₩ (100,331,537)</u>	<u>₩ 13,133,743,542</u>

*(in thousands of  
Korean won)*

	<b>2016</b>			
	<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book amount</b>
Land	₩ 7,610,672,922	₩ -	₩ -	₩ 7,610,672,922
Buildings	6,214,795,270	(2,057,747,710)	-	4,157,047,560
Structures	337,553,999	(111,707,067)	(2,959,054)	222,887,878
Machinery	95,811,151	(50,130,840)	(761,862)	44,918,449
Vehicles	5,148,267	(3,778,887)	(109,500)	1,259,880
Display fixtures	244,726,485	(169,805,698)	-	74,920,787
Furniture and fixtures	3,088,248,985	(2,292,880,789)	(34,378,168)	760,990,028
Tools and equipment	483,649	(483,629)	-	20
Construction-in-progress	743,240,360	-	-	743,240,360
	<u>₩ 18,340,681,088</u>	<u>₩ (4,686,534,620)</u>	<u>₩ (38,208,584)</u>	<u>₩ 13,615,937,884</u>

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Changes in property and equipment for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of  
Korean won)

	2017						Ending book amount
	Beginning book amount	Acquisitions	Depreciation	Impairment	Disposals	Others <sup>1</sup>	
Land	₩ 7,610,672,922	₩ 6,893,906	₩ -	₩ -	₩ (14,882,645)	₩ (370,306,527)	₩7,232,377,656
Buildings	4,157,047,560	7,508,127	(167,911,225)	(11,809)	(6,281,932)	193,566,817	4,183,917,538
Structures	222,887,878	161,016	(12,863,298)	(305,599)	(3)	1,108,436	210,988,430
Machinery	44,918,449	3,342,266	(8,334,017)	(346,984)	(8,904)	746,239	40,317,049
Vehicles	1,259,880	221,579	(539,817)	(88,924)	(2,994)	-	849,724
Display fixtures	74,920,787	14,062,128	(27,927,498)	(1,918,944)	(110,412)	5,281,330	64,307,391
Furniture and fixtures	760,990,028	122,468,282	(301,308,697)	(59,450,693)	(5,684,554)	168,021,419	685,035,785
Tools and equipment	20	-	-	-	-	-	20
Construction-in- progress	743,240,360	458,913,352	-	-	(3,511,542)	(482,692,221)	715,949,949
	<u>₩13,615,937,884</u>	<u>₩613,570,656</u>	<u>₩ (518,884,552)</u>	<u>₩ (62,122,953)</u>	<u>₩ (30,482,986)</u>	<u>₩ (484,274,507)</u>	<u>₩13,133,743,542</u>

<sup>1</sup> Others include reclassifications of construction-in-progress to intangible assets, change in acquisition costs recognized in 2016 and others.

(in thousands of  
Korean won)

	2016						Ending book amount
	Beginning book amount	Acquisitions	Depreciation	Impairment	Disposals	Others <sup>1</sup>	
Land	₩ 7,608,263,068	6,974,433	₩ -	₩ -	₩ (8,668,938)	₩ 4,104,359	₩ 7,610,672,922
Buildings	4,175,134,921	4,649,988	(160,852,875)	-	(3,800,637)	141,916,163	4,157,047,560
Structures	239,079,557	495,553	(14,151,559)	(2,959,054)	(130,335)	553,716	222,887,878
Machinery	47,022,796	6,214,435	(8,046,112)	(381,773)	(16,881)	125,984	44,918,449
Vehicles	1,910,726	237,837	(660,667)	(59,019)	(169,002)	5	1,259,880
Display fixtures	69,746,026	30,569,404	(25,135,528)	-	(770,407)	511,292	74,920,787
Furniture and fixtures	806,340,775	147,595,862	(325,469,677)	(29,113,562)	(4,535,291)	166,171,921	760,990,028
Tools and equipment	20	-	-	-	-	-	20
Construction-in- progress	524,099,358	546,268,228	-	-	(21,282,125)	(305,845,101)	743,240,360
	<u>₩13,471,597,247</u>	<u>₩743,005,740</u>	<u>₩ (534,316,418)</u>	<u>₩ (32,513,408)</u>	<u>₩ (39,373,616)</u>	<u>₩ 7,538,339</u>	<u>₩13,615,937,884</u>

<sup>1</sup> Others include reclassifications of construction-in-progress to intangible assets, change in acquisition costs recognized in 2015 and others.

**Lotte Shopping Co., Ltd.**  
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The CGUs of whole business divisions which had events indicating that they might be impaired, were tested for impairment, and the impairment loss for the years ended December 31, 2017 and 2016, are recognized as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Impairment loss on property and equipment	₩	62,122,953	₩	32,513,408
Impairment loss on intangible assets		69,220,096		41,318,475
Impairment loss on goodwill		168,168,191		85,713,776
Impairment loss on other non-current assets		28,000,742		11,559,210
	₩	<u>327,511,982</u>	₩	<u>171,104,869</u>

(\*) The valuation method and discount rate used to calculate the recoverable amount of CGUs indicating potential impairment are the same as those applied when calculating the recoverable amount of CGUs with goodwill.

Pledged property and equipment provided by the Company as at December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Book amount</b>	<b>Guaranteed amount</b>	<b>Reason for offer</b>	<b>Guarantee recipient</b>
Buildings	₩ 72,485,092	₩ 51,638,884	Provisional attachment of land	Shinhan Bank and others
Land	64,502,500	2,158,419	Security for lease deposit	Korea Environmental Industry&Technology Institute and others

The capitalized borrowing costs and capitalization interest rates for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Capitalized borrowing costs	₩	4,227,376	₩	66,365
Capitalization interest rates		2.24%		2.59%

**Lotte Shopping Co., Ltd.**  
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**14. Investment Property**

Investment property as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			2016		
	Acquisition cost	Accumulated depreciation	Book amount	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 430,386,217	₩ -	₩ 430,386,217	₩ 229,834,473	₩ -	₩ 229,834,473
Buildings	384,916,781	(56,629,837)	328,286,944	114,776,602	(47,458,348)	67,318,254
	<u>₩ 815,302,998</u>	<u>₩ (56,629,837)</u>	<u>₩ 758,673,161</u>	<u>₩ 344,611,075</u>	<u>₩ (47,458,348)</u>	<u>₩ 297,152,727</u>

Changes in investment property for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017					
	Beginning balance	Acquisitions	Depreciation	Disposal	Others	Ending balance
Land	₩ 229,834,473	₩ -	₩ -	₩ -	₩ 200,551,744	₩ 430,386,217
Buildings	67,318,254	-	(3,789,151)	-	264,757,841	328,286,944
	<u>₩ 297,152,727</u>	<u>₩ -</u>	<u>₩ (3,789,151)</u>	<u>₩ -</u>	<u>₩ 465,309,585</u>	<u>₩ 758,673,161</u>

(in thousands of Korean won)

	2016					
	Beginning balance	Acquisitions	Depreciation	Disposal	Others	Ending balance
Land	₩ 208,942,452	₩ -	₩ -	₩ -	₩ 20,892,021	₩ 229,834,473
Buildings	80,511,244	-	(2,785,608)	-	(10,407,382)	67,318,254
	<u>₩ 289,453,696</u>	<u>₩ -</u>	<u>₩ (2,785,608)</u>	<u>₩ -</u>	<u>₩ 10,484,639</u>	<u>₩ 297,152,727</u>

**Income and expense from investment property**

The details of income and expense from investment property for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Rental income	₩ 38,819,220	₩ 23,811,128
Direct operating expense (including maintenance and repair expenses)	13,885,990	9,014,599

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Fair value of investment property as at December 31, 2017, is as follows:

<i>(in thousands of Korean won)</i>	<b>Book amount</b>	<b>Fair value</b>
Land and buildings	₩ 758,673,161	₩ 940,745,981

**15. Goodwill and Intangible Assets**

Intangible assets as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>				<b>2016</b>			
	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book amount</b>	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book amount</b>
Goodwill	₩ 635,720,932	₩ -	₩ (406,153,246)	₩229,567,686	₩ 641,729,298	₩ -	₩ (241,696,954)	₩400,032,344
Industrial property rights	6,864,306	(5,592,566)	(69,896)	1,201,844	6,503,959	(5,058,159)	-	1,445,800
Rights to use facility	525,847,824	(193,952,476)	(110,220,904)	221,674,444	525,064,061	(170,940,620)	(41,320,703)	312,802,738
Membership	17,799,894	-	-	17,799,894	16,259,795	-	-	16,259,795
Other intangible assets	279,845,391	(266,612,498)	(410,360)	12,822,533	233,432,633	(227,471,819)	(160,360)	5,800,454
	<u>₩1,466,078,347</u>	<u>₩ (466,157,540)</u>	<u>₩ (516,854,406)</u>	<u>₩483,066,401</u>	<u>₩1,422,989,746</u>	<u>₩ (403,470,598)</u>	<u>₩ (283,178,017)</u>	<u>₩736,341,131</u>

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>							<b>Closing net book amount</b>
	<b>Beginning balance</b>	<b>Acquisitions</b>	<b>Amortization</b>	<b>Impairment</b>	<b>Disposals</b>	<b>Others</b>	<b>Others</b>	
Goodwill	₩ 400,032,344	₩ -	₩ -	₩ (168,168,191)	₩ (251,467)	₩ (2,045,000)	₩ 229,567,686	
Industrial property rights	1,445,800	389,140	(563,505)	(69,895)	-	304	1,201,844	
Rights to use facility	312,802,738	-	(23,011,856)	(68,900,201)	-	783,763	221,674,444	
Membership	16,259,795	1,540,099	-	-	-	-	17,799,894	
Other intangible assets	5,800,454	44,237,757	(39,140,678)	(250,000)	-	2,175,000	12,822,533	
	<u>₩ 736,341,131</u>	<u>₩ 46,166,996</u>	<u>₩ (62,716,039)</u>	<u>₩ (237,388,287)</u>	<u>₩ (251,467)</u>	<u>₩ 914,067</u>	<u>₩ 483,066,401</u>	

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**Notes to the Separate Financial Statements**  
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(in thousands of  
Korean won)

	2016							Closing net book amount
	Beginning balance	Acquisitions	Amortization	Impairment	Disposals	Others		
Goodwill	₩ 484,277,463	₩ 1,125,000	₩ -	₩ (85,713,776)	₩ (186,444)	₩ 530,101	₩ 400,032,344	
Industrial property rights	971,375	1,129,452	(655,027)	-	-	-	1,445,800	
Rights to use facility	379,966,367	484,741	(26,514,272)	(41,318,475)	-	184,377	312,802,738	
Membership	16,259,795	-	-	-	-	-	16,259,795	
Other intangible assets	13,423,775	34,411,166	(42,034,487)	-	-	-	5,800,454	
	<u>₩ 894,898,775</u>	<u>₩ 37,150,359</u>	<u>₩ (69,203,786)</u>	<u>₩ (127,032,251)</u>	<u>₩ (186,444)</u>	<u>₩ 714,478</u>	<u>₩ 736,341,131</u>	

**Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to CGUs which are expected to create synergy within the Company.

Details of the goodwill allocated to the Company of cash-generating units as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017	2016
Department stores	₩ 192,828,162	₩ 192,828,162
Discount stores	2,292,533	158,553,386
Supermarket	34,359,351	41,042,308
Other	87,640	7,608,488
	<u>₩ 229,567,686</u>	<u>₩ 400,032,344</u>

The recoverable amount of the part of cash-generating units in department stores, discount stores, supermarkets and others was less than the book amount of the cash-generating units, therefore an impairment loss was recognized.

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The impairment losses and recoverable amounts of the impaired cash-generating units for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Impairment losses	Recoverable amounts	Impairment losses	Recoverable amounts
Discount stores	₩ 156,260,853	₩ 353,669,149	₩ 83,311,406	₩ 539,789,726
Supermarkets	6,431,490	-	2,402,370	1,448,482
Others	5,475,848	29,865,226	-	-
	<u>₩ 168,168,191</u>	<u>₩ 383,534,375</u>	<u>₩ 85,713,776</u>	<u>₩ 541,238,208</u>

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

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.
- The annual revenue growth rate for the five-year period in the future was estimated based on an analysis of past revenue growth rates and GDP growth rates estimated by external agencies. The revenues after the five-year period are assumed to grow constantly at 1% (2016: 1%).
- 7.17% ~ 7.31% of weighted average cost of capital in 2017 (2016: 5.87%) was applied as the discount rate in determining recoverable amount of cash-generating units.

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Company. As at December 31, 2017, as a result of impairment testing, recoverable amounts of the cash-generating units exceeded its book amount, except for some of discount stores, supermarkets and others.

