

Lotte Shopping Co., Ltd. and Subsidiaries

**Consolidated Financial Statements
December 31, 2017**

Lotte Shopping Co., Ltd. and Subsidiaries
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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 consolidated financial statements of Lotte Shopping and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lotte Shopping Co., Ltd. and its subsidiaries as at December 31, 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with Korean IFRS.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 43 to these consolidated financial statements. As discussed in Note 43, 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 divisions from their businesses and merged them into the investment division of Lotte Confectionery Co., Ltd. as of October 1, 2017. As a result of the 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 consolidated financial statements of the Group as of and for the year ended December 31, 2016, prior to the reflection of the discontinued operations, as described in Note 43, were audited by Samjong KPMG Accounting Corp. whose report dated March 15, 2017 expressed an unqualified opinion on those financial statements.

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 consolidated 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. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

(in Korean won)

	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	7,35,42	₩ 2,626,243,925,953	₩ 2,269,177,234,171
Trade and other receivables	5,7,41,42	870,455,686,564	1,031,337,759,860
Other financial assets	6,7,22,42	1,245,665,288,496	9,979,328,621,652
Inventories	8	1,354,039,250,052	3,324,376,740,398
Income tax refund receivable		2,105,153,010	2,961,216,473
Other non-financial assets	9	193,161,093,427	322,866,076,222
Non-current assets held for sale	10	3,640,679,050	2,267,276,611
		<u>6,295,311,076,552</u>	<u>16,932,314,925,387</u>
Non-current assets			
Investments in associates and joint ventures	11,12	443,190,286,833	1,336,699,958,995
Other financial assets	6,7,22,42	1,702,498,327,264	2,319,321,552,805
Property, plant and equipment, net	13,41	14,918,310,394,824	15,932,242,057,138
Investment property, net	14	1,149,023,430,144	691,845,360,846
Goodwill	15	1,923,903,641,348	2,591,950,458,583
Intangible assets, net	15	502,252,395,726	764,747,556,589
Deferred tax assets	34	16,700,982,896	68,585,809,170
Other non-financial assets	9	997,297,513,495	1,278,198,820,639
		<u>21,653,176,972,530</u>	<u>24,983,591,574,765</u>
Total assets		<u>₩ 27,948,488,049,082</u>	<u>₩ 41,915,906,500,152</u>
Liabilities			
Current liabilities			
Borrowings and debentures, net of issuance costs	7,17,39,41,42	₩ 3,078,792,356,946	₩ 5,058,613,133,728
Trade and other payables	7,16,41,42	3,494,433,704,804	5,785,351,876,559
Other financial liabilities	7,22,42	504,089,415,191	626,344,936,162
Income tax payables		122,745,920,601	153,972,170,846
Unearned revenues	18	132,564,117,803	221,442,319,692
Provisions	19	55,121,565,042	68,755,477,976
Other non-financial liabilities	20	1,156,782,508,850	1,471,475,190,806
		<u>8,544,529,589,237</u>	<u>13,385,955,105,769</u>
Non-current liabilities			
Borrowings and debentures, net of issuance costs	7,17,39,41,42	4,588,891,563,125	9,424,335,124,500
Other financial liabilities	7,22,42	151,868,082,611	260,489,278,105
Net of defined benefit liabilities and other long-term employee benefits	21	34,713,839,844	68,907,457,812
Deferred tax liabilities	34	1,133,944,793,579	1,342,333,800,344
Unearned revenues	18	7,519,852,356	10,735,884,988
Provisions	19	3,302,633,974	40,024,400,898
Other non-financial liabilities	20	132,365,102,084	119,083,555,059
		<u>6,052,605,867,573</u>	<u>11,265,909,501,706</u>
Total liabilities		<u>14,597,135,456,810</u>	<u>24,651,864,607,475</u>
Equity			
Share capital	1,23	140,610,235,000	157,454,460,000
Capital Surplus	23	3,505,685,532,239	3,910,751,867,924
Hybrid securities	24	269,118,000,000	269,118,000,000
Capital adjustments	25	(2,904,413,361,094)	(116,353,277,534)
Retained earnings	26	11,730,312,514,167	11,995,610,433,739
Accumulated other comprehensive income	27	(82,728,299,496)	87,952,732,018
Equity attributable to owners of the Parent Company		<u>12,658,584,620,816</u>	<u>16,304,534,216,147</u>
Non-controlling interest		<u>692,767,971,456</u>	<u>959,507,676,530</u>
Total equity		<u>13,351,352,592,272</u>	<u>17,264,041,892,677</u>
Total liabilities and equity		<u>₩ 27,948,488,049,082</u>	<u>₩ 41,915,906,500,152</u>

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

Lotte Shopping Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income(loss)
Years Ended December 31, 2017 and 2016

<i>(in Korean won)</i>	Notes	2017	2016 (Unaudited)
Sales	29,36,38,39,41	₩ 18,179,871,101,045	₩ 24,114,328,795,382
Cost of sales	8,29,32,41	(10,543,658,424,441)	(16,242,709,151,411)
Gross profit		<u>7,636,212,676,604</u>	<u>7,871,619,643,971</u>
Selling, general and administrative expenses	30,32,41	(7,106,353,540,813)	(7,108,293,437,561)
Operating profit		<u>529,859,135,791</u>	<u>763,326,206,410</u>
Other income	31,41	109,727,140,804	133,340,699,249
Other expenses	31,41	(734,162,937,736)	(462,993,764,190)
Finance income	33	361,908,734,854	196,018,851,071
Finance costs	33	(505,780,747,338)	(371,049,029,731)
Share of profit of associates and joint ventures	11,12	68,365,883,297	60,890,419,883
Profit (loss) before income tax		<u>(170,082,790,328)</u>	<u>319,533,382,692</u>
Income tax expense	34	(273,462,908,118)	(194,974,075,094)
Profit (loss) from continuing operations		(443,545,698,446)	124,559,307,598
Profit from discontinued operations		422,909,005,204	122,315,447,484
Profit (loss) for the year		<u>(20,636,693,242)</u>	<u>246,874,755,082</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities	21	9,423,840,226	11,994,393,106
Share of other comprehensive income of associates		486,911,290	(1,846,524,177)
Income tax on items that will not be reclassified to profit or loss		(2,556,941,618)	(3,548,375,037)
Total items that will not be reclassified to profit or loss		<u>7,353,809,898</u>	<u>6,599,493,892</u>
<i>Items that may be subsequently reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets		(22,886,356,631)	(15,689,384,633)
Exchange rate differences on translating foreign operations		(31,728,367,381)	8,756,132,572
Gain on valuation of derivatives	22	1,538,989,881	4,760,000,673
Share of other comprehensive income of associates	11,12	(28,575,417,631)	(16,228,547,687)
Income tax on items that may be reclassified to profit or loss		11,021,862,504	6,766,926,054
Total items that may be subsequently reclassified to profit or loss		<u>(70,629,289,258)</u>	<u>(11,634,873,021)</u>
Other comprehensive income for the year		<u>(63,275,479,360)</u>	<u>(5,035,379,129)</u>
Total comprehensive income (loss) for the year		<u>₩ (83,912,172,602)</u>	<u>₩ 241,839,375,953</u>
Profit (loss) attributable to:			
Owners of the Parent Company			
Profit (loss) from continuing operations		₩ (548,032,529,565)	₩ 56,903,906,792
Profit from discontinued operations		411,637,356,685	111,290,879,479
		<u>(136,395,172,880)</u>	<u>168,194,786,271</u>
Non-controlling interests			
Profit from continuing operations		104,486,831,119	67,655,400,806
Profit from discontinued operations		11,271,648,519	11,024,568,005
		<u>115,758,479,638</u>	<u>78,679,968,811</u>
		<u>₩ (20,636,693,242)</u>	<u>₩ 246,874,755,082</u>
Total comprehensive income (loss) attributable to:			
Owners of the Parent Company		(182,926,701,489)	166,351,853,665
Non-controlling interests		99,014,528,887	75,487,522,288
		<u>₩ (83,912,172,602)</u>	<u>₩ 241,839,375,953</u>
Earnings (loss) per share	28		
Basic earnings (loss) per share (in won)			
From continuing operations		₩ (19,184)	₩ 1,491
From discontinued operations		14,082	3,766
Diluted earnings per share (in won)			
From continuing operations		₩ (19,201)	₩ 1,491
From discontinued operations		14,074	3,756

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

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

(in Korean won)

(in Korean won)	Attributable to owners of the Parent Company									
Notes	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumulated other comprehensive income(loss)	Total	Non-controlling interest	Total equity	
Balance at January 1, 2016	₩ 157,454,460,000	₩ 3,910,751,867,924	₩ 269,118,000,000	₩ (79,038,578,686)	₩ 11,893,663,354,746	₩ 95,501,513,287	₩ 16,247,450,617,271	₩ 840,391,657,571	₩ 17,087,842,274,842	
Comprehensive income (loss) for the year										
Profit for the year	-	-	-	-	168,194,786,271	-	168,194,786,271	78,679,968,811	246,874,755,082	
Other comprehensive income										
Changes in the fair value of available-for-sale financial assets	-	-	-	-	-	(8,376,367,630)	(8,376,367,630)	(2,715,964,297)	(11,092,331,927)	
Exchange differences on translating foreign operations	-	-	-	-	-	10,171,814,607	10,171,814,607	(1,530,560,324)	8,641,254,283	
Gain on valuation of derivatives	-	-	-	-	-	5,386,202,777	5,386,202,777	205,480,075	5,591,682,852	
Remeasurements of net defined benefit liabilities	-	-	-	-	7,415,317,929	-	7,415,317,929	893,650,046	8,308,967,975	
Share of other comprehensive income of associates	-	-	-	-	(1,709,469,266)	(14,730,431,023)	(16,439,900,289)	(45,052,023)	(16,484,952,312)	
	-	-	-	-	5,705,848,663	(7,548,781,269)	(1,842,932,606)	(3,192,446,523)	(5,035,379,129)	
Total comprehensive income (loss) for the year	-	-	-	-	173,900,634,934	(7,548,781,269)	166,351,853,665	75,487,522,288	241,839,375,953	
Transactions with owners										
Interests paid for hybrid securities	-	-	-	-	(12,849,147,941)	-	(12,849,147,941)	-	(12,849,147,941)	
Dividends	-	-	-	-	(59,104,408,000)	-	(59,104,408,000)	(18,449,391,876)	(77,553,799,876)	
Issuance of new shares	-	-	-	(293,309,027)	-	-	(293,309,027)	36,314,479,212	36,021,170,185	
Changes in the scope for consolidation	-	-	-	-	-	-	-	176,530,249	176,530,249	
Other	-	-	-	(37,021,389,821)	-	-	(37,021,389,821)	25,586,879,086	(11,434,510,735)	
Total transactions with owners	-	-	-	(37,314,698,848)	(71,953,555,941)	-	(109,268,254,789)	43,628,496,671	(65,639,758,118)	
Balance at December 31, 2016	₩ 157,454,460,000	₩ 3,910,751,867,924	₩ 269,118,000,000	₩ (116,353,277,534)	₩ 11,995,610,433,739	₩ 87,952,732,018	₩ 16,304,534,216,147	₩ 959,507,676,530	₩ 17,264,041,892,677	
Balance at January 1, 2017	₩ 157,454,460,000	₩ 3,910,751,867,924	₩ 269,118,000,000	₩ (116,353,277,534)	₩ 11,995,610,433,739	₩ 87,952,732,018	₩ 16,304,534,216,147	₩ 959,507,676,530	₩ 17,264,041,892,677	
Changes in accounting policies	-	-	-	-	(61,646,191,077)	-	(61,646,191,077)	(3,703,217,169)	(65,349,408,246)	
Adjusted balance at January 1, 2017	157,454,460,000	3,910,751,867,924	269,118,000,000	(116,353,277,534)	11,933,964,242,662	87,952,732,018	16,242,888,025,070	955,804,459,361	17,198,692,484,431	
Comprehensive income (loss) for the year										
Loss for the year	-	-	-	-	(136,395,172,880)	-	(136,395,172,880)	115,758,479,638	(20,636,693,242)	
Other comprehensive income										
Changes in the fair value of available-for-sale financial assets	-	-	-	-	-	(3,897,679,690)	(3,897,679,690)	(8,589,707,859)	(12,487,387,549)	
Exchange differences on translating foreign operations	-	-	-	-	-	(18,857,184,754)	(18,857,184,754)	(11,376,721,182)	(30,233,905,936)	
Loss on valuation of derivatives	-	-	-	-	-	(7,563,058,388)	(7,563,058,388)	446,575,330	(7,116,483,058)	
Remeasurements of net defined benefit liabilities	-	-	-	-	4,448,926,222	-	4,448,926,222	2,822,594,759	7,271,520,981	
Share of other comprehensive income of associates	-	-	-	-	147,144,241	(20,809,676,240)	(20,662,531,999)	(46,691,799)	(20,709,223,798)	
	-	-	-	-	4,596,070,463	(51,127,599,072)	(46,531,528,609)	(16,743,950,751)	(63,275,479,360)	
Total comprehensive income (loss) for the year	-	-	-	-	(131,799,102,417)	(51,127,599,072)	(182,926,701,489)	99,014,528,887	(83,912,172,602)	
Transactions with owners										
Interests paid for hybrid securities	-	-	-	-	(12,748,218,078)	-	(12,748,218,078)	-	(12,748,218,078)	
Dividends	-	-	-	-	(59,104,408,000)	-	(59,104,408,000)	(21,990,777,300)	(81,095,185,300)	
Spin-off	(16,844,225,000)	(405,066,335,685)	-	(2,799,190,016,582)	-	(119,553,432,442)	(3,340,654,009,709)	(321,231,606,801)	(3,661,885,616,510)	
Other	-	-	-	11,129,933,022	-	-	11,129,933,022	(18,828,632,691)	(7,698,699,669)	
Total transactions with owners	(16,844,225,000)	(405,066,335,685)	-	(2,788,060,083,560)	(71,852,626,078)	(119,553,432,442)	(3,401,376,702,765)	(362,051,016,792)	(3,763,427,719,557)	
Balance at December 31, 2017	₩ 140,610,235,000	₩ 3,505,685,532,239	₩ 269,118,000,000	₩ (2,904,413,361,094)	₩ 11,730,312,514,167	₩ (82,728,299,496)	₩ 12,658,584,620,816	₩ 692,767,971,456	₩ 13,351,352,592,272	

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

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

<i>(in Korean won)</i>	Notes	2017	2016
Cash flows from operating activities			
Cash generated from operations			
Profit (loss) for the period		₩ (20,636,693,242)	246,874,755,082
Adjustments	35	1,528,592,671,146	1,588,488,192,844
Changes in operating assets and liabilities	35	(77,904,119,302)	(619,258,898,122)
		1,430,051,858,602	1,216,104,049,804
Income taxes paid		(251,396,088,590)	(251,972,864,946)
Interest received		520,722,917,339	699,177,561,375
Interest paid		(130,071,544,153)	(156,486,910,259)
Dividend received		4,823,600	44,755,564
Net cash inflow from operating activities		1,569,311,966,798	1,506,866,591,538
Cash flows from investing activities			
Proceeds from sale of financial assets		1,126,336,282,920	1,940,735,113,128
Collection of short-term loans		48,254,919,442	10,194,450,475
Collection of long-term loans		7,165,683,299	2,478,645,259
Proceeds from sale of available-for-sale financial assets		13,601,788,696	1,490,419,116
Proceeds from sale of investments in associates and joint ventures		4,196,893,613	2,316,229,370
Proceeds from capital distribution from associates		732,776,169	6,295,749,254
Proceeds from disposal of property, plant and equipment		35,960,172,183	57,370,137,906
Proceeds from disposal of intangible assets		222,777,276	339,144,705
Cash inflows from settlement of derivative instruments		2,567,293,802	-
Decrease in other assets		16,954,179	7,076,678
Purchase of financial assets		(1,563,030,073,000)	(1,575,056,333,385)
Increase in short-term loans		(22,468,222,066)	(2,727,844,097)
Increase in long-term loans		(3,991,603,127)	(8,967,581,042)
Purchase of available-for-sale financial assets		(13,925,354,217)	(87,067,564,807)
Purchase of investments in associates and joint ventures		(16,792,156,900)	(56,162,057,040)
Acquisition of property, plant and equipment		(883,863,398,961)	(1,206,957,107,243)
Acquisition of intangible assets		(69,638,461,406)	(102,532,147,782)
Acquisition of investment property		(27,956,683,570)	(17,403,750,947)
Increase in other assets		(3,202,330,600)	(903,619,233)
Cash outflows from business combination		-	(7,880,723,546)
Interest received		38,569,395,726	40,771,577,113
Dividend received		64,004,182,244	35,287,500,695
Net cash outflow from investing activities		(1,263,239,164,298)	(968,372,685,423)
Cash flows from financing activities			
Proceeds from borrowings		3,798,661,994,108	3,020,549,231,057
Proceeds from issuance of debentures		2,838,760,464,176	2,251,621,042,690
Capital contribution from non-controlling interests		12,453,780	34,797,945,609
Proceeds from finance lease liabilities		5,044,618,730	21,068,025,021
Cash inflows from settlement of derivative instruments		50,680,000,000	2,226,000,000
Repayment of borrowings		(2,664,474,942,757)	(3,018,855,489,768)
Redemption of debentures		(2,232,838,800,000)	(1,985,866,349,578)
Acquisition of additional ownership in subsidiaries		(16,799,813,535)	-
Payment of hybrid securities interests		(12,748,218,078)	(12,849,147,941)
Payment of finance lease liabilities		(24,865,924,919)	(16,940,246,015)
Acquisition of treasury shares		(3,795,474,701)	-
Cash outflows due to spin-off		(1,331,260,561,050)	-
Interest paid		(250,360,217,103)	(239,429,788,402)
Dividends paid		(81,095,185,300)	(77,553,799,876)
Net cash inflow (outflow) from financing activities		74,920,393,351	(21,232,577,203)
Net increase in cash and cash equivalents		380,993,195,851	517,261,328,912
Cash and cash equivalents at the beginning of the financial year		2,269,177,234,171	1,751,268,312,375
Effects of exchange rate changes on cash and cash equivalents		557,155,433	168,454,422
Exchange differences on translating foreign operations		(24,483,659,502)	479,138,462
Cash and cash equivalents at the end of the year		₩ 2,626,243,925,953	2,269,177,234,171

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

Lotte Shopping Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

1. General Information

(a) The Parent Company

Lotte Shopping Co., Ltd. (the "Parent Company" and the Parent Company and its subsidiaries collectively referred to as the Group") 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 Parent Company listed its stock on the Korea Stock Exchange on February 9, 2006. The Parent 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 Parent Company as of December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	Number of shares	Amount	Percentage of ownership (%)
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>

(b) Subsidiaries

Summarized information for consolidated subsidiaries as at December 31, 2017 and 2016 is as follows:

Subsidiaries	2017			
	Location	Main business	Fiscal year end	Percentage of ownership (%)
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	90.02
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80

Lotte Shopping Co., Ltd. and Subsidiaries
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Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. ¹	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte Cinema Co., Ltd.	Korea	Cinema	Dec. 31	100.00
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd.	Cayman Islands	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang)	China	Distribution	Dec. 31	100.00

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Co., Ltd.				
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	100.00
LHSC Limited	Cayman Islands	Holding company	Dec. 31	100.00
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Lotte Holdings Hong Kong Ltd. (Formerly, Kotobuki Holding (HK) Ltd.)	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00
LOTTE E-Commerce Vietnam Co., Ltd	Vietnam	Distribution	Dec. 31	100.00
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.	Singapore	Holding company	Dec. 31	80.00
LOTTE PROPERTIES HANOI CO.,	Vietnam	Distribution	Dec. 31	100.00

Lotte Shopping Co., Ltd. and Subsidiaries
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LTD.

PT. LOTTE CINEMA INDONESIA Indonesia Cinema Dec. 31 100.00

¹ During 2013, the Parent Company issued exchangeable bonds which are exchangeable to ordinary shares of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Parent Company early redeemed ₩ 307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable ordinary shares for the issued bond changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds were exchanged to the ordinary shares of LOTTE Himart Co., Ltd., the Parent Company's percentage of ownership on LOTTE Himart Co., Ltd. would decrease from 65.25% to 64.60%.