**16. Trade and Other Payables**

Details of trade and other payables as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Trade payables	₩ 1,649,516,005	₩ 2,708,172,640
Other payables	1,073,444,088	1,041,129,002
	<u>₩ 2,722,960,093</u>	<u>₩ 3,749,301,642</u>

**Lotte Shopping Co., Ltd.**  
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**17. Borrowings and Debentures**

Borrowings and debentures as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>		<b>2017</b>	<b>2016</b>
Current:			
Short-term borrowings	₩	400,000,000	200,000,000
Current portion of long-term borrowings		94,911,000	100,000,000
Current portion of discount on long-term borrowings		-	(86,995)
Current portion of long-term debentures		973,780,000	927,200,000
Current portion of discount on debentures		(127,693)	(493,546)
Exchange rights adjustment		(27,060)	(437,661)
		<u>1,468,536,247</u>	<u>1,226,181,798</u>
Non-current:			
Long-term borrowings		250,000,000	103,681,000
Discount on long-term borrowings		(391,014)	-
Long-term debentures		2,851,420,000	2,988,500,000
Discount on debentures		(4,144,165)	(3,105,360)
		<u>3,096,884,821</u>	<u>3,089,075,640</u>
	₩	<u>4,565,421,068</u>	<u>4,315,257,438</u>

Short-term borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>					
<b>Lender</b>	<b>Annual interest rate (%)</b>		<b>2017</b>		<b>2016</b>
Shinhan Bank	CD(91)+0.34	₩	200,000,000	₩	200,000,000
KB Securities Co., Ltd.	1.73		50,000,000		-
KTB Investment & Securities Co., Ltd.	1.75		50,000,000		-
Samsung Securities Co., Ltd.	1.76		50,000,000		-
Samsung Securities Co., Ltd.	1.75		50,000,000		-
		₩	<u>400,000,000</u>	₩	<u>200,000,000</u>



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Long-term borrowings as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

Description	Annual interest rate (%)	Maturity		2017		2016
Lotte Co., Ltd. (Japan) and others	3M Tibor +1.129	Aug. 31, 2018	₩	94,911,000	₩	103,681,000
Mizuho Corporate Bank, Ltd. and others	1.98	Mar. 15, 2019		100,000,000		100,000,000
DB Financial Investment Co., Ltd.	2.46	Dec. 15, 2020		150,000,000		-
				<u>344,911,000</u>		<u>203,681,000</u>
Less: Discount on borrowings				<u>(391,014)</u>		<u>(86,995)</u>
				344,519,986		203,594,005
Less: Current portion of long-term borrowings, net of discount				<u>(94,911,000)</u>		<u>(99,913,005)</u>
			₩	<u>249,608,986</u>	₩	<u>103,681,000</u>

Debentures as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

Description	Maturity	Annual interest rate (%)		2017		2016
59-2nd placed	-	-	₩	-	₩	230,000,000
59-3rd placed	Aug. 07, 2019	3.33		200,000,000		200,000,000
61th placed	Mar. 21, 2018	3.05		100,000,000		100,000,000
62th placed	June. 21, 2018	2.80		110,000,000		110,000,000
63-1st placed	-	-		-		200,000,000
63-2nd placed	July. 02, 2019	3.08		200,000,000		200,000,000
64-1st placed (foreign currency)	May 25, 2018	3M USD Libor+0.50		160,710,000		181,275,000
64-2nd placed (foreign currency)	May 25, 2018	3M USD Libor		107,140,000		120,850,000
64-3rd placed (foreign currency)	May 25, 2018	3M USD Libor+0.02		107,140,000		120,850,000
65-1st placed	Mar. 03, 2020	2.26		160,000,000		160,000,000
65-2nd placed	Mar. 04, 2022	2.45		240,000,000		240,000,000
66-1st placed	June. 23, 2020	2.40		130,000,000		130,000,000
66-2nd placed	June. 23, 2022	2.64		50,000,000		50,000,000
66-3rd placed	June. 23, 2025	2.98		140,000,000		140,000,000
67-1st placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.60		160,710,000		181,275,000
67-2nd placed (foreign currency)	Aug. 17, 2018	3M USD Libor+0.02		107,140,000		120,850,000
67-3rd placed (foreign currency)	Aug. 06, 2018	3M USD Libor+0.60		107,140,000		120,850,000
68th placed	July. 31, 2020	2.40		110,000,000		110,000,000
69-1st placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.55		107,140,000		120,850,000

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69-2nd placed (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02	107,140,000	120,850,000
70-1st placed	Apr. 04, 2019	1.77	100,000,000	100,000,000
70-2nd placed	Apr. 04, 2021	2.02	170,000,000	170,000,000
70-3rd placed	Apr. 04, 2026	2.48	70,000,000	70,000,000
71st placed (foreign currency)	Nov. 29, 2019	1M USD Libor	107,140,000	120,850,000
72-1st placed	Jan. 23, 2020	1.94	240,000,000	-
72-2nd placed	Jan. 23, 2022	2.36	160,000,000	-
73-1st placed	Jun. 15, 2020	2.11	110,000,000	-
73-2nd placed	Jun. 15, 2022	2.50	150,000,000	-
73-3rd placed	Jun. 15, 2024	2.69	100,000,000	-
74th placed	Jun. 29, 2022	2.48	50,000,000	-
75th placed	Aug. 07, 2024	2.74	150,000,000	-
2nd placed (Global bond)	-	-	-	483,400,000
Exchangeable bonds <sup>1</sup>	Jan. 24, 2018	-	13,800,000	13,800,000
			3,825,200,000	3,915,700,000
Less: Discount on debentures			(4,271,858)	(3,598,906)
Less: Exchange rights adjustment			(27,060)	(437,661)
			3,820,901,082	3,911,663,433
Less: Current portion of debentures, net of discount			(973,625,247)	(926,268,793)
			₩ 2,847,275,835	₩ 2,985,394,640

<sup>1</sup> The Company issued five-year exchangeable 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.

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The terms and conditions are 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.                                      |  |
| 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. After the thrid 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, 2013) and 30 business days to the maturity date; |  |
| ii. If the balance of bonds that has not been redeemed reaches less than 10% of the sum of the total issued amount (clean up call); or  |  |
| iii. Any additional tax burden arises due to the amendments of the related laws and regulations.  |  |
| (h) Matters relating to exchange:   |  |
| i. Exchange ratio (%):  | 100  |
| ii. Exchange price (KRW per share):   | 90,780   |
| iii. Type of shares to be issued following exchange:  | Ordinary 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.                                      |  |

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Annual repayment schedule of long-term borrowings and debentures as at December 31, 2017, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>		
	<b>Long-term borrowings</b>	<b>Debentures</b>	<b>Total</b>
2018.01.01 ~ 2018.12.31	₩ 94,911,000	₩ 973,780,000	₩ 1,068,691,000
2019.01.01 ~ 2019.12.31	100,000,000	821,420,000	921,420,000
2020.01.01 ~ 2020.12.31	150,000,000	750,000,000	900,000,000
2021.01.01 ~ 2021.12.31	-	170,000,000	170,000,000
2022.01.01 and there after	-	1,110,000,000	1,110,000,000
	<u>₩ 344,911,000</u>	<u>₩ 3,825,200,000</u>	<u>₩ 4,170,111,000</u>

**18. Unearned Revenues**

The details of unearned revenues as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>	<b>2016</b>
Current:		
Other points	₩ 50,104,020	₩ 50,873,730
Unearned rental income	2,203,880	1,727,293
Others	71,962,343	3,847,761
	<u>124,270,243</u>	<u>56,448,784</u>
Non-current:		
Unearned rental income	4,392,654	5,111,158
	<u>4,392,654</u>	<u>5,111,158</u>
	<u>₩ 128,662,897</u>	<u>₩ 61,559,942</u>

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**19. Provisions**

Changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>			
	<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Ending balance</b>
Provision for sales return	₩ 1,285,775	₩ 1,592,747	₩ (1,285,775)	₩ 1,592,747

*(in thousands of Korean won)*

	<b>2016</b>			
	<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Ending balance</b>
Provision for sales return	₩ 1,404,388	₩ 1,285,775	₩ (1,404,388)	₩ 1,285,775

**20. Other Non-financial Liabilities**

Other non-financial liabilities as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>	<b>2016</b>
Current:		
Withholdings	₩ 71,739,950	₩ 47,281,907
Withholdings of value added tax	87,666,686	68,998,723
Advances received	669,455,763	666,777,193
	<u>828,862,399</u>	<u>783,057,823</u>
Non-Current:		
Other liabilities	34,108,219	20,674,460
	<u>34,108,219</u>	<u>20,674,460</u>
	<u>₩ 1,725,941,236</u>	<u>₩ 1,607,464,566</u>

**21. Employee Benefits**

Details of defined benefit liabilities as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligations	₩ 511,983,799	₩ 485,814,090
Fair value of plan assets	<u>(547,048,528)</u>	<u>(500,519,902)</u>
Net defined benefit assets	<u>₩ (35,064,729)</u>	<u>₩ (14,705,812)</u>

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Details of present value of other long-term employee benefits as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Present value of other long-term employee benefits	₩	51,364,430	₩	46,287,828

Movements in the defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Beginning balance	₩	485,814,090	₩	435,200,464
Current service cost		76,284,136		75,094,085
Interest costs		15,644,500		13,979,673
Remeasurements:				
Actuarial loss from change in demographic assumptions		696,071		3,223,025
Actuarial gain from change in financial assumptions		(12,420,884)		(20,671,716)
Actuarial gain from experience adjustments		5,111,124		6,718,665
		<u>(6,613,689)</u>		<u>(10,730,026)</u>
Benefit payments		(46,677,094)		(33,631,928)
Others		9,362,360		5,901,822
Changes due to spin-off		(21,830,504)		-
Ending balance	₩	<u>511,983,799</u>	₩	<u>485,814,090</u>

Movements in the plan assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Beginning balance	₩	500,519,902	₩	425,741,693
Return on plan assets		14,803,952		12,246,399
Remeasurements		(6,210,708)		(3,973,642)
Employer contribution		93,172,113		90,900,000
Benefit payments		(34,243,999)		(24,662,495)
Others		4,209,875		267,947
Changes due to spin-off		(25,202,607)		-
Ending balance	₩	<u>547,048,528</u>	₩	<u>500,519,902</u>

The estimated contributions to the plan for the next annual reporting period are ₩ 78,245,233 thousand.

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Plan assets as at December 31, 2017 and 2016, consist of:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Principal guaranteed insurance policies	₩	547,021,108	₩	500,488,986
Contributions to the National Pension Fund		27,420		30,916
	₩	<u>547,048,528</u>	₩	<u>500,519,902</u>

Expenses recognized for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Current service costs	₩	76,284,136	₩	75,094,085
Interest costs		15,644,500		13,979,673
Return on plan assets		(14,803,952)		(12,246,399)
Contributions to defined contribution plans		325,983		98,986
Long-term employee benefits		10,328,752		15,035,207
	₩	<u>87,779,419</u>	₩	<u>91,961,552</u>

The principal actuarial assumptions used as at December 31, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Discount rate	2.09%~3.85%	1.77% ~ 3.37%
Expected rate of promotion	1.44%~3.26%	1.48% ~ 2.81%
Expected rate of increase in salaries	1.83%~7.50%	1.80% ~ 7.47%

**Sensitivity analysis**

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

<i>(in thousands of Korean won)</i>	<b>Increase</b>		<b>Decrease</b>	
Discount rate (1% movement)	₩	(43,221,404)	₩	50,798,225
Expected rate of promotion (1% movement)		44,116,270		(37,741,343)
Expected rate of increase in salaries (1% movement)		50,773,181		(43,944,909)

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.

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The expected maturity analysis of the defined benefit obligation as at December 31, 2017, is as follows:

<i>(in thousands of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1-2 years</b>	<b>Between 2-5 years</b>	<b>Between 5-10 years</b>	<b>Over 10 years</b>
Pension benefits	₩ 38,714,952	₩ 41,783,724	₩ 146,139,857	₩ 317,656,812	₩ 1,540,537,141

The weighted average duration of the defined benefit obligation is 15.09 years.

**22. Derivative Instruments and Hedge Accounting**

Details of derivatives outstanding as at December 31, 2017 and 2016, are as follows:

<b>Purpose</b>	<b>Type</b>	<b>Description</b>
Cash flow hedge	Currency swaps	At the maturity of the swap, the principal and the interest payments for debentures and borrowings in foreign currency based on floating rates are exchanged back with the principal and fixed interest rate payments in local currency.
	Interest swaps	Pays fixed interest to receive floating rate
Trade	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 ordinary shares of LOTTE Himart Co., Ltd.
	Total return swap	Exchanges beneficiary certificate of investor's total profit to constant flow of cash
	Stock options	Holds the right to buy preferred shares or grants the right to sell preferred shares of related companies

The Company entered into a contract of settlement for differences based on beneficiary certificates issued by real estate funds with beneficiaries including Shinhan BNPP Specialized Investment Type Private Equity Real Estate Investment Trust No. 22, a real estate collective investment vehicle, during the year ended December 31, 2017. In relation to the contract, the Company recognized non-current derivative assets held for trading amounting to ₩35,615,810 thousand as at December 31, 2017, and recognized gain on valuation of derivative instruments amounting to ₩23,363,142 thousand as a finance income for the year ended December 31, 2017.

**Hedge Accounting**

As at December 31, 2017, the Company entered into currency swap contracts to hedge the risk of changes in the fair value of foreign currency denominated debentures and borrowings. The gain or loss arising from changes in fair value of derivatives are recognized as profit or loss for the period since gain or loss on foreign currency translation from the foreign currency denominated debentures and borrowings are able to be hedged through the currency swap.

Meanwhile, the Company entered into interest swap contracts for hedging interest rate risk of certain foreign currency denominated debentures and borrowings in Korean won. Effective portion of gain or loss on derivatives relating to interest rate swaps is recognized in other comprehensive



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income and any ineffective portion is recognized in profit or loss for the period. The gain or loss on derivatives from the interest swap contracts are recognized in other comprehensive income as it is determined that they are all effective.

Details of derivative contract for hedge as at December 31, 2017, are as follows:

(in thousands of Korean won)

Type	Description	Principal amount	Fixed exchange rate (in Korean won)		Swap rate	Maturity	Remark
			Fixed	Variable rate			
Currency swap	64-1st placed (foreign currency)	USD 150,000,000	1,105.90	3M USD Libor+0.50	2.24%	2018.05.25	Mizuho Bank
	64-2nd placed (foreign currency)	USD 100,000,000	1,105.90	3M USD Libor	2.25%	2018.05.25	Sumitomo Mitsui Banking Corporation
	64-3rd placed (foreign currency)	USD 100,000,000	1,109.80	3M USD Libor+0.02	2.25%	2018.05.25	The Bank of Tokyo- Mitsubishi UFJ
	67-1st placed (foreign currency)	USD 150,000,000	1,165.80	3M USD Libor+0.60	2.07%	2018.08.17	Mizuho Bank
	67-2nd placed (foreign currency)	USD 100,000,000	1,169.00	3M USD Libor+0.02	2.05%	2018.08.17	The Bank of Tokyo- Mitsubishi UFJ
	67-3rd placed (foreign currency)	USD 100,000,000	1,171.00	3M USD Libor+0.60	1.90%	2018.08.06	DBS Bank
	69-1st placed (foreign currency)	USD 100,000,000	1,199.50	3M USD Libor+0.55	1.96%	2019.01.29	Mizuho Bank
	69-2nd placed (foreign currency)	USD 100,000,000	1,200.50	3M USD Libor+0.02	1.94%	2019.01.29	The Bank of Tokyo- Mitsubishi UFJ
	71st placed (foreign currency)	USD 100,000,000	1,165.00	1M USD Libor	2.15%	2019.11.29	The Bank of Tokyo- Mitsubishi UFJ
			KRW 150,000,000		91 days CD rate +0.18%	1.95%	2019.05.29
Interest rate swap	Short term borrowings	KRW 200,000,000	Not applicable	91 days CD rate +0.34%	1.90%	2018.09.21	Shinhan Bank
		KRW 100,000,000		91 days CD rate +0.42%	1.93%	2019.04.19	KEB Hana Bank

Changes in the fair value of derivative instruments for the year ended December 31, 2017, are as follows:

Purpose	Type	Related accounts	Korean won (thousands)
Cash flow hedge	Currency swaps	Loss on valuation of derivative instruments <sup>1</sup>	₩ (137,100,000)
		Unrealized gain on valuation of derivative <sup>2</sup>	18,623,092
	Interest swaps	Unrealized gain on valuation of derivative instruments <sup>2</sup>	1,297,820
	Currency forward	Unrealized gain on valuation of derivative instruments <sup>2</sup>	312,828
Trade	Total return swap	Gain on valuation of derivative	23,363,142

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	instruments	
Stock options	Loss on valuation of derivative instruments	(1,049,712)

<sup>1</sup> Fair value hedging is applied to currency rate swap portion of currency swaps.

<sup>2</sup> The aggregate amounts of loss on valuation derivative instruments incurred ₩4,672,620 thousand, until the December 31, 2017. The Company recognized accumulated other comprehensive loss ₩3,387,650 thousand (less tax effects ₩1,284,970 thousand).

**23. Share Capital and Capital Surplus**

The share capital of the Company as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won, except for number of shares)*

	2017		2016	
Authorized shares(shares)		60,000,000		60,000,000
Par value per share	₩	5	₩	5
Number of shares issued(shares)		28,122,047		31,490,892
Share capital <sup>1</sup>	₩	140,610,235	₩	157,454,460

<sup>1</sup> Share capital decreased due to spin-off.

Capital surplus as at December 31, 2017 and 2016, consist of:

*(in thousands of Korean won)*

	2017		2016	
Share premium <sup>1</sup>	₩	3,381,364,716	₩	3,786,431,052
Others		175,662,603		175,662,603
	₩	3,557,027,319	₩	3,962,093,655

<sup>1</sup> Share premium decreased due to spin-off.

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**24. Hybrid Securities**

Hybrid securities classified as equity as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	Date of issue	Date of maturity	Interest rate (%)		2017		2016
Hybrid security 1-1 <sup>1</sup>	Nov.15, 2013	Nov.15, 2043	4.723	₩	240,000,000	₩	240,000,000
Hybrid security 1-2 <sup>1</sup>	Nov.15, 2013	Nov.15, 2043	4.723		30,000,000		30,000,000
Issuance cost					(882,000)		(882,000)
				₩	<u>269,118,000</u>	₩	<u>269,118,000</u>

<sup>1</sup> Details of hybrid securities are as follows:

(in thousands of Korean won)

	Hybrid security 1-1	Hybrid security 1-2
Issue price(in thousands of Korean won)	240,000,000	30,000,000
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) + 1.50% After 10 years: additionally +1.00% 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 preferred shareholders; higher than the ordinary shareholders 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 ordinary share. 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.

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**25. Capital Adjustments**

Capital adjustments as at December 31, 2017 and 2016, consist of:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Treasury shares <sup>1</sup>	₩ 3,795,475	₩ 1,805,705
Other capital adjustments <sup>2</sup>	2,799,190,204	-
	<u>₩ 2,802,985,679</u>	<u>₩ 1,805,705</u>

<sup>1</sup> The Company acquired 18,074 shares of treasury shares for ₩ 3,795,475 thousand through acquisition of fractional shares after spin-off.

<sup>2</sup> Decrease in net assets due to spin-off was deducted from other capital adjustments within equity.

**26. Retained Earnings**

Details of retained earnings as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Legal reserves	₩ 201,827,258	₩ 195,916,818
Voluntary reserves	10,790,052,125	10,810,052,125
Retained earnings before appropriation	317,567,003	59,374,743
	<u>₩ 11,309,446,386</u>	<u>₩ 11,065,343,686</u>

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The appropriation of retained earnings for the year ended December 31, 2017, is expected to be appropriated at the shareholders' meeting on March 23, 2018. The appropriation date for the year ended December 31, 2016, was March 24, 2017.

The appropriation of retained earnings for the years ended December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	<b>2017</b>	<b>2016</b>
Unappropriated retained earnings carried over from prior year	₩ 14,359,894	₩ 15,319,214
Adjustment of beginning balance (changes in accounting policies)	(54,401,621)	-
Remeasurements of net defined benefit liabilities	719,265	5,121,339
Interests of hybrid securities	(12,748,218)	(12,849,147)
Profit for the period	<u>369,637,683</u>	<u>51,783,337</u>
	<u>317,567,003</u>	<u>59,374,743</u>
Transfers such as discretionary reserves	-	20,000,000
Appropriation of retained earnings		
Regal reserve	14,614,066	5,910,441
Discretionary reserve	130,000,000	-
Dividends (Cash dividend (%):		
Ordinary share: ₩ 5,200(104%),	146,140,660	59,104,408
Preferred share: ₩ 2,000(40%))		
	<u>290,754,726</u>	<u>65,014,849</u>
Unappropriated retained earnings to be carried forward	<u>₩ 26,812,277</u>	<u>₩ 14,359,894</u>

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**27. Accumulated Other Comprehensive Income**

Changes in accumulated other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017					
	Beginning balance	Changes	Reclassification adjustments	Tax effects	Changes due to spin-off	Ending balance
Changes in the fair value of available-for-sale financial assets	₩ 72,429,176	₩ 9,032,596	₩ 721,209	₩ (4,279,323)	₩(35,745,953)	₩ 42,157,705
Effective portion of unrealized changes in fair values of cash flow hedges	(18,879,021)	12,392,304	7,841,436	(4,742,369)	-	(3,387,650)
	<u>₩ 53,550,155</u>	<u>₩ 21,424,900</u>	<u>₩ 8,562,645</u>	<u>₩ (9,021,692)</u>	<u>₩(35,745,953)</u>	<u>₩ 38,770,055</u>

(in thousands of Korean won)

	2016					
	Beginning balance	Changes	Reclassification adjustments	Tax effects		Ending balance
Changes in the fair value of available-for-sale financial assets	₩ 78,189,231	₩ (7,599,289)	₩ 272	₩ 1,838,962		₩ 72,429,176
Gain(loss) on valuation of derivative instruments	(13,734,942)	(13,212,859)	6,426,475	1,642,305		(18,879,021)
	<u>₩ 64,454,289</u>	<u>₩ (20,812,148)</u>	<u>₩ 6,426,747</u>	<u>₩ 3,481,267</u>		<u>₩ 53,550,155</u>

**28. Earnings per Share**

(a) *Basic earnings per share*

Basic earnings per share for the years ended December 31, 2017 and 2016, are as follows:

(in Korean won, except for number of shares)

	2017		2016	
Profit attributable to the ordinary equity holders	₩	369,637,683,267	₩	51,783,337,209
Interests paid for hybrid securities, net of tax		(12,748,218,078)		(12,849,147,941)
Weighted average number of ordinary shares outstanding(shares)		<u>29,231,757</u>		<u>29,552,204</u>
Basic earnings per share	₩	<u>12,209</u>	₩	<u>1,317</u>

(b) *Diluted earnings per share*

The Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

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**29. Sales**

Details of sales for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>		<b>2017</b>	<b>2016</b>
	Total sales	₩ 16,649,744,535	₩ 16,941,793,086
	Sales of merchandise	15,997,874,408	16,090,030,458
	Sales of products	5,952,893	7,707,268
	Other sales	645,917,234	844,055,360
Revenue from contracts with customers	Sales deduction	7,301,814,977	2,066,613,493
	Sales discounts and sales returns	789,361,448	685,720,413
	Reserve for sales return and deferred sales	199,563,411	204,041,324
	Cost of specific sales	6,312,890,118	1,176,851,756
Revenue from other sources: lease revenue		1,223,889,979	1,167,185,004
		<u>₩ 10,571,819,537</u>	<u>₩ 16,042,364,597</u>

(\*) Sales during the year ended December 31, 2016 include sales VAT refund for mileage usage amounting to ₩ 127,008,989 thousand.

The contract assets and liabilities of the Company that are recognized in relation to the revenue from contracts with customers as at December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>December 31, 2017</b>	<b>January 1, 2017</b>
Contract assets		
Inventory expected for return	₩ 581,958	₩ -
	<u>₩ 581,958</u>	<u>₩ -</u>
Contract liabilities		
Customer loyalty program	₩ 60,380,587	₩ 64,835,560
Gift vouchers	666,559,393	670,528,214
Other	55,992,898	49,280,152
	<u>₩ 782,932,878</u>	<u>₩ 784,643,926</u>

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The amounts recognized as revenue and collection of gift vouchers during the year ended December 31, 2017, in relation to contract liabilities carried forward from the year ended December 31, 2016 are as follows:

<i>(in thousands of Korean won)</i>		<b>2017</b>
Revenue		
Customer loyalty program	₩	64,835,560
Other		49,280,152
	₩	<u>114,115,712</u>
Collected		
Gift vouchers	₩	344,031,709
	₩	<u>344,031,709</u>

In relation to gift vouchers, expected collection amount of unperformed performance obligation by period are as follows:

<i>(in thousands of Korean won)</i>							
<b>Book amount</b>		<b>1 year</b>		<b>Between 1-5 years</b>		<b>Over 5 years</b>	
₩	666,559,393	₩	341,995,404	₩	321,973,144	₩	2,590,845



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**30. Selling, General and Administrative Expenses**

Details of selling, general and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Salaries	₩ 954,214,784	₩ 924,172,550
Post-employment benefits	77,450,668	76,926,346
Long-term employee benefits	10,328,752	15,035,207
Employee benefits	178,577,566	178,994,920
Training expenses	10,260,569	11,257,513
Travel expenses	18,934,506	20,671,060
Vehicles maintenance expenses	1,737,820	1,366,695
Insurance premium	10,760,656	10,439,343
Taxes and dues <sup>1</sup>	145,543,909	112,240,923
Entertainment expenses	1,455,020	2,806,230
Supplies expenses	52,932,803	53,931,759
Publication expenses	1,036,280	989,416
Communication expenses	10,316,575	10,376,218
Utility expenses	250,542,045	246,490,620
Repairs and maintenance	24,749,050	25,007,823
Rental expenses	772,997,846	705,388,247
Depreciation	522,673,703	537,102,026
Amortization	25,002,173	29,388,261
Commission expenses	549,903,344	497,735,108
Service commission expenses	764,751,154	729,797,191
Advertising expenses	140,502,946	135,890,456
Samples expenses	146,473	81,799
Sales commissions	166,920,954	197,398,511
Sales promotion expenses	94,719,614	119,206,229
Decoration expenses	16,255,447	17,274,614
Bad debt expense	76,031	46,906
Transportation expenses	21,194,683	21,419,884
Research and development expenses	264,332	255,638
Compensation expenses	1,510,177	1,626,949
Other	1,918,391	1,546,640
	<u>₩ 4,827,678,271</u>	<u>₩ 4,684,865,082</u>

<sup>1</sup> Taxes and dues exclude the comprehensive real estate holding tax refunds of ₩ 24,302,744 thousand for the year ended December 31, 2016.