Subsidiaries	Location	Main business	2016	
			Fiscal year end	Percentage of ownership (%)
Lotte Card Co., Ltd.	Korea	Credit card, financing	Dec. 31	93.78
eB Card Co., Ltd.	Korea	Electronic banking business	Dec. 31	95.00
Gyeonggi Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
Inchon Smartcard Co., Ltd.	Korea	Electronic banking business	Dec. 31	100.00
The 6th Supreme ¹	Korea	SPC	Dec. 31	0.90
The 7th Supreme ¹	Korea	SPC	Dec. 31	0.90
The 8th Supreme ¹	Korea	SPC	Dec. 31	0.90
The 9th Supreme ¹	Korea	SPC	Dec. 31	0.90
The 10th Supreme ¹	Korea	SPC	Dec. 31	0.50
PT. Lotte Members Indonesia	Indonesia	Business support service	Dec. 31	100.00
LOTTE Members China	China	Business support service	Dec. 31	100.00
Lotte Members Vietnam Co., Ltd.	Vietnam	Business support service	Dec. 31	100.00
Woori Home Shopping & Television Co., Ltd.	Korea	TV Home Shopping	Dec. 31	53.03
Lotte DatViet Homeshopping Co., Ltd.	Vietnam	TV Home Shopping	Dec. 31	90.02
Korea Seven Co., Ltd.	Korea	Distribution	Dec. 31	51.14
Buy the way Inc.	Korea	Distribution	Dec. 31	100.00
NCF Co., Ltd.	Korea	Apparel manufacturing	Dec. 31	99.80
Lotte Gimhae Development Co., Ltd.	Korea	Building management service	Dec. 31	100.00
Lotte Suwon Station Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	95.00
Lotte Songdo Shopping Town Co., Ltd.	Korea	Real estate development	Dec. 31	56.30
CS Mart Co., Ltd.	Korea	Distribution	Dec. 31	99.95
LOTTE Himart Co., Ltd. ²	Korea	Consumer electronics	Dec. 31	65.25
Lotte Department Store Masan Co.,	Korea	Distribution	Dec. 31	100.00

Lotte Shopping Co., Ltd. and Subsidiaries
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Ltd.				
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.88
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd.	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Shenyang) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte International Department Store (Weihai) Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE DEPARTMENT STORE (TIANJIN) CO., LTD.	China	Distribution	Dec. 31	100.00
Lotte Department Store (Chengdu) Co., Ltd.	China	Distribution	Dec. 31	100.00

Lotte Shopping Co., Ltd. and Subsidiaries
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LOTTE MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Lotte Shopping Business Management (Hong Kong) Limited	Hong Kong	SPC	Dec. 31	100.00
Lotte Cinema Hong Kong Co., Limited	Hong Kong	Cinema	Dec. 31	100.00
LHSC Limited	Cayman islands	Holding company	Dec. 31	91.14
Lucky Pai Ltd. and its subsidiaries	China	TV Home Shopping	Dec. 31	100.00
LOTTE PROPERTIES (CHENGDU) HK LIMITED	Hong Kong	Holding company	Dec. 31	73.46
Lotte Properties (Chengdu) Limited	China	Real estate lease	Dec. 31	100.00
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.	Singapore	Holding company	Dec. 31	100.00
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	Vietnam	Distribution	Dec. 31	99.99
PT. LOTTE SHOPPING INDONESIA	Indonesia	Distribution	Dec. 31	80.00
PT. LOTTE MART INDONESIA	Indonesia	Distribution	Dec. 31	100.00
PT. LOTTE Shopping Avenue Indonesia	Indonesia	Distribution	Dec. 31	100.00
Lotte Shopping India Private Limited	India	Distribution	Dec. 31	100.00
LOTTEMART C&C INDIA PRIVATE LIMITED	India	Distribution	Dec. 31	100.00
Lotte Shopping Plaza Vietnam Co., Ltd.	Vietnam	Distribution	Dec. 31	100.00
LOTTE HOTEL & RETAIL VIETNAM PTE. LTD.	Singapore	Holding company	Dec. 31	60.00
Lotte Holdings Hong Kong Ltd. (Formerly, Kotobuki Holding (HK) Ltd.)	Hong Kong	Holding company	Dec. 31	100.00
Hai Thanh - Kotobuki Joint Venture Company	Vietnam	Hotel	Dec. 31	70.00
LOTTE CINEMA VIETNAM CO., LTD.	Vietnam	Cinema	Dec. 31	90.00
LOTTE E-Commerce Vietnam Co., Ltd	Vietnam	Distribution	Dec. 31	100.00
LOTTE Properties Hanoi (Singapore) Pte. Ltd.	Singapore	Holding company	Dec. 31	80.00
LOTTE Properties Hanoi Co. Ltd.	Vietnam	Distribution	Dec. 31	100.00

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

Lotte Shopping Co., Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
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² During 2013, the Parent Company issued exchangeable bonds which are exchangeable to common stocks of LOTTE Himart Co., Ltd. Due to the exercise of the put option, the Parent Company early redeemed ₩307,400 million of the issued bonds on January 25, 2016. Therefore, the total number of the exchangeable ordinary shares for the issued bond changed from 3,538,224 shares to 152,016 shares. If all exchangeable bonds were exchanged to the ordinary shares of LOTTE Himart Co., Ltd., the Parent Company's percentage of ownership on LOTTE Himart Co., Ltd. would decrease from 65.25% to 64.60%. In addition, the Parent Company entered into securities lending agreements to lend its shares of LOTTE Himart Co., Ltd. owned by the Parent Company up to 50% of the total exchangeable ordinary shares. As at December 31, 2016, the total number of the ordinary shares of Lotte Himart Co., Ltd. under securities lending agreements is 1,180,384 shares. On January 25, 2016, the Parent Company collected all of the shares it lent.

(c) Summarized Financial Information

Summarized financial information for significant consolidated subsidiaries as at and for the years ended December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	2017						
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss) ¹	
Woori Home Shopping & Television Co., Ltd.	₩ 950,001,010	₩ 300,992,837	₩ 649,008,173	₩ 914,464,765	₩ 99,387,962	₩ 89,061,112	
Lotte Suwon Station Shopping Town Co., Ltd.	300,872,751	232,798,414	68,074,337	44,179,092	(7,679,662)	(7,676,074)	
Lotte Songdo Shopping Town Co., Ltd.	282,337,154	179,952,867	102,384,287	48,641,757	9,916,697	9,923,506	
CS Mart Co., Ltd.	164,205,636	49,543,588	114,662,048	394,865,643	5,222,655	5,218,412	
LOTTE Himart Co., Ltd.	3,204,628,140	1,178,849,678	2,025,778,462	4,099,341,306	148,435,181	141,920,950	
Lotte Ulsan Development Co., Ltd.	201,001,185	177,340,075	23,661,110	-	(1,229,656)	(1,244,559)	
LOTTE MART COMPANY LIMITED	91,697,097	209,852,435	(118,155,338)	75,073,130	(68,522,537)	(63,957,401)	
Lotte Shopping Holdings (Hong Kong) Co., Limited	587,485,106	1,062,876,753	(475,391,647)	-	(1,136,024,639)	(1,164,081,242)	
Swift Harvest Ltd. and its subsidiaries	393,239,884	816,976,346	(423,736,462)	129,656,956	(300,535,365)	(275,188,474)	
LOTTE PROPERTIES (CHENGDU) HK LIMITED	411,616,371	230,665,311	180,951,060	-	(7,768,766)	(31,457,398)	
Lotte Properties (Chengdu) Limited	453,054,117	53,136,832	399,917,285	296,899,262	48,736,431	26,940,128	
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)	407,951,521	399,075,221	8,876,300	262,374,690	(14,226,111)	(16,278,343)	
LOTTE SHOPPING HOLDINGS(SINGAPORE) PTE. LTD.	452,387,116	15,908	452,371,208	-	(53,587,514)	(114,340,684)	
PT. LOTTE SHOPPING	286,978,227	155,111,527	131,866,700	857,311,840	11,510,661	(6,209,678)	

Lotte Shopping Co., Ltd. and Subsidiaries
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INDONESIA						
PT. LOTTE MART INDONESIA	145,545,224	177,948,111	(32,402,887)	246,934,109	(21,217,165)	(18,087,152)
LOTTE PROPERTIES						
(HANOI) SINGAPORE PTE. LTD.	145,707,397	39,209	145,668,188	-	(44,468)	(18,687,720)
LOTTE PROPERTIES HANOI CO., LTD.	148,213,445	4,907,397	143,306,048	-	(1,553,892)	(19,570,117)

¹ Exchange rate differences on translating foreign operations are included.

(in thousands of Korean won)

<i>(in thousands of Korean won)</i>	2016											
	Assets		Liabilities		Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss) ¹				
Woori Home Shopping & Television Co., Ltd.	₩	888,217,122	₩	298,270,061	₩	589,947,061	₩	886,033,482	₩	37,990,575	₩	31,785,442
Lotte Suwon Station Shopping Town Co., Ltd.		317,500,602		241,750,191		75,750,411		43,989,245		(8,643,967)		(8,642,840)
Lotte Songdo Shopping Town Co., Ltd.		241,375,942		152,123,797		89,252,145		40,364,723		(3,988,306)		(3,986,679)
CS Mart Co., Ltd.		165,638,148		55,849,185		109,788,963		420,599,698		8,729,497		8,733,277
LOTTE Himart Co., Ltd.		3,004,858,848		1,109,197,480		1,895,661,368		3,939,442,418		121,428,017		122,984,965
Lotte Ulsan Development Co., Ltd.		65,831,854		41,006,576		24,825,278		-		(238,002)		(47,882)
LOTTE MART COMPANY LIMITED		167,016,174		221,214,111		(54,197,937)		306,080,050		(30,973,935)		(29,785,787)
Lotte Shopping Holdings (Hong Kong) Co., Limited		1,061,307,199		772,081,548		289,225,651		689,332		(268,922,172)		(254,553,348)
Swift Harvest Ltd. and its subsidiaries		567,493,894		905,169,333		(337,675,439)		696,047,424		(151,585,833)		(150,594,962)
LOTTE PROPERTIES (CHENGDU) HK LIMITED		442,194,070		229,785,613		212,408,457		-		(7,129,810)		(785,148)
Lotte Properties (Chengdu) Limited		623,386,177		250,409,020		372,977,157		-		(11,832,895)		(27,943,365)
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY (Formerly, LOTTE VIETNAM SHOPPING CO., LTD.)		469,970,844		444,816,201		25,154,643		263,150,572		(13,367,117)		(13,018,034)
LOTTE SHOPPING HOLDINGS(SINGAPORE) PTE. LTD.		591,378,674		7,740		591,370,934		-		(45,096,387)		(36,610,365)
PT. LOTTE SHOPPING INDONESIA		314,895,730		176,819,352		138,076,378		845,570,536		12,642,854		19,245,700
PT. LOTTE MART INDONESIA		184,711,594		199,027,330		(14,315,736)		268,900,920		(15,953,344)		(16,337,984)
LOTTE PROPERTIES (HANOI) SINGAPORE PTE. LTD.		164,355,907		-		164,355,907		-		(89)		4,897,776
LOTTE PROPERTIES HANOI CO., LTD.		162,876,192		28		162,876,164		-		17,424		2,457,460

¹ Exchange rate differences on translating foreign operations are included.