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**31. Other Income and Expenses**

Details of other income and expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
<b>Other income:</b>		
Gain on foreign currency transactions	₩ 810,356	₩ 928,571
Gain on foreign currency translation	44,115	753,928
Gain on disposal of property and equipment	5,266,602	2,371,096
Gain on settlement of spin-off	1,662,750,332	-
Reversal of impairment losses on other non-current assets	41,824	9,347
Others	93,337,445	40,084,226
	<u>₩ 1,762,250,674</u>	<u>₩ 44,147,168</u>
<b>Other expenses:</b>		
Loss on foreign currency transactions	₩ 715,537	₩ 1,062,311
Loss on foreign currency translation	1,150,905	23,786
Loss on disposal of property and equipment	4,985,276	2,962,340
Impairment loss on property and equipment	62,122,953	32,513,408
Loss on disposal of intangible assets	218,690	183,859
Impairment loss on intangible assets	237,388,287	127,032,251
Impairment loss on other non-current assets	28,000,742	15,616,274
Donation	19,323,266	15,537,645
Other bad debt expenses	2,569,184	434,390
Taxes and dues	290,017	200,729
Others	44,414,424	87,498,270
	<u>₩ 401,179,281</u>	<u>₩ 283,065,263</u>

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**32. Breakdown of Expenses by Nature**

Details of nature of expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Purchase of raw materials and merchandise	₩ 4,990,861,331	₩ 10,359,873,466
Changes in inventories	19,135,144	23,329,997
Employee benefits	1,220,571,769	1,195,129,023
Rental expenses	772,997,846	705,388,247
Depreciation and amortization	585,389,743	606,305,812
Sales commissions	166,920,954	197,398,511
Sales promotion expenses	94,719,614	119,206,229
Commission expenses	549,903,344	497,735,108
Service expenses	764,751,154	729,797,191
Advertising expenses	163,767,426	157,990,949
Utility expenses	250,542,045	246,490,620
Taxes and dues	145,543,908	118,241,149
Other	356,564,618	365,620,211
	<u>₩ 10,081,668,896</u>	<u>₩ 15,322,506,513</u>

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**33. Finance Income and Finance Costs**

Details of finance income and finance costs for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
<b>Finance income:</b>				
Interest income	₩	57,001,531	₩	51,669,887
Dividend income		98,989,155		50,714,541
Gain on foreign currency transactions		31,373,733		9,735,356
Gain on foreign currency translation		145,870,000		-
Gain on disposal of available-for-sale financial assets		2,164,506		8,470
Gain on valuation of derivative instruments held for hedging		-		46,200,000
Gain on valuation of derivative instruments held for trading		23,363,142		15,754,477
Gain on transaction of derivative instruments held for hedging		2,268,982		13,361,920
Financial guarantee income		11,791,039		-
Gain on disposal of investments in subsidiaries, associates and joint ventures		2		1,982,030
	₩	372,822,090	₩	189,426,681
<b>Finance costs:</b>				
Interest expense	₩	115,886,951	₩	117,778,152
Loss on foreign currency transactions		10,982		25,744
Loss on foreign currency translation		-		52,680,000
Impairment loss on available-for-sale financial assets		17,243,986		1,971,057
Loss on disposal of available-for-sale financial assets		3,376,951		419,995
Loss on valuation of derivative instruments held for hedging		137,100,000		-
Loss on valuation of derivative instruments held for trading		1,049,712		3,929,718
Loss on transaction of derivative instruments held for hedging		30,598,800		17,532,450
Loss on transaction of derivative instruments held for trading		914,033		-
Loss on redemption of debentures		-		20,060,299
Financial guarantee costs		555,713,995		19,899,117
Impairment loss on investments in associates, joint ventures and subsidiaries		852,193,661		282,981,241
Loss on disposal of investments in associates, joint ventures and subsidiaries		335,451		58,997
	₩	1,714,424,522	₩	517,336,770

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Details of finance income and finance costs by financial instruments category for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017							
	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 hedging	Financial liabilities based on amortized cost	Other financial assets	Total
Recognized in profit or loss :								
Interest income	₩ 20,686,832	₩ 36,197,180	₩ 117,519	₩ -	₩ -	₩ -	₩ -	₩ 57,001,531
Interest expense	-	-	-	-	-	(115,886,950)	-	(115,886,950)
Dividend income	-	-	4,921,571	-	-	-	-	4,921,571
Valuation / Disposal	-	-	(1,212,445)	23,668,378	(167,698,800)	-	-	(145,242,867)
Impairment	-	(2,645,215)	(17,243,986)	-	-	-	-	(19,889,201)
Exchange differences	785,775	(1,053,458)	27,502	-	-	176,471,260	-	176,231,079
Others	-	-	-	-	-	-	(555,713,995)	(555,713,995)
	<u>21,472,607</u>	<u>32,498,507</u>	<u>(13,389,839)</u>	<u>23,668,378</u>	<u>(167,698,800)</u>	<u>60,584,310</u>	<u>(555,713,995)</u>	<u>(598,578,832)</u>
Recognized in other comprehensive income (loss) <sup>1</sup> :								
Changes in the fair value of available-for-sale financial assets	-	-	9,753,805	-	-	-	-	9,753,805
Gain on valuation of derivative instruments	-	-	-	-	20,233,740	-	-	20,233,740
	-	-	<u>9,753,805</u>	-	<u>20,233,740</u>	-	-	<u>29,987,545</u>
	<u>₩ 21,472,607</u>	<u>₩ 32,498,507</u>	<u>₩ (3,636,034)</u>	<u>₩ 23,668,378</u>	<u>₩(147,465,060)</u>	<u>₩ 60,584,310</u>	<u>₩(555,713,995)</u>	<u>₩(568,591,287)</u>

<sup>1</sup> The gain/loss on valuation are amounts before tax effects.

(in thousands of Korean won)	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 hedging	Financial liabilities based on amortized cost	Other financial assets	Total
Recognized in profit or loss :								
Interest income	₩17,605,399	₩ 34,024,721	₩ 39,767	₩ -	₩ -	₩ -	₩ -	₩ 51,669,887
Interest expense	-	-	-	-	-	(117,778,152)	-	(117,778,152)
Dividend income	-	-	3,539,040	-	-	-	-	3,539,040
Valuation / Disposal	-	-	(411,525)	24,352,483	28,667,550	(19,226,105)	-	33,382,403
Impairment	-	(44,595)	(1,971,057)	-	-	-	-	(2,015,652)
Exchange differences	-	309,029	52,755	-	-	(42,735,770)	-	(42,373,986)
Others	-	-	-	-	-	-	(19,899,117)	(19,899,117)
	<u>17,605,399</u>	<u>34,289,155</u>	<u>1,248,980</u>	<u>24,352,483</u>	<u>28,667,550</u>	<u>(179,740,027)</u>	<u>(19,899,117)</u>	<u>(93,475,577)</u>
Recognized in other comprehensive income (loss) <sup>1</sup> :								
Changes in the fair value of available-for-sale financial assets	-	-	(7,599,017)	-	-	-	-	(7,599,017)
Gain on valuation of derivative instruments	-	-	-	-	(6,786,384)	-	-	(6,786,384)
	-	-	<u>(7,599,017)</u>	-	<u>(6,786,384)</u>	-	-	<u>(14,385,401)</u>
	<u>₩17,605,399</u>	<u>₩ 34,289,155</u>	<u>₩ (6,350,037)</u>	<u>₩ 24,352,483</u>	<u>₩ 21,881,166</u>	<u>₩(179,740,027)</u>	<u>₩ (19,899,117)</u>	<u>₩ (107,860,978)</u>

<sup>1</sup> The gain/loss on valuation are amounts before tax effects.

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**34. Tax Expense**

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Current income taxes	₩ 107,836,975	₩ 139,662,461
Deferred tax due to temporary differences	23,482,025	(40,262,122)
Total income tax effect	<u>131,319,000</u>	<u>99,400,339</u>
Income tax charged directly to equity	<u>8,662,920</u>	<u>1,846,222</u>
Income tax expense	<u>₩ 139,981,920</u>	<u>₩ 101,246,561</u>

Details of income tax expense recognized directly to equity for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Changes in the fair value of available-for-sale financial assets	₩ (4,279,323)	₩ 1,838,962
Gain (loss) on valuation of derivative instruments	(4,742,369)	1,642,305
Remeasurements of defined benefit liabilities	316,284	(1,635,045)
Effect of changes in revenue recognition	<u>17,368,328</u>	<u>-</u>
Income tax charged directly to equity	<u>₩ 8,662,920</u>	<u>₩ 1,846,222</u>

Income tax related to changes in the fair value of available-for-sale financial assets, losses (gains) on valuation of derivatives and remeasurements of defined benefit liabilities are recognized in other comprehensive income.

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Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2017 and 2016, is as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Profit before income tax expense	₩ 509,619,603	₩ 153,029,899
Income tax based on statutory tax rate	123,327,944	36,571,235
Tax effects of:	16,653,976	64,675,326
Tax effects on non-taxable income	(413,561,254)	(10,867,879)
Tax effects on non-deductible expense	5,943,383	3,206,320
Tax credit	(1,021,962)	(1,211,386)
Adjustment in respect of prior years	(3,591,526)	4,899,843
Deferred tax expense due to changes in tax rate	109,704,893	-
Changes in temporary differences that are not realizable	318,276,431	68,481,460
Others	904,011	166,968
Income tax expense	<u>₩ 139,981,920</u>	<u>₩ 101,246,561</u>
Effective tax rate	27.47%	66.16%

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

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Changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017				
	Beginning balance	Spin-off	Profit or loss	Equity	Ending balance
Impairment loss on available-for-sale financial assets	₩ 2,504,150	₩ -	₩ 5,083,571	₩ -	₩ 7,587,721
Investments in subsidiaries and associates	(180,434,397)	158,547,722	17,932,315	-	(3,954,360)
Depreciation	38,938,451	-	18,048,866	-	56,987,317
Allowance for bad debt expense	(146,616)	-	581,040	-	434,424
Accrued income	(612,554)	5,171	(284,815)	-	(892,198)
Losses on valuation of inventories	5,128,646	-	659,084	-	5,787,730
Provision for sales return	311,157	-	(33,190)	-	277,967
Property and equipment (capitalization of borrowing costs)	(9,361,946)	-	(1,970,656)	-	(11,332,602)
Land	32,548,494	-	4,438,431	-	36,986,925
Land (asset revaluation)	(988,473,734)	-	(134,696,136)	-	(1,123,169,870)
Accrued expense	21,512,146	-	10,235,026	-	31,747,172
Gain (loss) on foreign currency translation	1,555,337	-	212,091	-	1,767,428
Construction-in-progress	1,640,256	-	146,367	-	1,786,623
Other intangible assets	9,307,394	-	(1,053,779)	-	8,253,615
Impairment loss on intangible assets	9,999,498	-	19,830,346	-	29,829,844
Rental guarantee deposits	10,269,359	-	7,289,248	-	17,558,607
Goodwill	(39,828,496)	-	25,022,891	-	(14,805,605)
Exchangeable bonds	(105,914)	-	98,473	-	(7,441)
Changes in the fair value of available-for-sale financial assets	(23,123,826)	11,412,296	-	(4,279,323)	(15,990,853)
Loss (gain) on valuation of derivatives	9,120,974	(6,589,661)	(6,270,499)	(4,742,369)	(8,481,555)
Salaries and retirement benefits	17,481,571	1,070,076	(5,670,104)	316,284	13,197,827
Other capital surplus	62,285,770	(62,285,770)	-	-	-
Others	16,723,292	-	8,256,485	17,368,328	42,348,105
	<u>₩ (1,002,760,988)</u>	<u>₩ 102,159,834</u>	<u>₩ (32,144,945)</u>	<u>₩ 8,662,920</u>	<u>₩ (924,083,179)</u>



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	2016			
	Beginning balance	Profit or loss	Equity	Ending balance
Impairment loss on available- for-sale financial assets	₩ 2,030,667	₩ 473,483	₩ -	₩ 2,504,150
Investments in subsidiaries and associates	(180,434,397)	-	-	(180,434,397)
Depreciation	26,078,837	12,859,614	-	38,938,451
Allowance for bad debt expense	734,930	(881,546)	-	(146,616)
Accrued income	(926,095)	313,541	-	(612,554)
Unearned revenues	53,452	(53,452)	-	-
Losses on valuation of inventories	3,939,592	1,189,054	-	5,128,646
Provision for sales return	339,862	(28,705)	-	311,157
Property and equipment (capitalization of borrowing costs)	(9,783,125)	421,179	-	(9,361,946)
Land	32,548,494	-	-	32,548,494
Land (asset revaluation)	(988,402,679)	(71,055)	-	(988,473,734)
Accrued expense	20,578,287	933,859	-	21,512,146
Gain (loss) on foreign currency translation	1,555,337	-	-	1,555,337
Gain (loss) on valuation of convertible bonds	(465,841)	465,841	-	-
Construction-in-progress	1,665,795	(25,539)	-	1,640,256
Other intangible assets	9,779,855	(472,461)	-	9,307,394
Rental guarantee deposits	10,367,956	(98,597)	-	10,269,359
Goodwill	(46,081,483)	6,252,987	-	(39,828,496)
Exchangeable bonds	(4,705,250)	4,599,336	-	(105,914)
Changes in the fair value of available-for-sale financial assets	(24,962,788)	-	1,838,962	(23,123,826)
Loss (gain) on valuation of derivatives	13,573,846	(6,095,177)	1,642,305	9,120,974
Salaries and retirement benefits	14,323,618	4,792,998	(1,635,045)	17,481,571
Other capital surplus	62,285,770	-	-	62,285,770
Others	12,882,250	13,840,540	-	26,722,790
	<u>₩ (1,043,023,110)</u>	<u>₩ 38,415,900</u>	<u>₩ 1,846,222</u>	<u>₩ (1,002,760,988)</u>

Temporary differences not recognized as deferred tax assets related to investments in associates, joint ventures and subsidiaries as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017	2016
Investments in associates, joint ventures and subsidiaries	₩ 2,590,207	₩ 1,880,295

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The aggregate amount of deferred tax liabilities, deferred tax assets, current tax liabilities and tax assets are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Deferred tax assets	₩	495,402,619	₩	407,629,510
Deferred tax liabilities		1,419,485,798		1,410,390,498
Current tax assets		57,354,529		60,292,043
Current tax liabilities		121,594,266		137,491,444

**35. Separate Statements of Cash Flows**

As at December 31, 2017 and 2016, the details of cash and cash equivalents are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Cash	₩	25,557,443	₩	21,545,014
Deposits		27,172,304		27,346,224
Other cash equivalents		1,635,260,706		833,998,890
	₩	<u>1,687,990,453</u>	₩	<u>882,890,128</u>

Adjustments for cash flows from operating activities for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Income tax expense	₩	139,981,920	₩	101,246,561
Post-employment benefits		77,124,684		76,827,359
Long-term employee benefits		10,770,836		15,035,207
Depreciation		522,673,703		537,102,026
Amortization		62,716,039		69,203,786
Impairment loss on property and equipment		62,122,953		32,513,408
Impairment loss on intangible assets		237,388,287		127,032,251
Loss on foreign currency translation		1,150,905		52,703,786
Loss on foreign currency transactions		10,982		25,745
Loss on disposal of property and equipment		4,985,276		2,962,340
Loss on disposal of intangible assets		218,690		183,859
Bad debt expense		76,031		46,906
Other impairment loss		2,569,184		434,390
Impairment loss on other non-current assets		28,000,742		15,616,274
Loss on disposal of available-for-sale financial assets		3,376,951		419,996

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<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Loss on valuation of derivative instruments	138,149,712	3,929,719
Loss on transactions of derivative instruments	31,512,833	17,532,450
Loss on redemption of debentures	-	20,060,299
Rental expenses (amortization of discount on deposit, etc.)	65,297,761	62,892,038
Loss on disposal of investments in subsidiaries, associates and joint ventures	335,451	58,997
Impairment loss on investments in subsidiaries, associates and joint ventures	852,193,661	282,981,241
Impairment loss on available-for-sale financial assets	17,243,986	1,971,057
Interest expense	115,886,951	117,778,152
Financial guarantee costs	555,713,995	19,899,117
Miscellaneous losses	7	31,557,585
Other expenses	797,335	-
Gain on foreign currency translation	(145,914,115)	(753,928)
Gain on foreign currency transactions	(31,373,733)	(9,735,355)
Gain on disposal of property and equipment	(5,266,602)	(2,371,096)
Gain on valuation of derivative instruments	(23,363,142)	(61,954,477)
Gain on transactions of derivative instruments	(2,268,981)	(13,361,920)
Reversal of impairment loss on other non-current assets	(41,824)	(9,347)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(2)	(1,982,030)
Gain on disposal of available-for-sale financial assets	(2,164,506)	(8,470)
Reversal of impairment loss on long-term financial assets	(11,791,039)	-
Gain on settlement of spin-off	(1,662,750,332)	-
Rental income	(3,228,234)	(1,982,048)
Interest income	(57,001,531)	(51,669,887)
Dividend income	(98,989,155)	(50,714,541)
Miscellaneous gains	(1,609)	-
	<u>₩ 886,144,070</u>	<u>₩ 1,395,471,450</u>

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Changes in operating assets and liabilities for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Increase in trade receivables	₩ (83,483,015)	₩ (60,938,823)
Decrease (increase) in other receivables	35,824,614	(20,499,195)
Increase in other financial assets	(28,350,940)	(25,884,327)
Decrease in inventories	21,372,856	21,629,900
Decrease (increase) in other non-financial assets	111,679,890	(29,832,796)
Increase (decrease) in trade payables	440,334,572	(105,282,150)
Decrease in other payables	87,998,176	157,155,235
Decrease in other financial liabilities	2,160,667	13,204,828
Decrease in other non-financial liabilities	46,155,711	63,033,467
Increase (decrease) in deferred revenue	(4,423,645)	1,034,438
Increase (decrease) in provisions	306,973	(118,614)
Payment of post-employment benefits and other long-term employee benefits	(45,868,367)	(38,090,391)
Increase in plan assets	(62,819,703)	(66,237,505)
	<u>₩ 520,887,789</u>	<u>₩ (90,825,933)</u>

Non-cash transactions for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Other payables for acquisition of property and equipment	₩ 40,072,362	₩ 21,730,149
Reclassification of borrowings to current portion	1,057,749,727	996,939,860
Reclassification of equity related to spin-off	2,249,498,681	-

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Changes in liabilities arising from financial activities for the year ended December 31, 2017, are as follows:

	Other assets		Liabilities from financing activities		Total			
	Current derivative liabilities (assets) held for hedging		Short-term borrowings and debentures	Long-term borrowings and debentures				
Beginning balance	₩	(29,735,079)	₩	1,226,181,798	₩	3,089,075,640	₩	4,285,522,359
Net cash flow from financing activities		6,741,200		(105,080,906)		1,107,047,240		1,008,707,534
Non-cash flows								
Transfer to current portion		(48,471,288)		1,057,749,727		(1,057,749,727)		(48,471,288)
Exchange differences		-		(133,661,000)		(42,769,000)		(176,430,000)
Spin-off		-		(577,759,094)		-		(577,759,094)
Others		71,228,653		1,105,722		1,280,668		73,615,043
Ending balance	₩	(236,514)	₩	1,468,536,247	₩	3,096,884,821	₩	4,565,184,554

**36. Operating Leases**

(a) Lessee

The Company has entered into the operating leases for buildings, furniture and fixtures and vehicles. Future lease payments under operating leases of land and buildings as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
Within 1 year	₩	599,955,820	₩	527,942,323
1 ~ 5 years		1,990,574,821		1,858,718,669
Thereafter		4,643,919,081		4,621,063,648
	₩	7,234,449,722	₩	7,007,724,640

Lease payments for fixed rental and contingent rental recognized as expenses for the year ended December 31, 2017 were ₩649,938,668 thousand and ₩123,059,178 thousand, respectively.

**Lotte Shopping Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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The Company disposed of land and buildings of 3 stores including Lotte mart Jeju store to KTB Confidence Private Real Estate Investment Trust for ₩220 billion in 2008 and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.

The Company disposed of land and buildings of 6 stores including Lotte department store Bundang store to Lotte Retail Real Estate Investment Trust for ₩595 billion in 2010 and 2011, and the Company has been leasing the assets. The Company has the options to purchase the assets at a fair value at the end of the lease.

The Company has been leasing the building of Lotte outlet esiapolis store from KB Star Retail Private Real Estate Investment Trust since 2013 and the Company has the preferential right of negotiation to purchase the building.

In 2014, the Company disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KTB Confidence Private Real Estate Investment Trust for ₩602 billion and the Company has been leasing the assets. The Company disposed of land and buildings of 2 Lotte department stores including Dongnae store and 3 Lotte mart stores including Sungjung store to Capstone Private Real Estate Investment Trust for ₩500 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.

In 2015, the Company disposed of land and buildings of Lotte outlets store Gwangmyeong to KTB Confidence Private Real Estate Investment Trust for ₩147 billion and the Company has been leasing the assets. And the Company disposed of land and buildings of Lotte mart Yangdeok to KB Lotte Master Lease Private Real Estate Investment Trust for ₩55 billion and the Company has been leasing the assets. The Company has the preferential right of negotiation to purchase the assets at the end of the lease.

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*(b) Lessor*

The Company has entered into operating leases of certain of its properties and equipment. Future minimum lease payments receivable under operating leases as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Within 1 year	₩	75,983,636	₩	73,661,447
1 ~ 5 years		21,102,813		42,250,468
Thereafter		928,491		139,317
	₩	<u>98,014,940</u>	₩	<u>116,051,232</u>

Lease collection from fixed rental and contingent rental recognized as income for the year ended December 31, 2017 were ₩81,498,247 thousand and ₩1,142,391,732 thousand, respectively.

**37. Greenhouse Gases Emission Rights**

*(a) 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:

<i>(in thousands of Korean won)</i>	<b>Emission (tCO<sub>2</sub>-eq)</b>
2015	860,971
2016	983,180
2017	945,425
	<u>2,789,576</u>

There is no pledged emission and the Company has 994,053tCO<sub>2</sub>-eq of emissions as at December 31, 2017. The emissions submitted to the government in 2015 and 2016 are 806,687 tCO<sub>2</sub>-eq and 833,836tCO<sub>2</sub>-eq., respectively.

*(b) Emission liability*

The Company disposed of 155,000tCO<sub>2</sub>-eq of emission and estimated to emit 859,455tCO<sub>2</sub>-eq of CO<sub>2</sub> during the year ended in December 31, 2017.

**Lotte Shopping Co., Ltd.**  
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**38. Contingencies and Commitments**

(a) As at December 31, 2017, the Company has the following credit facility commitments with financial institutions:

<i>(in thousands of Korean won)</i>	<b>Credit line</b>	<b>Amount used under credit facility</b>
General loan	₩ 200,000,000	₩ 100,000,000
Discount of bill	800,000,000	550,000,000
Buyer's credit	325,000,000	98,068,076
Bank overdraft	55,000,000	-
Letter of credit and others	USD 20,000,000	USD 6,488,381

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

<b>Company</b>	<b>Contractor</b>	<b>Description of contract</b>
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services

(c) As at December 31, 2017, the Company is involved in 20 lawsuits as a plaintiff with damage claims totaling ₩28,206,617 thousand and the Company is involved in 33 lawsuits as a defendant with damage claims totaling ₩69,913,586 thousand. The management believes that the ultimate resolutions of other legal actions will not have a material effect of the financial position or results of operations of the Company.

Among ₩23,264,793 thousand of damage claims against the Company, ₩69,913,586 thousand is related to victims of humidifier disinfectant. The Company recognized other liabilities of ₩9,055,349 thousand in regard to the claim on victims of humidifier disinfectant as at December 31, 2017.

(d) As at December 31, 2017, the Company has entered into loan agreement securing trade receivables with Industrial Bank of Korea and others amounting to ₩404,000,000 thousand.

(e) As at December 31, 2017, the Company is provided with 145 performance guarantees from Seoul Guarantee Insurance and others for its business amounting to ₩76,877,333 thousand.

(f) Brand usage contract, etc.

The Company has entered into contracts with Lotte Corporation (formerly, Lotte Confectionery Co., Ltd.) for the use of brand, management consulting, and management support service as at December 31, 2017. The cost of use of brand is 0.15% of sales less advertising expenses. The Company pays for management consulting and management support service the amount allocated by Lotte Corporation, based on objective and reasonable allocation criteria, from the costs that have incurred in the course of performing such relevant business plus 5% of such allocated amount.



**Lotte Shopping Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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**39. Related Party Transactions**

As at December 31, 2017, the Company's major shareholders are as follows:

Related company	Percentage of ownership (%)
Lotte Corporation <sup>1</sup>	25.87
Hotel Lotte Co., Ltd.	8.83
Korea Fuji Film Co., Ltd.	7.86
LOTTE IT TECH CO., LTD.	4.81
Hotel Lotte Pusan Co., Ltd.	0.78

<sup>1</sup> It has a significant influence over the Company.

	Percentage of ownership (%)		
	The Company	Subsidiary	Total
Woori Home Shopping & Television Co., Ltd.	53.03	-	53.03
Lotte DatViet Homeshopping Co., Ltd.	-	90.02	90.02
NCF Co., Ltd.	99.80	-	99.80
Lotte Gimhae Development Co., Ltd.	100.00	-	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	95.00	-	95.00
Lotte Songdo Shopping Town Co., Ltd.	56.30	-	56.30
CS Mart Co., Ltd.	99.95	-	99.95
LOTTE Himart Co., Ltd.	65.25	-	65.25
Lotte Department Store Masan Co., Ltd.	100.00	-	100.00
Lotte Ulsan Development Co., Ltd.	94.84	-	94.84
Lotte Cinema Co., Ltd.	100.00	-	100.00
Lotte (China) Management Co., Ltd.	70.00	-	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	100.00	-	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	20.63	79.37	100.00
LOTTE MART COMPANY LIMITED	-	100.00	100.00
Liaoning LOTTE Mart Co., Ltd.	-	100.00	100.00
Lotte Mart China Co., Ltd.	-	100.00	100.00
Swift Harvest Ltd. and its subsidiaries	-	100.00	100.00
Hong Fung Ltd. and its subsidiaries	-	100.00	100.00
Nantong Meili Properties Limited	-	100.00	100.00
Zhuji Decheng Properties Limited	-	100.00	100.00
Nantong Yaodong Properties Limited	-	100.00	100.00
Nantong Fuhua Properties Limited and its subsidiary	-	100.00	100.00
Nantong Jinyou Properties Limited and its subsidiary	-	100.00	100.00
Nantong Branda Properties Limited and its subsidiary	-	100.00	100.00
Nantong Fortune Trade Properties Limited	-	100.00	100.00