Lotte Shopping Co., Ltd. and Subsidiaries
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(d) Changes in the scope of consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2017:

Description	Subsidiaries
Establishment	Lotte Cinema Co., Ltd. The 11th Supreme PT. LOTTE CINEMA INDONESIA

Subsidiaries excluded from the consolidation for the year ended December 31, 2017:

Description	Subsidiaries
Spin-off	Lotte Card Co., Ltd. eB Card Co., Ltd. Gyeonggi Smartcard Co., Ltd. Inchon Smartcard Co., Ltd. The 6th Supreme The 7th Supreme The 8th Supreme The 9th Supreme The 10th Supreme The 11th Supreme PT. Lotte Members Indonesia LOTTE Members China Lotte Members Vietnam Co., Ltd. Korea Seven Co., Ltd. Buy the way Inc. Lotte Members Co., Ltd LOTTE.COM INC LOTTE PS NET
Liquidation	Chongqing Yujia Lucky Pai Commercial Co., Ltd. (Formerly, Chongqing Yujia Co., Ltd.)

Lotte Shopping Co., Ltd. and Subsidiaries
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(e) Non-controlling interests

Financial information of non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	2017	
	Woori Home Shopping & Television Co., Ltd.^{1 2}	LOTTE Himart Co., Ltd.²
Ownership interests held by non-controlling interests	46.97%	34.75%
Current assets	₩ 688,044,238	₩ 930,000,739
Non-current assets	320,065,949	782,004,526
Current liabilities	290,715,907	846,911,975
Non-current liabilities	11,683,929	378,090,216
Net assets	705,710,351	487,003,074
Net assets attributable to non-controlling interests	331,528,473	169,249,206
Dividends paid to non-controlling interests during the year	14,089,515	4,102,219
Sales	924,795,177	4,099,341,306
Profit for the year	83,521,056	144,357,966
Total comprehensive income	72,767,287	137,843,734
Profit attributable to non-controlling interests	39,079,024	50,169,028
Total comprehensive income attributable to non-controlling interests	34,005,924	47,905,124
Cash flows from operating activities	118,547,242	251,737,320
Cash flows from investing activities	(79,310,802)	(52,820,327)
Cash flows from financing activities	(30,000,000)	(27,497,271)
Effect of changes in exchange rate	(331,961)	-
Net increase in cash and cash equivalents	8,904,479	171,419,722

¹ The financial information above is based on the consolidated financial statements.

² The information of subsidiaries above is adjusted to reflect goodwill and fair values from business combination, but not intercompany transactions.

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

	2016			
	Woori Home Shopping & Television Co., Ltd.^{1 2}	Lotte Card Co., Ltd.^{1 2}	Korea Seven Co., Ltd.²	LOTTE Himart Co., Ltd.²
Ownership interests held by non-controlling interests	46.97%	6.22%	48.86%	34.75%
Current assets	₩ 606,759,265	₩ 9,730,368,157	₩ 372,480,770	₩ 730,013,020
Non-current assets	326,452,639	495,254,751	736,772,714	787,601,865
Current liabilities	282,042,801	3,192,706,083	628,015,960	450,474,434
Non-current liabilities	17,963,826	4,882,008,219	162,113,838	706,177,255
Net assets	633,205,277	2,150,908,606	319,123,686	360,963,196
Net assets attributable to non-controlling interests	311,612,064	134,981,027	155,543,423	125,446,301
Dividends paid to non-controlling interests during the year	14,089,515	-	831,969	3,527,908
Sales	896,643,970	1,786,996,488	3,522,759,882	3,939,442,418
Profit for the year	66,471,849	110,493,897	40,942,125	117,350,802
Total comprehensive income	60,191,436	113,591,873	40,111,393	118,907,749
Profit attributable to non-controlling interests	31,034,499	7,107,755	20,005,041	40,783,172
Total comprehensive income attributable to non-controlling interests	28,077,953	7,302,932	19,599,132	41,324,261
Cash flows from operating activities	93,250,042	(328,571,979)	102,520,657	236,936,418
Cash flows from investing activities	(4,633,353)	(58,255,384)	(85,924,010)	(77,852,580)
Cash flows from financing activities	(30,000,000)	471,557,368	20,439,034	(130,888,642)
Effect of changes in exchange rate	(94,570)	264,924	-	-
Net increase in cash and cash equivalents	58,522,119	84,994,929	37,035,681	28,195,196

¹ The financial information above is based on the consolidated financial statements.

² The information of subsidiaries above is adjusted to reflect goodwill and fair values from business combination, but not intercompany transactions.

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(f) *Changes in the Parent Company's ownership interest in subsidiaries that did not result in loss in control*

Changes in the Parent Company's percentage of ownership due to additional acquisitions or issuance of shares of subsidiaries for the year ended December 31, 2017, are as follows:

(in thousands of
Korean won)

Subsidiaries	Transaction	Amount	2017			
			The Parent Company's Percentage of ownership (%)		The Parent Company's portion in net assets	
			Before	After	Before	After
LOTTE E-COMMERCE VIETNAM CO., LTD		₩ 23,634,450	100.00%	100.00%	₩ 3,320,624	₩ 26,955,074
Lotte Shopping Holdings (Hong Kong)Co., Limited	Issuance of new shares	1,658,160	100.00%	100.00%	410,462,275	412,120,435
		40,793,530	100.00%	100.00%	(26,156,567)	14,636,964
LHSC Limited	Additional acquisition	12,189,816	91.14%	100.00%	(23,837,938)	(26,156,567)
Swift Harvest Ltd. and its subsidiaries		16,998,150	100.00%	100.00%	(342,659,807)	(325,661,657)
		172,129,300	100.00%	100.00%	(325,661,657)	(153,532,357)
Lotte Cinema Hong Kong Co., Limited		1,453,495	100.00%	100.00%	465,299	1,918,794
Liaoning LOTTE Mart Co., Ltd.		28,267,500	100.00%	100.00%	(67,549,591)	(39,282,091)
Qingdao LOTTE Mart Commercial Co., Ltd.	Issuance of new shares	28,028,200	100.00%	100.00%	(53,172,768)	(25,144,568)
LOTTE SHOPPING HOLDINGS (SINGAPORE) PTE. LTD.		1,699,747	100.00%	100.00%	480,419,551	482,119,298
		2,016,000	100.00%	100.00%	482,119,298	484,135,298

2. Basis of Accounting

(a) *Statement of compliance*

The consolidated 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*.

The consolidated 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

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March 23, 2018.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated 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, plant and equipment

Note 15 – Goodwill and Intangible assets

Note 19 – Provisions

Note 21 – Employee benefits

Note 34 – Tax expense

Note 39 – Contingencies and Commitments

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Note 42 – Risk management

(ii) Measurement of fair value

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

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of 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 Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is 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 Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

Note 7 - Fair value of financial instruments

3. Changes in Accounting Policies

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group 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

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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.

(a) Sales

The Group previously recognized specific sales and cost of sales as gross amount in the status of principal. Under Korean IFRS 1115, the Group recognizes certain specific 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 ₩ 4,578.4 billion. As at December 31, 2017, both inventories and trade payables decreased by ₩ 1,385.6 billion.

In addition, under Korean IFRS 1115, the Group deducts 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 ₩ 253.4 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 Group 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 Group 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 the carrying amount of the product. Accordingly, sales and cost of sales for the year ended December 31, 2017 increased by ₩ 1.6 billion and ₩ 1.7 billion, respectively. As at December 31, 2017, contract asset and contract liability increased by ₩ 3.4 billion and ₩ 1.8 billion, respectively. The costs incurred in the course of collecting the 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 Group'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 ₩ 60.8 billion.

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

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(i) Statement of financial position

With applying Korean IFRS 1115, assets decreased by ₩ 1,379.1 billion, including decrease in inventories by ₩1,378.9 billion. Liabilities decreased by ₩ 1,326.1 billion, including decrease in trade payables by ₩ 1,378.9 billion and increase in unearned revenues by ₩ 69.2 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 ₩4,827.8 billion and ₩135.8 billion, respectively, and operating profit and profit for the year increased by ₩3.4 billion and ₩8.2 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 Group 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 Group 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 Group in preparation of its consolidated financial

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

4.1 Operating Segment

All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has six reportable segments which consist of department stores, discount stores, finance business, consumer electronics retail, convenience stores and other, as described in Note 38.

4.2 Basis of Consolidation

(i) Business combinations

The Group applies the acquisition method for business combination except for business combinations of entities under a common control. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except for the issuance cost of debt or equity securities accounted for according to Korean IFRS 1032 and 1039.

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

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

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

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

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

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted

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for as equity transactions.

(iii) Subsidiaries

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

(iv) Loss of control

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

(v) Interests in equity method accounted Investees

The Group's interests in equity method accounted investees comprise interests in associates and joint ventures.

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

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

(vi) Transactions eliminated on consolidation

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

(vii) Business combinations under a common control

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

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4.3 Cash and Cash Equivalents

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

4.4 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.

4.5 Non-derivative Financial Assets

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

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

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

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

(ii) Held-to-maturity investments

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

(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.

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

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

(vi) Offsetting between financial assets and financial liabilities

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

4.6 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.

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(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Other derivative financial instruments

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

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4.7 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 Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(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.

4.8 Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried

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

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

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

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

	Useful lives
Buildings	5 - 50 years
Structures	2 - 45
Machinery	3 - 30
Tools and equipment	2 - 15
Vehicles	5 - 10
Display fixtures	2 - 20
Furniture and fixtures	2 - 8
Other property, plant and equipment ("Other PP&E")	3 - 40

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, plant 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, plant 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.

4.9 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

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periods over which club memberships trademark and trade name are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	Useful lives
Industrial property rights	5 - 10 years
Rights to use facility	5 - 20
Other intangible assets ¹	2 - 10

¹ 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 are accounted for as changes in accounting estimates.

4.10 Investment Property

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

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

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

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

4.11 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

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their carrying amount and fair value less cost to sell.

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

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).

4.12 Impairment of Non-financial Assets

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

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

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

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

4.13 Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

4.14 Borrowing Costs

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

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

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

4.15 Non-derivative Financial Liabilities

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

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

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

(ii) Other financial liabilities

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

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

4.16 Employee Benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

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(iii) Post-employment benefits: defined contribution plans

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

(iv) Post-employment benefits: defined benefit plans

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

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

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

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

4.17 Provisions

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

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

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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.

4.18 Foreign Currencies

(i) Foreign currency transactions

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

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

(ii) Foreign operations

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

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

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

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that

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includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(iii) Translation of net investment in the foreign operation

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

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

4.20 Revenue

(i) Sales of goods and rendering of services

The Group operates department stores, outlet stores, discount stores, consumer electronic retails, supermarkets, H&B stores and movie theaters. Sales of goods from contracts with customers are recognized when the goods are delivered to the customers. In addition, under Korean IFRS 1115, revenue is recognized applying the following five-step process to contracts with customers:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

Under Korean IFRS 1115, in the case of certain specific sales where the Group acts as an agent, the Group recognizes net sales, after deducting the cost of specific sales, as revenue upon the delivery to customers.

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(ii) Customer loyalty program

The Group 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) Commissions

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

(iv) Rental income

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

(v) Income of card business

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

4.21 Finance Income and Finance Costs

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

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

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

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

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

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If an additional income tax expense is recognized as a result of dividend payments, it is recognized when the liability for the payment of dividends is recognized.

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4.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent 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.

4.24 Emission Rights

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

(i) Greenhouse Gases Emission Right

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

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

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

(ii) Emission liability

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

4.25 New Standards and Interpretations not yet Adopted by the Group

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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 Group 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 Group 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 Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

(a) *Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group'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.

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

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

² 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 Group owns financial assets at fair value through profit or loss of ₩ 46,725,840 thousand, loans and receivables of ₩ 3,273,812,152 thousand and financial assets available-for-sales of ₩ 484,968,476 thousand.

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 Group 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 Group holds debt instruments of ₩ 10,820,970 thousand classified as financial assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group 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 Group holds equity instruments of ₩ 474,147,506 thousand classified as financial assets available-for-sale.

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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 Group 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 Group 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.

Stage ¹		Loss allowance
1	No significant increase in credit risk after initial recognition ²	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	

¹ 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 Group can elect an accounting policy of recognizing lifetime expected credit

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losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

² If the financial instrument has low credit risk at the end of the reporting period, the Group 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 Group owns debt investment carried at amortized cost of ₩ 3,273,812,152 thousand (loans and receivables), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sales, of ₩ 10,820,970 thousand. And, the Group recognized loss allowance of ₩ 20,684,455 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 Group'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.

As at December 31, 2017, the Group applies the hedge accounting to its assets and liabilities amounting to ₩ 13,112,834 thousand and ₩ 106,392,160 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 ₩ 13,057,038 thousand in loss on valuation, net of tax.

Furthermore, when the Group 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

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

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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 Group has not yet elected the application method.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Group 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 Group expects the effect on the financial statements applying the new standard will not be significant as accounting for the Group, as a lessor, will not significantly change.

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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>		2017		2016
Trade receivables	₩	732,581,256	₩	692,750,947
Other receivables		154,932,606		367,419,629
		887,513,862		1,060,170,576
Allowance for doubtful accounts		(17,058,175)		(28,832,816)
	₩	870,455,687	₩	1,031,337,760

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>					
Description	Depository		2017		2016
Current:					
Short-term financial instruments	HSBC and others	₩	143,113,450	₩	58,238,021
	Industrial Bank of Korea and others		275,717,529		184,681,518
Trust assets	Citibank and others		-		25,874,448
Non-current:					
Long-term financial instrument	Busan Bank and others		2,032,886		9,960,717
Available-for-sale financial assets	Busan City Hall and others		17,823,742		16,423,576
		₩	438,687,607	₩	295,178,280

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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:

(in thousands of Korean won)

		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Cash and cash equivalents	₩ 2,626,243,926	₩ 2,626,243,926	₩ 2,269,177,234	₩ 2,269,177,234
Financial assets at fair value through profit or loss	Short-term financial instruments	11,110,030	11,110,030	40,002,762	40,002,762
	Long-term financial instruments	-	-	10,022,040	10,022,040
	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
		46,725,840	46,725,840	67,058,805	67,058,805
Loans and receivables ¹	Current :				
	Trade and other receivables	870,455,687	870,455,687	1,031,337,760	1,031,337,760
	Short-term financial instruments	1,073,213,085	1,073,213,085	865,432,227	865,432,227
	Short-term loans	24,089,334	24,089,334	15,007,871	15,007,871
	Accrued income	11,826,412	11,826,412	36,169,095	36,169,095
	Current portion of deposits	124,995,104	124,995,104	89,751,301	89,751,301
	Card financial assets	-	-	8,853,172,273	8,853,172,273
	Non-current :				
	Long-term financial instruments	2,032,886	2,032,886	9,957,717	9,957,717
	Long-term loans	30,581,045	30,581,045	52,185,834	52,185,834
	Deposits	1,136,618,599	1,136,618,599	1,462,839,601	1,462,839,601
	Accrued income	-	-	18,261	18,261
		3,273,812,152	3,273,812,152	12,415,871,940	12,415,871,940
Available-for-sale financial assets	Marketable ²	270,711,624	270,711,624	280,519,592	280,519,592
	Non-marketable ³	214,256,852	214,256,852	346,767,908	346,767,908
		484,968,476	484,968,476	627,287,500	627,287,500
Derivative assets held for hedging	Current	236,515	236,515	78,401,396	78,401,396
	Non-current	12,876,319	12,876,319	141,368,294	141,368,294
		13,112,834	13,112,834	219,769,690	219,769,690
		₩ 6,444,863,228	₩ 6,444,863,228	₩ 15,599,165,169	₩ 15,599,165,169

¹ Carrying amount is considered as a reasonable approximation of fair value.

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

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

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

<i>(in thousands of Korean won)</i>	2017	2016
Current:		
Short-term financial instruments	₩ 1,084,323,115	₩ 905,434,989
Short-term loans	24,089,334	15,007,871
Available-for-sale financial assets	194,808	79,334
Accrued income	11,826,412	36,169,095
Deposits	124,995,104	89,751,301
Card business financial assets	-	8,853,172,273
Derivative assets held for trading	-	1,312,363
Derivative assets held for hedging	236,515	78,401,396
	<u>₩ 1,245,665,288</u>	<u>₩ 9,979,328,622</u>
Non-current:		
Long-term financial instruments	₩ 2,032,886	₩ 19,979,757
Available-for-sale financial assets	484,773,668	627,208,166
Long-term loans	30,581,045	52,185,834
Deposits	1,136,618,599	1,462,839,601
Accrued income	-	18,261
Derivative assets held for trading	35,615,810	15,721,640
Derivative assets held for hedging	12,876,319	141,368,294
	<u>₩ 1,702,498,327</u>	<u>₩ 2,319,321,553</u>

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

(in thousands of Korean won)	2017				2016
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
Marketable available-for-sale financial assets:					
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%	2,247,353	15,369,229	14,078,090
LOTTE FOOD CO.,LTD.	-	-	-	-	30,619,820
momo.com Inc.	21,333,420	15.02%	37,684,154	166,669,477	154,828,149
Others	-	-	5,621,260	8,190,077	6,833,123
			<u>101,732,174</u>	<u>270,711,624</u>	<u>280,519,592</u>
Non-marketable available-for-sale financial assets:					
LOTTE Logistics Corp.	-	-	-	-	17,729,234
LOTTE rental co., ltd.	1,592,072	13.53%	168,884,280	132,583,302	165,621,658
SPARX Asset Management Korea Co., Ltd. (Formerly, Cosmo Asset Management Co., Ltd.)	65,680	7.76%	22,011,958	6,671,906	29,961,550
Lotte Global Logistics Co.,LTD. (Formerly, Hyundai Logistics Co., Ltd.)	-	-	-	-	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	-	-	11,215,610	10,820,970	10,475,578
Others	-	-	34,163,524	22,261,722	55,769,055
			<u>278,194,324</u>	<u>214,256,852</u>	<u>346,767,908</u>
			<u>₩ 379,926,498</u>	<u>₩ 484,968,476</u>	<u>₩ 627,287,500</u>

¹ Available-for-sale financial assets amounting to ₩99,124,226 thousand are transferred to the newly established corporation from spin-off 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:

(in thousands of Korean won)

		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at fair value through profit or loss	Current derivative liabilities held for trading	₩ -	₩ -	₩ 14,420,293	₩ 14,420,293
	Non-current derivative liabilities held for trading	101,173	101,173	11,861,174	11,861,174
		101,173	101,173	26,281,467	26,281,467
Financial liabilities at amortized cost ¹	Current :				
	Trade and other payables	3,494,433,705	3,494,433,705	5,785,351,877	5,785,351,877
	Short-term borrowings	923,395,390	923,395,390	1,537,254,583	1,537,254,583
	Current portion of long-term borrowings	851,921,363	851,921,363	903,232,958	903,232,958
	Current portion of long-term debentures	1,303,475,604	1,303,475,604	2,618,125,593	2,618,125,593
	Accrued expenses	228,431,288	228,431,288	333,554,026	333,554,026
	Current portion of guarantee deposit	223,020,057	223,020,057	241,622,167	241,622,167
	Finance lease liabilities	1,642,574	1,642,574	25,720,574	25,720,574
	Others	1,547,660	1,547,660	10,131,880	10,131,880
	Non-current :				
	Long-term borrowings	1,099,236,493	1,099,236,493	1,706,079,723	1,706,079,723
	Long-term debentures	3,489,655,070	3,489,655,070	7,718,255,402	7,718,255,402
	Guarantee deposit	49,308,054	49,308,054	206,948,600	206,948,600
	Finance lease liabilities	8,442,631	8,442,631	19,826,492	19,826,492
	Others	37,071,901	37,071,901	17,559,489	17,559,489
		11,711,581,790	11,711,581,790	21,123,663,364	21,123,663,364
Derivative liabilities held for hedging	Current	49,447,836	49,447,836	895,996	895,996
	Non-current	56,944,324	56,944,324	4,293,523	4,293,523
		106,392,160	106,392,160	5,189,519	5,189,519
		₩ 11,818,075,123	₩ 11,818,075,123	₩ 21,155,134,350	₩ 21,155,134,350

¹ Carrying amount is considered as a reasonable approximation of fair value.