**Lotte Shopping Co., Ltd.**  
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	Percentage of ownership (%)		
	The Company	Subsidiary	Total
Nantong Fine Spring Properties Limited	-	100.00	100.00
Nantong Fine Port Properties Limited and its subsidiary	-	100.00	100.00
Huai An Full Faith Properties Limited	-	100.00	100.00
Jilin LOTTE Mart Co., Ltd.	-	100.00	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	-	100.00	100.00
Lotte Business Management (Tianjin) Co., Ltd.	-	100.00	100.00
Lotte Department Store (Shenyang) Co., Ltd.	-	100.00	100.00
Lotte International Department Store (Weihai) Co., Ltd.	-	100.00	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	-	100.00	100.00
Lotte Department Store (Chengdu) Co., Ltd.	-	100.00	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	-	100.00	100.00
Lotte Shopping Business Management (Hong Kong) Limited	-	100.00	100.00
Lotte Cinema Hong Kong Co., Limited	-	100.00	100.00
LHSC Limited	17.58	82.42	100.00
Lucky Pai Ltd. and its subsidiaries	-	100.00	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	73.46	-	73.46
Lotte Properties (Chengdu) Limited	-	100.00	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	100.00	-	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	-	99.99	99.99
PT. LOTTE SHOPPING INDONESIA	-	80.00	80.00
PT. LOTTE MART INDONESIA	-	100.00	100.00
PT. LOTTE Shopping Avenue Indonesia	-	100.00	100.00
Lotte Shopping India Private Limited	-	100.00	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	-	100.00	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	-	100.00	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	20.00	40.00	60.00
Lotte Holdings Hong Kong Ltd. (formerly, Kotobuki Holding (HK) Ltd.)	-	100.00	100.00
Hai Thanh - Kotobuki Joint Venture Company	-	70.00	70.00
LOTTE CINEMA VIETNAM CO., LTD.	90.00	-	90.00
LOTTE E-COMMERCE VIETNAM CO., LTD	-	100.00	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	80.00	-	80.00
LOTTE PROPERTIES HANOI CO., LTD	-	100.00	100.00

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	Percentage of ownership (%)		
	The Company	Subsidiary	Total
PT. LOTTE CINEMA INDONESIA	99.98	0.02	100.00

Sales and purchases with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

Related parties <sup>1</sup>	2017				
	Sales	Purchase	Acquisition of property and equipment and intangible assets	Other income <sup>2</sup>	Other expenses
<b>Shareholders:</b>					
Lotte Corporation <sup>5</sup>	₩ 837,220	₩ -	₩ -	₩ -	₩ 6,521,715
Lotte Confectionery Co., Ltd. (before spin-off) <sup>5</sup>	7,220,325	104,550,905	-	24	6,094,147
Hotel Lotte Co., Ltd.	72,857,534	-	-	39,675	119,630,432
Hotel Lotte Pusan Co., Ltd.	7,671,681	-	827,083	-	25,392,597
LOTTE IT TECH CO., LTD. <sup>6</sup>	2,168,310	-	29,647,548	-	92,552,449
Korea Fuji Film Co., Ltd.	1,517,316	235	-	-	2,036
	<u>92,272,386</u>	<u>104,551,140</u>	<u>30,474,631</u>	<u>39,699</u>	<u>250,193,376</u>
<b>Subsidiaries:</b>					
Woori Home Shopping & Television Co., Ltd.	1,282,020	-	-	4	30,282,602
LOTTE Himart Co., Ltd. <sup>3</sup>	51,803,458	-	47,805	24,022	194,727
Others	24,470,593	7,126	-	8,158,446	51,425,033
	<u>77,556,071</u>	<u>7,126</u>	<u>47,805</u>	<u>8,182,472</u>	<u>81,902,362</u>
<b>Associates:</b>					
FRL Korea Co., Ltd.	31,346,982	80,691,092	-	18,122	-
Others	12,451,004	-	-	8,625	1,005,300
	<u>43,797,986</u>	<u>80,691,092</u>	<u>-</u>	<u>26,747</u>	<u>1,005,300</u>
<b>Others<sup>4</sup>:</b>					
Lotte Confectionery Co., Ltd. (newly established corporation) <sup>5</sup>	1,289,511	29,702,052	-	68,368	1,957,831
Lotte Chilsung Beverage Co., Ltd.	9,035,602	60,704,161	-	106,704	506,062
Lotte Data Communication Company (newly established corporation) <sup>6</sup>	295,465	-	6,798,960	-	13,678,037
Lotte Card Co., Ltd.	7,319,183	-	-	703,083	143,978,992
Korea Seven Co., Ltd.	8,785,899	-	-	-	149,603
LOTTE.COM INC	950,709	-	99,018	14	83,270,357
Daehong Communications Inc.	7,977,838	-	464,060	-	52,986,328
LotteGRS Co., Ltd. (formerly, Lotteria Co.,	17,282,767	6,468,942	286,580	-	185,713

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Related parties <sup>1</sup>	2017				
	Sales	Purchase	Acquisition of property and equipment and intangible assets	Other income <sup>2</sup>	Other expenses
Ltd.)					
Lotte Station Building Co., Ltd.	8,556,574	-	-	837	4,028,393
Lotte Trading Co., Ltd.	1,467,488	160,105,603	-	-	220,467
LOTTE Engineering & Construction Co., Ltd	9,491,277	-	238,192,755	21,535	1,431,762
LOTTE FOOD CO., LTD.	7,232,867	142,286,978	-	-	7,554,333
Lotte Aluminum Co., Ltd.	2,028,840	6,172,076	14,387,372	-	13,528,448
Others	141,161,925	12,839,749	1,720,618	27,681,672	323,922,737
	<u>222,875,945</u>	<u>418,279,561</u>	<u>261,949,363</u>	<u>28,582,213</u>	<u>647,399,063</u>
Total <sup>7</sup>	<u>₩436,502,388</u>	<u>₩ 603,528,919</u>	<u>₩ 292,471,799</u>	<u>₩ 36,831,131</u>	<u>₩ 980,500,101</u>

<sup>1</sup> The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

<sup>2</sup> Other revenues included disposal of property and equipment.

<sup>3</sup> Aside from transactions listed above, the Company sold the LOTTE Himart Co., Ltd. gift card amounting ₩28,134,900 thousand for the year ended December 31, 2017 (2016: ₩18,573,600 thousand).

<sup>4</sup> Although the entities are not defined as related parties under Korean IFRS 1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates.

<sup>5</sup> As at October 1, 2017, Lotte Confectionery Co., Ltd. spun off Lotte Confectionery's investment division to be an existing corporation and its confectionery division to be a newly established corporation (the name is Lotte Confectionery Co., Ltd.). The existing corporation changed its name to Lotte Corporation after the spin-off and merger. Also, other expenses include cost of brands usage and other (Note 38).

<sup>6</sup> On November 1, 2017, Lotte Data Communication Company established Lotte Data Communication Company (newly established corporation) by spinning off its information and communication business division and changed its name to Lotte IT Tech Co., Ltd.

<sup>7</sup> Adjustments from early application of Korean IFRS 1115 are reflected, and accordingly, there may be some differences from what the counterparty recognized for certain transactions.

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Related parties	2016				
	Sales	Purchase	Acquisition of property and equipment and intangible assets	Other income <sup>1</sup>	Other expenses
<b>Shareholders:</b>					
Hotel Lotte Co., Ltd.	₩ 42,429,264	₩ 43,710	₩ 391,715	₩ 343,483	₩ 112,028,508
Lotte Confectionery Co., Ltd.	12,550,048	141,421,584	-	216	6,908,377
Lotte Chilsung Beverage Co., Ltd.	11,767,526	66,378,835	-	146,086	547,385
Lotte Engineering & Construction Co., Ltd.	6,605,638	-	290,200,038	4,590	292,524
Hotel Lotte Pusan Co., Ltd.	6,684,686	-	-	-	20,729,829
Lotte Data Communication Company	2,314,755	-	39,573,626	-	80,348,928
Korea Fuji Film Co., Ltd.	1,335,356	12,926	-	-	-
	<u>83,687,273</u>	<u>207,857,055</u>	<u>330,165,379</u>	<u>494,375</u>	<u>220,855,551</u>
<b>Subsidiaries:</b>					
Lotte Card Co., Ltd.	9,892,206	-	-	806,878	145,758,894
Woori Home Shopping & Television Co., Ltd.	686,309	-	-	-	33,292,566
Korea Seven Co., Ltd.	7,588,785	6,720	-	-	50,586
LOTTE Himart Co., Ltd.	49,645,192	4,831,236	22,176	157,674	42,738
LOTTE.COM INC	2,679,562	-	-	-	95,508,062
Others	15,170,190	16,179,481	536,216	7,580	85,070,852
	<u>85,662,244</u>	<u>21,017,437</u>	<u>558,392</u>	<u>972,132</u>	<u>359,723,698</u>
<b>Associates:</b>					
Daehong Communications Inc.	37,988,979	3,434	475,200	-	45,703,571
Lotteria Co., Ltd.	16,431,062	6,123,820	132,815	629	447,831
Lotte Station Building Co., Ltd.	11,896,350	-	217,073	2,388	4,144,196
Lotte Trading Co., Ltd.	5,528,894	174,062,037	-	-	56,305
Others	59,603,787	82,665,893	-	-	36,178,148
	<u>131,449,072</u>	<u>262,855,184</u>	<u>825,088</u>	<u>3,017</u>	<u>86,530,051</u>
<b>Others:</b>					
LOTTE FOOD CO., LTD.	13,594,059	147,115,620	-	-	7,628,664
Lotte Aluminum Co., Ltd.	2,729,848	9,706,101	11,711,954	-	13,250,313
Others	42,045,069	11,670,950	2,546,800	19,945,579	238,299,818
	<u>58,368,976</u>	<u>168,492,671</u>	<u>14,258,754</u>	<u>19,945,579</u>	<u>259,178,795</u>
	<u>₩359,167,565</u>	<u>₩ 660,222,347</u>	<u>₩ 345,807,613</u>	<u>₩ 21,415,103</u>	<u>₩ 926,288,095</u>

<sup>1</sup> Other revenues included disposal of property and equipment.

During 2016, the Company acquired 660,805 shares and 59,273 warrant of Lotte Global Logistics Co.,LTD.(formerly, Hyundai Logistics Co., Ltd.) from IGIS I Corporation for ₩ 26,448,267 thousand.

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Fund transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
	Capital increase	Capital deduction	Capital increase	Capital deduction
<b>Related parties<sup>1</sup></b>				
<b>Subsidiaries:</b>				
Lotte Shopping Holdings (Hong Kong) Co., Limited	₩ 278,227,320	₩ -	₩ 81,888,930	₩ -
LOTTE SHOPPING HOLDINGS(SINGAPORE) PTE. LTD.	27,350,197	-	8,637,125	-
Lotte Cinema Co., Ltd.	500,000	-	-	-
Lotte Ulsan Development Co., Ltd.	-	-	23,900,000	-
LOTTE CINEMA VIETNAM CO., LTD.	-	-	10,299,060	-
LOTTE Properties Hanoi (Singapore) Pte. Ltd.	-	-	127,420,700	-
LHSC limited	7,166,521	-	-	-
PT. LOTTE CINEMA INDONESIA	4,346,193	-	-	-
	<u>317,590,231</u>	<u>-</u>	<u>252,145,815</u>	<u>-</u>
<b>Associates:</b>				
Shandong Longzhile Cinema Co., Ltd.	-	-	884,100	-
Capital One Middle-Low Budget Cinema Fund	-	(475,000)	-	(1,350,000)
Hemisphere Film Investors II LLC	-	(732,776)	-	(3,365,622)
BUSAN-LOTTE CREATIVE FILM FUND	-	-	6,000,000	-
Coralis S.A.	-	-	4,474,368	-
CapitalOne Lotte-iMBC Contents Fund	1,500,000	-	1,500,000	-
IBK-ISU Contents Fund	1,050,000	-	1,750,000	-
	<u>2,550,000</u>	<u>(1,207,776)</u>	<u>14,608,468</u>	<u>(4,715,622)</u>
<b>Joint ventures:</b>				
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	173,930	-	-	-
<b>Others<sup>2</sup>:</b>				
Lotte Global Logistics Co.,LTD.	978,064	-	-	-
LOTTE Accelerator Corporation	-	-	2,500,000	-
Lotte Members Co., Ltd	-	-	24,382,063	-
Capital One Diversity Cinema Fund	-	(284,268)	-	(80,127)
LOTTE Giants Co., Ltd.	-	-	9,000,000	-
S.M.CONTENTES INVESTMENT	-	(14,924)	-	(1,500,000)
	<u>978,064</u>	<u>(299,192)</u>	<u>35,882,063</u>	<u>(1,580,127)</u>
	<u>₩ 321,292,225</u>	<u>₩ (1,506,968)</u>	<u>₩ 302,636,346</u>	<u>₩ (6,295,749)</u>

<sup>1</sup> The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

**Lotte Shopping Co., Ltd.**  
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<sup>2</sup> Although the entities are not defined as related parties under Korean IFRS 1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

Related parties <sup>1</sup>	2017			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Shareholders:</b>				
Lotte Corporation <sup>3</sup>	₩ 269,568	₩ 482,400	₩ -	₩ 2,941,222
Hotel Lotte Co., Ltd.	79,736	51,504,063	-	60,197,480
Hotel Lotte Pusan Co., Ltd.	-	17,869,470	-	2,968,670
Korea Fuji Film Co., Ltd.	4,772	-	54,401	1,500,744
	<u>354,076</u>	<u>69,855,933</u>	<u>54,401</u>	<u>67,608,116</u>
<b>Subsidiaries:</b>				
Woori Home Shopping & Television Co., Ltd.	24,716,555	-	1,240	4,824,939
LOTTE Himart Co., Ltd.	46,078	8,680,895	404,231	6,075,663
Others	552,366	16,577,166	2,568,555	7,193,567
	<u>25,314,999</u>	<u>25,258,061</u>	<u>2,974,026</u>	<u>18,094,169</u>
<b>Associates:</b>				
FRL Korea Co., Ltd.	-	568	10,981,944	19,117,065
Others	-	-	-	5,578,826
	<u>-</u>	<u>568</u>	<u>10,981,944</u>	<u>24,695,891</u>
<b>Others<sup>2</sup>:</b>				
Lotte Confectionery Co., Ltd.(newly established corporation) <sup>3</sup>	407,275	410,925	12,698,231	2,040,841
Lotte Chilsung Beverage Co., Ltd.	210,993	4,087,834	5,378,535	6,187,585
Lotte Data Communication Company(newly established corporation) <sup>4</sup>	-	47,569,341	-	15,234,864
Lotte Card Co., Ltd.	49,837,424	1,606,971	-	108,321,784
Korea Seven Co., Ltd.	2,186	193,637	-	2,122,648
LOTTE.COM INC	60,271,818	663,955	-	1,348,818
Daehong Communications Inc.	6,473,428	286,607	-	10,972,460
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	47,016	479,373	388,660	9,620,309
Lotte Station Building Co., Ltd.	5,739,251	11,869,629	-	5,930,866
Lotte Trading Co., Ltd.	69,441	711,209	9,422,654	18,383
LOTTE Engineering & Construction Co.,Ltd	101,200	5,071,899	-	79,863,428
LOTTE FOOD CO., LTD.	247,494	1,578,017	12,924,234	8,339,372
Lotte Aluminum Co., Ltd.	-	38,646	532,849	2,815,953
Others	5,950,593	15,413,751	1,349,407	148,823,193
	<u>129,358,119</u>	<u>89,981,794</u>	<u>42,694,570</u>	<u>401,640,504</u>
Total <sup>5</sup>	<u>₩ 155,027,194</u>	<u>₩ 185,096,356</u>	<u>₩ 56,704,941</u>	<u>₩ 512,038,680</u>

**Lotte Shopping Co., Ltd.**  
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<sup>1</sup> The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

<sup>2</sup> Although the entities are not defined as related parties under Korean IFRS 1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act and overseas affiliates

<sup>3</sup> As at October 1, 2017, Lotte Confectionery Co., Ltd. spun off Lotte Confectionery's investment division to be an existing corporation and its confectionery division to be a newly established corporation (the name is Lotte Confectionery Co., Ltd.). The existing corporation changed its name to Lotte Corporation after the spin-off and merger.