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

<i>(in thousands of Korean won)</i>	2017		2016	
Current:				
Accrued expenses	₩	228,431,288	₩	333,554,026
Guarantee deposit		223,020,057		241,622,167
Derivative liabilities held for hedging		49,447,836		895,996
Derivative liabilities held for trading		-		14,420,293
Finance lease liabilities		1,642,574		25,720,574
Other		1,547,660		10,131,880
	₩	<u>504,089,415</u>	₩	<u>626,344,936</u>
Non-current:				
Guarantee deposit	₩	49,308,054	₩	206,948,600
Derivative liabilities held for hedging		56,944,324		4,293,523
Derivative liabilities held for trading		101,173		11,861,174
Finance lease liabilities		8,442,631		19,826,492
Other		37,071,901		17,559,489
	₩	<u>151,868,083</u>	₩	<u>260,489,278</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>	2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩ -	₩ 11,110,030	₩ -	₩ 11,110,030
Available-for-sale financial assets	270,711,624	10,820,970	139,255,208	420,787,802
Derivative assets	-	13,112,834	35,615,810	48,728,644
	<u>₩ 270,711,624</u>	<u>₩ 35,043,834</u>	<u>₩ 174,871,018</u>	<u>₩ 480,626,476</u>
Derivative liabilities	₩ -	₩ 106,392,160	₩ 101,173	₩ 106,493,333
	<u>₩ -</u>	<u>₩ 106,392,160</u>	<u>₩ 101,173</u>	<u>₩ 106,493,333</u>

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<i>(in thousands of Korean won)</i>	2016			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	₩ -	₩ 50,024,802	₩ -	₩ 50,024,802
Available-for-sale financial assets	280,519,592	14,485,010	248,351,532	543,356,134
Derivative assets	-	219,769,690	17,034,003	236,803,693
	<u>₩ 280,519,592</u>	<u>₩ 284,279,502</u>	<u>₩ 265,385,535</u>	<u>₩ 830,184,629</u>
Derivative liabilities	₩ -	₩ 5,189,519	₩ 26,281,467	₩ 31,470,986
	<u>₩ -</u>	<u>₩ 5,189,519</u>	<u>₩ 26,281,467</u>	<u>₩ 31,470,986</u>

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

In measuring Level 3 fair values, the Group used discounted cash flows model, etc. and the Group used the significant unobservable inputs 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>	2017	2016
Beginning balance	₩ 239,104,068	₩ 173,425,126
Transfer to Level 3	-	1,500,000
Total profit or loss	(27,797,697)	10,675,807
Amount recognized in profit or loss	8,848,928	9,585,678
Amount recognized in other comprehensive income	(36,646,625)	1,090,129
Purchases	8,541,609	53,503,135
Disposal, etc.	(12,709,513)	-
Changes due to spin-off	(32,368,622)	-
Ending balance	<u>₩ 174,769,845</u>	<u>₩ 239,104,068</u>

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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.

(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	₩ 11,050,281	₩ (8,985,844)	₩ 2,918,924	₩ 6,170,074

(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 ¹	₩ 1,226,021,789	₩ (44,929,229)	₩ 1,181,092,560	₩ 2,979,195,177	₩ (27,962,040)	₩ 2,951,233,137
Finished goods	18,216,465	(4,592,214)	13,624,251	14,854,673	(4,247,237)	10,607,436
Work in process	901,383	-	901,383	1,528,600	-	1,528,600
Raw materials	963,852	(52,435)	911,417	678,452	(125,914)	552,538
Supplies	825,573	-	825,573	2,001,610	-	2,001,610
Materials-in-transit	1,592,468	-	1,592,468	4,592,772	-	4,592,772
Unsold apartment units	3,863,640	-	3,863,640	8,487,810	-	8,487,810
Unfinished apartment units	151,227,958	-	151,227,958	345,372,837	-	345,372,837
	<u>₩ 1,403,613,128</u>	<u>₩ (49,573,878)</u>	<u>₩ 1,354,039,250</u>	<u>₩ 3,356,711,931</u>	<u>₩ (32,335,191)</u>	<u>₩ 3,324,376,740</u>

¹ Inventories expected to be returned of ₩3,340,798 thousand are included.

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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	₩ 10,204,552,436	₩ 15,917,147,393
- Increase in valuation allowance of inventories	18,368,179	5,497,168

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>	2017	2016
Current:		
Advance payments	₩ 18,330,595	₩ 80,152,116
Prepaid expenses	110,647,336	178,655,039
Prepaid value added tax	64,183,162	64,058,921
	<u>193,161,093</u>	<u>322,866,076</u>
Non-current:		
Long-term advance payments	96,111,001	218,594,542
Long-term prepaid expenses	901,186,512	1,055,385,736
Other	-	4,218,543
	<u>997,297,513</u>	<u>1,278,198,821</u>
	<u>₩ 1,190,458,606</u>	<u>₩ 1,601,064,897</u>

10. Non-Current Assets Held For Sale

Non-current assets held for sale as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Land ¹	₩ -	₩ 103,290
Buildings ¹	-	2,163,987
Investment in joint venture ²	3,640,679	-
	<u>₩ 3,640,679</u>	<u>₩ 2,267,277</u>

¹ As Lotte.com, a subsidiary of the Group, decided to dispose of certain portion of its land and

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buildings in 2016, these assets were classified to non-current assets held for sale. The assets are measured at the lower amount of their carrying amount or the fair value less costs to sell. During 2017, these assets have been transferred to the newly established corporation from spin-off.

² As Lucky Pai Ltd. and seven other subsidiaries decided to dispose of their investment in Shandong Luckypai TV Shopping, during the year ended December 31, 2017, these assets were classified to non-current assets held for sale. The assets are measured at the lower amount of their carrying amount or the fair value less costs to sell.

11. Investments in Associates

The details of associates 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 Station Building Co., Ltd. ¹	Korea	Distribution	-	₩ -
Daehong Communications Co., Ltd. ¹	Korea	Advertisement agency	-	-
Lotte Capital Co., Ltd. ¹	Korea	Capital	-	-
LotteGRS Co., Ltd. ¹ (formerly, Lotteria Co., Ltd.)	Korea	Restaurant chain	-	-
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	249,710,905
Lotte Asset Development Co., Ltd. ¹	Korea	Real estate development	-	-
Lotte Trading Co., Ltd. ¹	Korea	Product brokerage	-	-
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	7,396,195
Coralis S.A.	Luxembourg	Holding company	45.00	-
Others ¹	-	-	-	113,209,031
				<u>₩ 370,316,131</u>

(in thousands of Korean won)

Name of entity	Location	Major operation	2016	
			Percentage of ownership (%)	Book amount
Lotte Station Building Co., Ltd. ¹	Korea	Distribution	25.00	₩ 123,880,335
Daehong Communications Co., Ltd. ¹	Korea	Advertisement agency	34.00	131,288,823
Lotte Capital Co., Ltd. ¹	Korea	Capital	22.36	214,360,691
LotteGRS Co., Ltd. ¹ (formerly, Lotteria Co., Ltd.)	Korea	Restaurant chain	38.68	227,003,678
FRL Korea Co., Ltd.	Korea	Import and selling of clothing	49.00	234,138,865
Lotte Asset Development Co., Ltd. ¹	Korea	Real estate development	39.14	36,717,474
Lotte Trading Co., Ltd. ¹	Korea	Product brokerage	27.68	121,281,547
Lotte Europe Holdings B.V.	Netherlands	Holding company	26.98	3,063,469

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Coralis S.A.	Luxembourg	Holding company	45.00	1,242,209
Others ¹	-	-	-	143,904,715
				<u>₩ 1,236,881,806</u>

¹ Include assets transferred to the newly established corporation from spin-off during the year ended December 31, 2017.

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

(in thousands of
Korean won)

	2017				
	Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of other comprehensive income of associate
Lotte Station Building Co., Ltd.	₩ 123,880,335	₩ -	₩ (6,095,061)	₩ (52,395,657)	₩ 2,728,563
Daehong Communications Co., Ltd.	131,288,823	-	(816,000)	2,599,731	10,163,483
Lotte Capital Co., Ltd.	214,360,691	-	(2,233,522)	21,224,163	(23,168,668)
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	227,003,678	-	-	1,569,047	(1,289,054)
FRL Korea Co., Ltd.	234,138,865	-	(41,503,000)	82,361,604	(25,286,564)
Lotte Asset Development Co., Ltd.	36,717,474	-	-	5,974,178	5,634,860
Lotte Trading Co., Ltd.	121,281,547	-	-	1,901,967	6,151,802
Lotte Europe Holdings B.V.	3,063,469	-	-	5,893,308	(1,560,582)
Coralis S.A.	1,242,209	-	-	(3,182,721)	1,940,512
Others	143,904,715	5,550,000	-	5,266,717	(2,106,332)
	<u>₩ 1,236,881,806</u>	<u>₩ 5,550,000</u>	<u>₩ (50,647,583)</u>	<u>₩ 71,212,337</u>	<u>₩ (26,791,980)</u>

(in thousands of Korean won)

	2017			
	Disposal	Others ¹	Changes due to spin-off ²	Ending balance
Lotte Station Building Co., Ltd.	₩ -	₩ 12,163	₩ (68,130,343)	₩ -
Daehong Communications Co., Ltd.	-	173,277	(143,409,314)	-
Lotte Capital Co., Ltd.	-	-	(210,182,664)	-
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	-	480,155	(227,763,826)	-
FRL Korea Co., Ltd.	-	-	-	249,710,905
Lotte Asset Development Co., Ltd.	-	76,319	(48,402,831)	-
Lotte Trading Co., Ltd.	-	(38,330)	(129,296,986)	-
Lotte Europe Holdings B.V.	-	-	-	7,396,195
Coralis S.A.	-	-	-	-

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Others	(1,225,334)	(130,992)	(38,049,743)	113,209,031
	₩ (1,225,334)	₩ 572,592	₩ (865,235,707)	₩ 370,316,131

¹ Changes in foreign currency translation and others are included.

² Transferred to the newly established corporation from spin-off during the year ended December 31, 2017.

(in thousands of
Korean won)

	2016				
	Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of other comprehensive income of associate
Lotte Station Building Co., Ltd.	₩ 121,724,397	₩ -	₩ (7,382,356)	₩ 8,707,230	₩ 821,851
Daehong Communications Co., Ltd.	135,242,913	-	(680,000)	5,582,603	(9,353,310)
Lotte Capital Co., Ltd.	195,323,080	-	(2,233,522)	23,269,820	(869,545)
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	239,269,265	-	-	(11,536,780)	(913,445)
FRL Korea Co., Ltd.	187,625,252	-	(13,475,000)	51,182,715	8,805,898
Lotte Asset Development Co., Ltd.	49,315,998	-	-	(2,671,150)	(8,678,881)
Lotte Trading Co., Ltd.	124,077,508	-	-	593,718	(3,373,604)
Lotte Europe Holdings B.V.	-	-	-	2,740,681	322,788
Coralis S.A.	11,922,839	4,474,368	-	(14,244,449)	(910,549)
Others	131,253,835	27,254,564	-	(2,572,395)	(347,123)
	₩ 1,195,755,087	₩ 31,728,932	₩ (23,770,878)	₩ 61,051,993	₩ (14,495,920)

(in thousands of Korean won)

	2016			
	Impairment	Disposal	Others ¹	Ending balance
Lotte Station Building Co., Ltd.	₩ -	₩ -	₩ 9,213	₩ 123,880,335
Daehong Communications Co., Ltd.	-	-	496,617	131,288,823
Lotte Capital Co., Ltd.	-	-	(1,129,142)	214,360,691
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	-	-	184,638	227,003,678
FRL Korea Co., Ltd.	-	-	-	234,138,865
Lotte Asset Development Co., Ltd.	-	-	(1,248,493)	36,717,474
Lotte Trading Co., Ltd.	-	-	(16,075)	121,281,547
Lotte Europe Holdings B.V.	-	-	-	3,063,469
Coralis S.A.	-	-	-	1,242,209
Others	(5,232,909)	(6,295,749)	(155,508)	143,904,715

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₩	(5,232,909)	₩	(6,295,749)	₩	(1,858,750)	₩	1,236,881,806
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¹ Changes in foreign currency translation and others are included.

Financial information of significant associates as at and for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income	Other comprehensive income	Total comprehensive income (loss) ¹
Lotte Station Building Co., Ltd.	₩ 201,288,897	₩ 284,592,047	₩ 203,672,468	₩ 9,687,106	₩ 379,906,388	₩ 16,998,760	₩ 10,962,900	₩ (198,619,727)
Daehong Communications Co., Ltd.	277,242,214	448,548,065	259,724,001	51,387,688	299,801,980	11,852,224	30,624,040	38,281,488
Lotte Capital Co., Ltd. ²	7,071,234,786	-	5,977,611,033	-	683,163,255	135,268,586	(2,844,588)	96,532,281
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	263,469,171	953,678,293	432,511,767	232,502,399	831,288,098	1,026,477	(1,632,000)	2,437,987
FRL Korea Co., Ltd.	615,597,749	138,495,490	237,979,152	6,499,996	1,329,770,774	224,078,342	(51,605,233)	116,479,673
Lotte Asset Development Co., Ltd.	182,180,599	314,780,308	263,220,249	104,374,584	174,280,375	31,705,107	14,590,763	29,853,427
Lotte Trading Co., Ltd.	313,426,100	987,802,586	373,341,867	199,557,161	556,487,896	404,440	22,082,354	28,952,411
Lotte Europe Holdings B.V.	74,526,610	454,047,081	309,890,846	185,548,255	127,896,318	13,535,743	(5,783,650)	12,258,427
Coralis S.A.	47,367,400	329,371,453	379,747,045	38,123,463	39,012,791	467,479	4,312,251	(9,436,330)

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

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

(in thousands of Korean won)	2016							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income	Total comprehensive income (loss) ¹
Lotte Station Building Co., Ltd.	₩ 237,319,968	₩ 503,325,152	₩ 235,456,909	₩ 9,666,868	₩ 582,892,426	₩ 53,117,037	₩ 3,324,257	₩ 38,153,178
Daehong Communications Co., Ltd.	254,288,140	411,691,016	242,476,804	44,386,690	405,221,512	21,253,069	(24,812,506)	(8,494,978)
Lotte Capital Co., Ltd. ²	6,895,448,670	-	5,933,572,280	-	882,237,498	141,160,540	(3,839,321)	101,589,626
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	277,564,856	957,434,378	416,344,747	268,456,341	1,124,880,178	6,489,619	3,615,561	(5,683,723)
FRL Korea Co., Ltd.	515,676,143	149,335,215	186,627,253	549,685	1,208,516,709	127,213,106	17,971,221	122,425,742
Lotte Asset Development Co., Ltd.	586,147,437	268,414,481	676,089,068	85,064,858	224,788,444	9,749,522	(23,565,196)	(30,389,376)
Lotte Trading Co., Ltd.	303,708,851	905,071,970	359,721,310	166,813,759	683,148,598	4,634,059	(11,757,768)	(9,546,867)
Lotte Europe Holdings B.V.	106,119,073	445,947,849	151,624,103	379,566,654	103,681,717	10,048,892	1,196,278	56,252,556
Coralis S.A.	41,556,677	393,161,942	130,373,512	336,040,432	30,668,867	(10,774,753)	(2,023,443)	(33,660,078)

Lotte Shopping Co., Ltd. and Subsidiaries

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

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

The reconciliation of the net assets of the significant associates to the carrying amount of the equity interest in the associate as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017						
	Net assets (a) ¹	Group's ownership % (b)	Group's share in KRW(a*b)	Goodwill	Others ²	Changes due to spin-off	Book amount
Lotte Station Building Co., Ltd. ³	₩272,521,371	25.00	₩ 68,130,343	₩ -	₩ -	₩ (68,130,343)	₩ -
Daehong Communications Co., Ltd. ³	415,195,206	34.00	141,166,370	2,242,944	-	(143,409,314)	-
Lotte Capital Co., Ltd. ³	939,818,973	22.36	210,136,419	-	46,245	(210,182,664)	-
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.) ³	552,084,740	38.68	213,548,578	14,215,248	-	(227,763,826)	-
FRL Korea Co., Ltd.	509,614,091	49.00	249,710,905	-	-	-	249,710,905
Lotte Asset Development Co., Ltd. ³	122,781,225	39.14	48,059,555	343,276	-	(48,402,831)	-
Lotte Trading Co., Ltd. ³	467,031,153	27.68	129,296,986	-	-	(129,296,986)	-
Lotte Europe Holdings B.V.	33,134,591	26.98	8,940,592	9,676,049	(11,220,446)	-	7,396,195
Coralis S.A.	(41,131,656)	45.00	(18,509,238)	15,162,457	3,346,781	-	-

¹ Net assets excluded non-controlling interests.

² Others included unamortized amounts of difference of fair value, unrecognized amounts and foreign currency differences arising from translation.

³ Transferred to the newly established corporation from spin-off during the year ended December 31, 2017.

Lotte Shopping Co., Ltd. and Subsidiaries
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Korean won)

	2016					
	Net assets (a) ¹	Group's ownership % (b)	Group's share in KRW(a*b)	Goodwill	Others ²	Book amount
Lotte Station Building Co., Ltd.	₩ 495,521,342	25.00	₩ 123,880,335	₩ -	₩ -	₩ 123,880,335
Daehong Communications Co., Ltd.	379,546,705	34.00	129,045,880	2,242,943	-	131,288,823
Lotte Capital Co., Ltd.	958,504,880	22.36	214,314,446	-	46,245	214,360,691
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	550,119,540	38.68	212,788,430	14,215,248	-	227,003,678
FRL Korea Co., Ltd.	477,834,419	49.00	234,138,865	-	-	234,138,865
Lotte Asset Development Co., Ltd.	92,927,798	39.14	36,374,198	343,276	-	36,717,474
Lotte Trading Co., Ltd.	438,078,742	27.68	121,281,547	-	-	121,281,547
Lotte Europe Holdings B.V.	20,876,164	26.98	5,632,943	9,676,049	(12,245,523)	3,063,469
Coralis S.A.	(31,695,326)	45.00	(14,262,891)	15,162,457	342,643	1,242,209

¹ Net assets excluded non-controlling interests.

² Others included unamortized amounts of difference of fair value, unrecognized amounts and foreign currency differences arising from translation.

Current and accumulated unrecognized equity method losses of associates as at December 31, 2017, are as follows:

(in thousands of Korean won)	Unrecognized losses for the year	Unrecognized accumulated losses
Coralis S.A.	₩ (3,012,106)	₩ (3,012,106)

12. Investments in Joint Venture

When the Group has rights to the net assets of the joint venture entity, the Group classifies the investment in entity as a joint venture. The details of joint ventures as 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	₩	548,572
STL Co., Limited	Korea	Import and selling of clothing	50.00		244,751
LOTTE JTB Co., Ltd. ¹	Korea	Travel business	-		-
Shenyang SL Cinema Investment	China	Cinema	49.00		747,972

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Management Co., Ltd.				
Shandong Luckypai TV Shopping ²	China	TV Home Shopping	27.00	-
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	-	-
International Business Center Company Limited	Vietnam	Distribution	50.00	55,240,083
PT. INDO LOTTE MAKMUR	Indonesia	Distribution	50.00	14,704,571
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	China	Shopping mall management consulting	49.00	1,228,456
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	Vietnam	Movie investment and distribution	51.00	159,751
				<u>₩ 72,874,156</u>

(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	₩	837,895
STL Co., Limited	Korea	Import and selling of clothing	50.00		510,980
LOTTE JTB Co., Ltd. ¹	Korea	Travel business	50.00		7,372,558
Shenyang SL Cinema Investment Management Co., Ltd.	China	Cinema	49.00		928,568
Shandong Luckypai TV Shopping ²	China	TV Home Shopping	49.00		9,683,860
Yunnan Maile TV Shopping Media Co., Ltd.	China	TV Home Shopping	49.00		3,867,665
International Business Center Company Limited	Vietnam	Distribution	50.00		63,895,260
PT. INDO LOTTE MAKMUR	Indonesia	Distribution	50.00		12,721,367
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	China	Shopping mall management consulting	-		-
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	Vietnam	Movie investment and distribution	-		-
				<u>₩</u>	<u>99,818,153</u>

¹ Transferred to the newly established corporation from spin-off of the investment division during the year ended December 31, 2017.

² Reclassified to non-current assets held for sale during the year ended December 31, 2017.