<sup>4</sup> On November 1, 2017, Lotte Data Communication Company established Lotte Data Communication Company (newly established corporation) through by spinning off its information and communication business division and changed its name to Lotte IT Tech Co., Ltd.

<sup>5</sup> Effects from early application of Korean IFRS 1115 are reflected, and therefore, there may be some differences from what the counterparty recognized for certain transactions.

(in thousands of Korean won)

Related parties <sup>1</sup>	2016			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Shareholders:</b>				
Hotel Lotte Co., Ltd.	₩ 121,285	₩ 51,945,531	₩ -	₩ 46,347,765
Lotte Confectionery Co., Ltd.	537,987	720,464	16,319,334	1,966,740
Lotte Chilsung Beverage Co., Ltd.	133,245	625,280	4,158,786	6,173,394
Lotte Engineering & Construction Co., Ltd.	2,178	4,757,241	-	104,578,513
Hotel Lotte Pusan Co., Ltd.	28,298	11,373,587	-	6,972,369
Lotte Data Communication Company	-	61,031,396	-	20,675,845
Korea Fuji Film Co., Ltd.	4,363	-	-	1,536,320
	<u>827,356</u>	<u>130,453,499</u>	<u>20,478,120</u>	<u>188,250,946</u>
<b>Subsidiaries:</b>				
Lotte Card Co., Ltd.	37,387,418	4,657,997	-	44,145,703
Woori Home Shopping & Television Co., Ltd.	24,267,463	224,787	1,230	5,593,015
Korea Seven Co., Ltd.	9,343	588,461	-	2,044,702
LOTTE Himart Co., Ltd.	292,693	9,175,730	484,719	3,984,070
LOTTE.COM INC	57,617,310	629,844	-	1,030,895
Others	362,038	15,167,254	10,257,994	12,353,030
	<u>119,936,265</u>	<u>30,444,073</u>	<u>10,743,943</u>	<u>69,151,415</u>
<b>Associates:</b>				
Daehong Communications Inc.	4,281,487	1,460,037	-	10,470,216
Lotteria Co., Ltd.	98,309	512,814	576,218	10,588,561
Lotte Station Building Co., Ltd.	8,244,677	13,762,632	-	11,081,811
Lotte Trading Co., Ltd.	118,708	609,633	8,105,190	15,773
Others	4,572	8,034,608	9,907,667	27,531,040



**Lotte Shopping Co., Ltd.**  
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(in thousands of Korean won)

Related parties <sup>1</sup>	2016			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
	12,747,753	24,379,724	18,589,075	59,687,401
<b>Others:</b>				
LOTTE FOOD CO., LTD.	252,933	4,527,858	13,559,269	8,254,321
Lotte Aluminum Co., Ltd.	-	197,187	965,296	2,728,304
Others	122,210	4,225,709	1,236,971	139,751,617
	375,143	8,950,754	15,761,536	150,734,242
	₩ 133,886,517	₩ 194,228,050	₩ 65,572,674	₩ 467,824,004

The compensation paid or payable to key management for employee services for the years ended December 31, 2017 and 2016, consists of:

(in thousands of Korean won)

	2017		2016	
Short-term employee benefits	₩	34,724,856	₩	36,466,827
Post-employment benefits		6,821,550		9,352,979
Other long-term benefits		202,714		89,649
	₩	41,749,120	₩	45,909,455

**Lotte Shopping Co., Ltd.**  
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Details of payment guarantees and collateral provided by the Company for the financial supports to the related parties as at December 31, 2017, are as follows, and no collateral and payment guarantees are provided by the related parties:

Related party <sup>1</sup>	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings
<b>Subsidiaries</b>				
Lotte Business Management (Tianjin) Co., Ltd.	BNP Paribas	CNY 150,000,000	June 21, 2016 ~ June 21, 2018	Working capital
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	KEB Hana Bank	CNY 170,000,000	June 15, 2016 ~ June 15, 2018	Working capital
Lotte Department Store (Shenyang) Co., Ltd.	BNP Paribas	CNY 50,000,000	July 11, 2016 ~ July 11, 2018	Working capital
PT. LOTTE Shopping Avenue Indonesia	JP Morgan	IDR 200,000,000,000	December 21, 2015 ~ December 21, 2018	Working capital
	JP Morgan	USD 20,000,000	September 22, 2017 ~ September 22, 2020	Working capital
Jiangsu Lotte Mart Co., Ltd. <sup>2</sup>	DBS	CNY 330,000,000	August 30, 2017 ~ August 29, 2018	Working capital
	HSBC	KRW 74,706,405,586	December 27, 2017 ~ June 30, 2018	Working capital
LOTTE MART COMPANY LIMITED	HSBC	KRW 12,288,411,266	December 27, 2017 ~ June 30, 2018	Working capital
Liaoning LOTTE Mart Co., Ltd.	HSBC	KRW 30,267,000,000	December 27, 2017 ~ June 30, 2018	Working capital
PT. LOTTE MART INDONESIA	Standard Chartered	IDR 300,000,000,000	March 30, 2017 ~ March 30, 2018	Working capital
	BNP Paribas	IDR 400,000,000,000	April 14, 2017 ~ April 14, 2018	Working capital
	HSBC	IDR 250,000,000,000	April 14, 2017 ~ April 14, 2018	Working capital
	JP Morgan	USD 30,000,000	May 23, 2017 ~ May 23, 2018	Working capital
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	HSBC	VND 763,300,000,000	April 28, 2017 ~ May 28, 2018	Working capital
	HSBC	USD 35,000,000	May 29, 2017 ~ June 22, 2018	Working capital
LOTTE CINEMA VIETNAM CO., LTD.	DBS	USD 8,000,000	October 5, 2016 ~ October 5, 2019	Working capital
	DBS	USD 8,000,000	October 5, 2016 ~ October 5, 2019	Working capital
	Standard Chartered	VND 112,000,000,000	December 26, 2016 ~ December 25, 2019	Working capital
	HSBC	VND 267,332,651,072	March 3, 2017 ~ November 26, 2018	Working capital
	DBS	USD 10,000,000	April 17, 2017 ~ April 17, 2018	Working capital
	Kookmin Bank	USD 14,000,000	July 7, 2017 ~ July 6, 2018	Working capital
	The Export-Import Bank of Korea	USD 10,000,000	September 27, 2017 ~ September 27, 2018	Working capital
	Lotte Shopping Holdings (Hong Kong) Co., Limited	ING	USD 120,213,804	January 20, 2015 ~ January 19, 2018
	HSBC	USD 95,297,610	November 30, 2015 ~ November 30, 2018	Working capital
	BNP Paribas	USD 104,818,169	May 16, 2016 ~ May 16, 2019	Working capital
	KEB Hana Bank	USD 65,000,000	April 25, 2017 ~ March 13, 2020	Working capital
	Shinhan Bank	USD 49,818,783	June 1, 2017 ~ June 1, 2020	Working capital

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Related party <sup>1</sup>	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings
	BNP Paribas	USD 28,209,857	June 1, 2017 ~ June 1, 2020	Working capital
	Credit Agricole	USD 29,526,898	July 27, 2017 ~ June 30, 2020	Working capital
	Kookmin Bank	USD 35,000,000	November 30, 2017 ~ May 30, 2018	Working capital
	HSBC	HKD 280,000,000	December 1, 2017 ~ December 1, 2018	Working capital
Lotte Shopping Business Management (Hong Kong) Limited	The Export-Import Bank of Korea	USD 300,000,000	September 5, 2017 ~ September 5, 2020	Working capital
LOTTE PROPERTIES (CHENGDU) HK LIMITED	The Export-Import Bank of Korea	USD 190,000,000	March 15, 2017 ~ March 16, 2020	Working capital
	KEB Hana Bank	USD 25,000,000	March 15, 2017 ~ March 13, 2020	Working capital
<b>Joint venture</b>				
International Business Center Company Limited	The Export-Import Bank of Korea	USD 15,000,000	April 6, 2016 ~ April 6, 2019	Working capital
	Woori Bank	USD 4,000,000	April 6, 2017 ~ April 6, 2018	Working capital
<b>Associate</b>				
Shandong Longzhile Cinema Co., Ltd.	Industrial Bank of Korea	CNY 13,000,000	January 11, 2017 ~ January 11, 2020	Working capital
<b>Others</b>				
Lotte Properties (Shenyang) Limited	The Export-Import Bank of Korea	USD 30,500,000	March 30, 2016 ~ March 30, 2019	Working capital
	Woori Bank	USD 31,500,000	April 25, 2016 ~ April 25, 2019	Working capital
	Korea Development Bank	USD 57,500,000	May 4, 2016 ~ May 4, 2019	Working capital

<sup>1</sup> The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

<sup>2</sup> The subsidiary is included in 'Swift Harvest Ltd. and its subsidiaries'.

The Company guarantees fulfillment of the contracts on behalf of Burger King Japan Co., Ltd. and Korea Seven Co., Ltd. and Buy the Way Inc. The contracts are as follows: royalty contract (3% of net sales, USD 25,000 per every new store open) between Burger King Japan Co., Ltd. and BK Asiapac, Pte. Ltd. and royalty contract (0.6% of net sales) among Korea Seven Co., Ltd., Buy the Way Inc., and 7-Eleven, Inc. (USA).

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The Company entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able"), Invest Farmland Co., Ltd. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩700,000,000 thousand 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 (₩144,000,000 thousand 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", ₩250,000,000 thousand 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", ₩266,000,000 thousand 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. In 2017, the Company entered into an agreement to provide financial support for Mars L D, LLC. in default of the principal and interest on the Asset Backed Commercial Paper ("ABCP", ₩ 620,000,000 thousand of par value in maturing on October 27, 2021) issued by Mars L D, LLC., which was collateralized with the assets of LOTTE Town Dongtan Co.,LTD.

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

In 2013, the Company issued hybrid securities, among which ₩20,000 million is held by Lotte Non-Life Insurance Co., Ltd.

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Details of dividends received from related parties for the years ended December 31, 2017, are as follows:

*(in thousands of Korean won)*

<b>Related party<sup>1</sup></b>	<b>2017</b>	<b>2016</b>
<b>Subsidiaries:</b>		
Woori Home Shopping & Television Co., Ltd.	₩ 15,910,485	₩ 15,910,485
LOTTE Himart Co., Ltd.	7,701,637	6,623,408
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	433,048	-
	<u>24,045,170</u>	<u>22,533,893</u>
<b>Associates:</b>		
FRL Korea Co., Ltd.	<u>41,503,000</u>	<u>13,475,000</u>
<b>Others<sup>2</sup>:</b>		
Lotte Card Co., Ltd.	17,522,213	-
Korea Seven Co., Ltd.	1,852,618	870,730
Lotte Station Building Co., Ltd.	6,095,061	7,382,356
Daehong Communications Inc.	816,000	680,000
Lotte Capital Co., Ltd.	2,233,522	2,233,522
LOTTE FOOD CO., LTD.	283,080	225,520
Lotte Logistics Co., Ltd.	33,154	93,494
	<u>28,835,648</u>	<u>11,485,622</u>
	<u>₩ 94,383,818</u>	<u>₩ 47,494,515</u>

<sup>1</sup> The related party classification reflects the changes in the ownership interest due to spin-off and merger during the year ended December 31, 2017.

<sup>2</sup> Although the entities are not defined as related parties under Korean IFRS 1024, the entities are considered to be part of the Large Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act.

Details of purchasing card transactions with Lotte Card Co., Ltd. as at December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>Contractual</b>			<b>Unsettled</b>
<b>Type<sup>1</sup></b>	<b>amount</b>	<b>Used amount</b>	<b>Repayment</b>	<b>amount</b>
Perspective of user	₩ 325,000,000	₩ 2,812,371,848	₩ 2,737,163,309	₩ 98,068,076

**Lotte Shopping Co., Ltd.**  
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**40. Risk Management**

**40.1 Management of Financial Risks**

*(a) Objectives and Policies of the Company*

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

In order to 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.

*(b) Credit Risk*

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

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

i) Exposure to credit risk

The book amount of a financial asset represents the maximum exposure to credit risk. The maximum exposures to credit risk as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Cash equivalent <sup>1</sup>	₩ 1,662,433,010	₩ 861,345,114
Trade and other receivables	690,431,124	635,818,360
Other financial assets (current)	524,593,339	290,383,305
Other financial assets (non-current) <sup>2</sup>	1,049,177,202	1,054,703,563
	<u>₩ 3,926,634,675</u>	<u>₩ 2,842,250,342</u>

<sup>1</sup> Cash held by the Company are excluded as there is no exposure to credit risk.

<sup>2</sup> Equity securities within available-for-sale financial assets are excluded as there is no exposure to credit risk.

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ii) Impairment loss

Trade and other receivables, other financial assets (current), and other financial assets (non-current), before deducting the allowance for doubtful accounts as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>			
	<b>Receivables that are neither past due nor impaired</b>	<b>Receivables that are past due but not impaired</b>	<b>Receivables impaired<sup>1</sup></b>	<b>Total</b>
Trade and other receivables	₩ 682,339,199	₩ 8,091,925	₩ 5,566,133	₩ 695,997,257
Other financial assets (current)	524,593,339	-	33,978	524,627,317
Other financial assets (non-current)	1,049,177,202	-	2,950,000	1,052,127,202
	<u>₩ 2,256,109,740</u>	<u>₩ 8,091,925</u>	<u>₩ 8,550,111</u>	<u>₩ 2,272,751,776</u>

<sup>1</sup> Provision for impairment is recognized for financial assets that are determined individually impaired.

*(in thousands of Korean won)*

	<b>2016</b>			
	<b>Receivables that are neither past due nor impaired</b>	<b>Receivables that are past due but not impaired</b>	<b>Receivables impaired<sup>1</sup></b>	<b>Total</b>
Trade and other receivables	₩ 630,463,084	₩ 5,355,276	₩ 3,531,078	₩ 639,349,438
Other financial assets (current)	290,383,305	-	33,978	290,417,283
Other financial assets (non-current)	1,054,703,563	-	3,950,000	1,058,653,563
	<u>₩ 1,975,549,952</u>	<u>₩ 5,355,276</u>	<u>₩ 7,515,056</u>	<u>₩ 1,988,420,284</u>

<sup>1</sup> Provision for impairment is recognized for financial assets that are determined individually impaired.

**Lotte Shopping Co., Ltd.**  
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Movements in allowance provision of impairment of trade and other receivables for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Beginning balance	₩	3,531,078	₩	4,645,366
Provision		2,268,582		58,185
Reversal of impairment loss		(20,186)		(33,590)
Write-offs		(213,341)		(1,138,883)
Ending balance	₩	<u>5,566,133</u>	₩	<u>3,531,078</u>

Movements in the allowance provision of other financial assets (current) for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Beginning balance	₩	33,978	₩	33,978
Impairment loss (reversal)		-		-
Ending balance	₩	<u>33,978</u>	₩	<u>33,978</u>

The movement in the provision for impairment of other financial assets (non-current) for the years ended December 31, 2017 and 2016, is as follow:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Balance at beginning of the year	₩	3,950,000	₩	3,950,000
Impairment loss		-		20,000
Write-offs		(1,000,000)		(20,000)
Balance at end of the year	₩	<u>2,950,000</u>	₩	<u>3,950,000</u>



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iii) Financial assets that are past due but nor impaired

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

*(in thousands of  
Korean won)*

	2017									
	Carrying amount		3 months or less		3 ~ 6 months		6 ~ 12 months		More than 1 year	
Trade and other receivables	₩	8,091,926	₩	4,794,030	₩	1,450,151	₩	1,739,063	₩	108,682

*(in thousands of  
Korean won)*

	2016									
	Carrying amount		3 months or less		3 ~ 6 months		6 ~ 12 months		More than 1 year	
Trade and other receivables	₩	5,355,276	₩	3,966,679	₩	246,566	₩	841,065	₩	300,966

iv) Payment guarantees

As at December 31, 2017, the Company has provided financial guarantees to subsidiaries, associates and joint ventures. Should the Company be liable for payment upon defaults of the subsidiaries, associates and joint ventures, the expected amounts which the Company is liable to pay within 1 year are ₩1,939,057,899 thousand.

*(c) Liquidity Risks*

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

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

Also, the Company currently deposits a considerable amount with financial institutions with 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 (domestic: AA+, foreign: Baa3, BBB-). The management of the Company believes that it is possible to redeem liabilities using cash flows from operating activities and cash in-flow from financial assets.

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Aggregate maturities of financial liabilities, including estimated interest, as at December 31, 2017, are as follows:

(in thousands of  
Korean won)

	2017			
	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Borrowings and debentures (current) <sup>1,2</sup>	₩ 270,260,942	₩ 541,313,987	₩ 672,488,616	₩ -
Trade and other payables	2,722,960,093	-	-	-
Other financial liabilities (current)	252,063,987	33,611,801	79,022,450	-
Borrowings and debentures (non-current) <sup>1</sup>	17,565,029	17,800,082	36,102,941	3,277,996,612
Other financial liabilities (non-current)	466,567	206,772	19,303	84,589,566
Acceptances and guarantees	1,939,057,899	-	-	-
	<u>₩ 5,202,374,517</u>	<u>₩ 592,932,642</u>	<u>₩ 787,633,310</u>	<u>₩ 3,362,586,178</u>

<sup>1</sup> Interest expenses are included.

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

*(d) 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 Company's return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out under strict supervision of the internal risk management. 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 assets and liabilities that are denominated in currencies other than Korean won, the respective functional currency of the Company. Currencies that generate exchange positions include USD, JPY and others. The objective of exchange risk management is to continue stable financial activities by minimizing uncertainty and profit and loss fluctuations. Foreign currency trade for speculation is strictly prohibited.

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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. As at December 31, 2017, the exchange rate risks of the Company's foreign currency denominated borrowings and debentures excluding JPY10billion borrowed from Lotte Co., Ltd. (Japan) are being hedged.

Assets and liabilities denominated in foreign currencies other than the Company's functional currency as at December 31, 2017 and 2016, are as follows:

(in thousands of  
Korean won)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 13,800,332	₩ 1,071,277,902	₩ 7,036,726	₩ 1,695,994,535
EUR	227,595	1,620,287	32,641	1,105,265
JPY	-	94,911,000	-	103,681,000
IDR	441,358	-	255,281	-
HKD	506	-	6,233	-
CNY	1,761,955	26,274	1,427,696	11,951,874
VND	322,176	-	63,422	-
	<u>₩ 16,553,922</u>	<u>₩ 1,167,835,463</u>	<u>₩ 8,821,999</u>	<u>₩ 1,812,732,674</u>

The average rates for the years ended December 31, 2017 and 2016, and the closing rates as at December 31, 2017 and 2016, are as follows:

(in Korean won)

	Average rate		Closing rate	
	2017	2016	December 31, 2017	December 31, 2016
USD	₩ 1,130.84	₩ 1,160.50	₩ 1,071.40	₩ 1,208.50
EUR	1,276.39	1,283.30	1,279.25	1,267.60
JPY	10.0852	10.6817	9.4911	10.3681
IDR	0.0845	0.0872	0.0790	0.0898
HKD	145.13	149.51	137.07	155.83
CNY <sup>1</sup>	167.46	174.40	163.65	173.26
VND	0.0498	0.0519	0.0472	0.0531

<sup>1</sup> 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, and the Company applies direct CNH/KRW exchange rate in translation from January 1, 2016.

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The Company regularly measures exchange risks on Korean won against foreign currency fluctuations. The Company assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period with all other variables held constant. Sensitivity analysis of income before taxes from changes of foreign currency exchange rate as at December 31, 2017 and 2016, is as follows:

*(in thousands of Korean won)*

	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩ 1,380,033	₩ (1,380,033)	₩ 294,219	₩ (294,219)
EUR	(139,269)	139,269	(107,262)	107,262
JPY	(9,491,100)	9,491,100	(10,368,100)	10,368,100
IDR	44,136	(44,136)	25,528	(25,528)
HKD	51	(51)	623	(623)
CNY	173,568	(173,568)	(1,052,418)	1,052,418
VND	32,218	(32,218)	6,342	(6,342)
	₩ (8,000,363)	₩ 8,000,363	₩ (11,201,068)	₩ 11,201,068

Borrowings and debentures with currency swaps and overseas convertible notes designated as financial liabilities at fair value through profit or loss are not included. The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Company's functional currency, as at December 31, 2017 and 2016.

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.

The book amounts of the Company's variable interest-bearing financial instruments as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	2017	2016
Variable rate instruments:		
Financial assets	₩ 39,000,000	₩ 47,000,000
Financial liabilities	1,366,188,902	1,511,859,937

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The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Company's interest income and expense that would incur in relation to the deposits and borrowings for the year ended December 31, 2017 and 2016. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant.

*(in thousands of  
Korean won)*

	2017		2016	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest income	₩ 390,000	₩ (390,000)	₩ 470,000	₩ (470,000)
Interest expense	949,110	(949,110)	1,036,810	(1,036,810)

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

iii) Price risk

The Company is exposed to fluctuations of price in available-for-sale financial assets. The book amounts of the marketable available-for-sale financial assets as at December 31, 2017 and 2016, are ₩155,075,734 thousand and ₩174,104,665 thousand, respectively.

The Company assumes that prices of the marketable available-for-sale financial assets fluctuate 10% at the end of reporting period with all other variables held constant. Sensitivity analysis of other comprehensive income from changes of price as at December 31, 2017 and 2016, is as follows:

*(in thousands of  
Korean won)*

	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Other comprehensive income	₩ 15,507,573	₩ (15,507,573)	₩ 17,410,467	₩ (17,410,467)

**Lotte Shopping Co., Ltd.**  
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**40.2 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 at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Liabilities (a)	₩ 10,308,880,357	₩ 10,477,055,817
Equity (b)	12,511,986,316	15,505,754,250
Financial instruments (c)	2,053,433,396	1,025,398,246
Borrowings (d)	4,565,421,068	4,315,257,438
Liabilities to equity ratio (a/b)	82.39%	67.57%
Net borrowings to equity ratio ((d-c)/b)	20.08%	21.22%

**41. Spin-off**

On April 26, 2017, the Company's Board of Directors approved the spin-off of the respective investment divisions of Lotte Shopping Co., Ltd., Lotte Chilsung Beverage Co., Ltd., and Lotte Food Co., Ltd. which are merged into the investment division of Lotte Confectionery Co., Ltd. The shareholders approved the spin-off and merger during the extraordinary shareholders' meeting on August 29, 2017. After the spin-off and merger newly established and existing corporation are jointly liable for the liabilities that existed before the spin-off in accordance with paragraph 1 of Article 530 and severally 9 of the Commercial Code of Korea.

<b>Category</b>	<b>Details</b>
Method of stock split	Spin-off
Companies subject to stock spin-off	Business division of Lotte Shopping Co., Ltd. (existing corporation) Investment division of Lotte Shopping Co., Ltd. (newly established division)
Date of Spin-off and merger	October 1, 2017

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Details of assets and liabilities transferred to the newly established corporation are as follows:

*(in thousands of Korean won)*

**2017**

**Current assets**

Cash and cash equivalents	₩	586,748,349
Trade and other receivables		10,088,398
Other financial assets		21,369
Other non-financial assets		1,884,384
		<u>598,742,500</u>

**Non-current assets**

Investments in associates and joint ventures		1,639,061,949
Other financial assets		73,847,190
		<u>1,712,909,139</u>

**Total assets**

₩ 2,311,651,639

**Current liabilities**

Borrowings and debentures	₩	577,759,094
Trade and other payables		591,754,919
Other financial liabilities		15,567,784
Other non-financial liabilities		594,820
		<u>1,185,676,617</u>

**Non-current liabilities**

Other financial liabilities		12,213,620
Net of defined benefit liabilities and other long-term employee benefits		(2,930,019)
Deferred tax liabilities		102,159,834
		<u>111,443,435</u>
	₩	<u>1,297,120,052</u>

***Gain on settlement of spin-off***

For non-cash assets that are non-reciprocal distributions, and where the owners of the same equity are treated equally, the Company recognizes dividends payable using the fair value at the date when the Company declares a distribution and has an obligation to distribute the assets and liabilities to its owners. In measuring the fair value of non-cash assets subject to distribution, the Company used the estimate of independent external valuation and the valuation model. The difference between the non-cash assets held for distribution and dividends payable amounting to ₩1,662,750,332 thousand was recognized as gain on settlement of spin-off on October 1, 2017, the spin-off and merger date.

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The Company measured the fair value based on projected financial statements for the next five years. These financial statements were developed based on the Company's past performance, future plans, market forecast, and applied a present value technique. These measurements are classified in Level 3. Significant inputs used in the fair value measurement are as follows:

- Discount rate applied to FCFF model: 6.86% ~ 12.04%
- Terminal growth rate applied to cash flows for the next five years : 0.00% ~ 1.00%

**42. Subsequent Event**

The Board of Directors of the Company made a resolution to merge with its subsidiary, Lotte Department Store Masan Co., Ltd. (ownership: 100%) on November 9, 2017 and approved the merger on December 21, 2017. On February 1, 2018, the Company merged with Lotte Department Store Masan Co., Ltd.