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

(in thousands of Korean won)

2017				
Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of other comprehensive income of associate

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D-Cinema of Korea Co., Ltd.	₩	837,895	₩	-	₩	-	₩	(289,323)	₩	-
STL Co., Limited		510,980		-		-		(266,229)		-
LOTTE JTB Co., Ltd.		7,372,558		-		-		745,424		-
Shenyang SL Cinema Investment Management Co., Ltd.		928,568		-		-		(132,227)		(48,369)
Shandong Luckypai TV Shopping		9,683,860		-		-		-		-
Yunnan Maile TV Shopping Media Co., Ltd.		3,867,665		-		(15,763)		68,149		-
International Business Center Company Limited		63,895,260		-		(4,150,587)		4,862,273		(2,000,774)
PT. INDO LOTTE MAKMUR		12,721,367		9,410,067		-		(5,573,160)		323,923
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		-		1,658,160		-		(254,498)		(48,600)
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.		-		173,930		-		(4,561)		(9,618)
	₩	99,818,153	₩	11,242,157	₩	(4,166,350)	₩	(844,152)	₩	(1,783,438)

(in thousands of Korean won)

(in thousands of Korean won)	2017						
	Disposal		Others ¹		Changes due to spin-off ²		Ending balance
D-Cinema of Korea Co., Ltd.	₩	-	₩	-	₩	-	₩ 548,572
STL Co., Limited		-		-		-	244,751
LOTTE JTB Co., Ltd.		-		(126,700)		(7,991,282)	-
Shenyang SL Cinema Investment Management Co., Ltd.		-		-		-	747,972
Shandong Luckypai TV Shopping		-		(9,683,860)		-	-
Yunnan Maile TV Shopping Media Co., Ltd.		(3,704,336)		(215,715)		-	-
International Business Center Company Limited		-		(7,366,089)		-	55,240,083
PT. INDO LOTTE MAKMUR		-		(2,177,626)		-	14,704,571
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.		-		(126,606)		-	1,228,456
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.		-		-		-	159,751
	₩	(3,704,336)	₩	(19,696,596)	₩	(7,991,282)	₩ 72,874,156

¹ Changes in foreign currency translation and others are included.

² Transferred to the newly established corporation from spin-off during the year ended December 31, 2017.

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	2016						
	Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of other comprehensive income of associate	Others ¹	Ending balance
D-Cinema of Korea Co., Ltd.	₩ 1,725,432	₩ -	₩ -	₩ (887,537)	₩ -	₩ -	₩ 837,895
STL Co., Limited	605,821	-	-	(94,841)	-	-	510,980
LOTTE JTB Co., Ltd.	-	10,000,000	-	(2,575,249)	(52,193)	-	7,372,558
Shenyang SL Cinema Investment Management Co., Ltd.	961,446	-	-	5,888	(38,766)	-	928,568
Shandong Luckypai TV Shopping	10,091,313	-	-	-	-	(407,453)	9,683,860
Yunnan Maile TV Shopping Media Co., Ltd.	4,195,955	-	(205,458)	45,541	-	(168,373)	3,867,665
International Business Center Company Limited	61,515,707	-	(4,188,155)	4,314,955	291,687	1,961,066	63,895,260
PT. INDO LOTTE MAKMUR	-	14,433,125	-	(451,527)	(1,933,356)	673,125	12,721,367
	<u>₩ 79,095,674</u>	<u>₩ 24,433,125</u>	<u>₩ (4,393,613)</u>	<u>₩ 357,230</u>	<u>₩ (1,732,628)</u>	<u>₩ 2,058,365</u>	<u>₩ 99,818,153</u>

¹ Changes in foreign currency translation and others are included.

Financial information of joint ventures as at and for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of
Korean won)

	2017							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income	Total comprehensive income (loss) ¹
D-Cinema of Korea Co., Ltd.	₩10,851,613	₩ 723,558	₩ 4,794,394	₩ 5,683,633	₩ 2,395,383	₩ (663,379)	₩ -	₩ (578,648)
STL Co., Limited	4,036,935	707,378	3,503,628	751,186	18,333,599	(341,838)	-	(532,458)
LOTTE JTB Co., Ltd.	59,936,897	4,572,852	44,723,887	3,803,298	19,927,930	1,420,898	(203,861)	1,570,626
Shenyang SL Cinema Investment Management Co., Ltd.	725,241	1,176,391	379,818	-	741,712	(264,426)	(98,712)	(368,564)
International Business Center Company Limited	14,669,624	44,345,876	8,930,271	17,448,555	22,890,713	12,424,959	(4,001,765)	5,722,998
PT. INDO LOTTE MAKMUR	21,698,223	18,167,114	7,212,358	234,833	46,846	(11,941,327)	(3,819,142)	(14,965,461)
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	2,853,969	6,353	94,888	-	511,650	(545,186)	(99,183)	(618,567)
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	391,525	25,901	104,187	-	304,953	(11,061)	(18,858)	(27,801)

¹ Total comprehensive income (loss) stated above excludes attribution to non-controlling

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shareholder.

	2016							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income (loss)	Other comprehensive income	Total comprehensive income (loss) ¹
(in thousands of Korean won)								
D-Cinema of Korea Co., Ltd.	₩17,198,046	₩ 3,013,085	₩ 8,148,311	₩10,387,029	₩ 5,328,853	₩ (1,620,266)	₩ -	₩ (1,775,072)
STL Co., Limited	4,094,060	851,971	3,369,420	554,653	16,148,661	(53,045)	-	(189,681)
LOTTE JTB Co., Ltd.	42,341,802	3,384,346	27,593,320	3,437,251	26,267,410	2,546,532	(49,538)	2,532,636
Shenyang SL Cinema Investment Management Co., Ltd.	956,907	1,391,166	457,695	-	1,249,668	8,536	(79,115)	(67,100)
Shandong Luckypai TV Shopping	43,186,156	3,725,423	26,643,290	-	-	-	-	-
Yunnan Maile TV Shopping Media Co., Ltd.	13,893,665	1,902,500	9,757,490	-	23,327,915	(1,505,151)	-	204,443
International Business Center Company Limited	11,672,448	52,699,397	27,801,776	1,355,218	22,104,213	11,336,295	583,373	9,213,283
PT. INDO LOTTE MAKMUR	17,975,185	6,498,979	95,915	281,765	-	(1,281,498)	(3,866,712)	(4,769,766)

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

The reconciliation of the net assets of the joint ventures to the carrying amount of the equity interest in the joint ventures as at December 31, 2017 and 2016, is as follows:

	2017						
	Net assets (a) ¹	Group's ownership % (b)	Group's share in KRW(a*b)	Goodwill	Others ²	Changes due to spin-off	Book amount
(in thousands of Korean won)							
D-Cinema of Korea Co., Ltd.	₩ 1,097,144	50.00	₩ 548,572	₩ -	₩ -	₩ -	₩ 548,572
STL Co., Limited	489,500	50.00	244,750	-	1	-	244,751
LOTTE JTB Co., Ltd. ³	15,982,565	50.00	7,991,282	-	-	(7,991,282)	-
Shenyang SL Cinema Investment Management Co., Ltd.	1,521,814	49.00	745,689	-	2,283	-	747,972
International Business Center Company Limited	32,636,674	50.00	16,318,336	40,415,381	(1,493,634)	-	55,240,083
PT. INDO LOTTE MAKMUR	32,418,145	50.00	16,209,073	-	(1,504,502)	-	14,704,571
CITIC PACIFIC LOTTE (SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	2,765,433	49.00	1,355,062	-	(126,606)	-	1,228,456
LOTTE ENTERTAINMENT VIETNAM CO.,LTD.	313,239	51.00	159,751	-	-	-	159,751

¹ Net assets excluded non-controlling interests.

² Others included unamortized amounts of difference of fair value, unrecognized amounts and foreign currency differences arising from translation.

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³ Transferred to the newly established corporation from spin-off during the year ended December 31, 2017.

(in thousands of
Korean won)

	2016					
	Net assets (a) ¹	Group's ownership % (b)	Group's share in KRW(a*b)	Goodwill	Others ²	Book amount
D-Cinema of Korea Co., Ltd.	₩ 1,675,791	50.00	₩ 837,895	₩ -	₩ -	₩ 837,895
STL Co., Limited	1,021,958	50.00	510,979	-	1	510,980
LOTTE JTB Co., Ltd.	14,695,578	50.00	7,347,789	-	24,769	7,372,558
Shenyang SL Cinema Investment Management Co., Ltd.	1,890,378	49.00	926,285	-	2,283	928,568
Shandong Luckypai TV Shopping	20,268,289	49.00	9,931,462	-	(247,602)	9,683,860
Yunnan Maile TV Shopping Media Co., Ltd.	6,038,675	49.00	2,958,951	908,714	-	3,867,665
International Business Center Company Limited	35,214,850	50.00	17,607,425	40,415,381	5,872,454	63,895,260
PT. INDO LOTTE MAKMUR	24,096,484	50.00	12,048,242	-	673,125	12,721,367

¹ Net assets excluded non-controlling interests.

² Others included unamortized amounts of difference of fair value, unrecognized amounts and foreign currency differences arising from translation.

13. Property, Plant and Equipment

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

(in thousands of
Korean won)

	2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book amount
Land	₩ 7,652,277,892	₩ -	₩ -	₩ 7,652,277,892
Buildings	7,545,006,995	(2,520,297,749)	(199,200)	5,024,510,046
Structures	344,124,830	(118,497,973)	(3,264,653)	222,362,204
Machinery	190,572,712	(124,677,676)	(2,380,775)	63,514,261
Vehicles	7,970,967	(5,988,350)	(202,586)	1,780,031
Display fixtures	596,249,657	(418,905,344)	(21,347,360)	155,996,953
Furniture and fixtures	3,780,381,631	(2,882,906,191)	(95,096,592)	802,378,848
Tools and equipment	202,609,079	(122,415,410)	(31,392,957)	48,800,712
Other PP&E	233,890,710	(93,402,707)	(82,403,563)	58,084,440
Construction-in-progress	880,618,401	-	-	880,618,401
Finance lease assets	16,554,422	(8,305,784)	(262,031)	7,986,607
	<u>₩ 21,450,257,296</u>	<u>₩ (6,295,397,184)</u>	<u>₩ (236,549,717)</u>	<u>₩ 14,918,310,395</u>

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	2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book amount
Land	₩ 8,043,145,478	₩ -	₩ -	₩ 8,043,145,478
Buildings	7,451,692,901	(2,380,298,036)	(62,433)	5,071,332,432
Structures	354,614,887	(116,068,670)	(2,959,054)	235,587,163
Machinery	304,071,815	(165,732,420)	(838,378)	137,501,017
Vehicles	7,937,458	(5,731,725)	(109,496)	2,096,237
Display fixtures	787,859,979	(503,834,678)	(13,670,901)	270,354,400
Furniture and fixtures	4,071,277,798	(2,993,914,302)	(35,265,778)	1,042,097,718
Tools and equipment	199,721,202	(113,427,174)	(9,757,241)	76,536,787
Other PP&E	260,000,101	(100,308,250)	(40,581,490)	119,110,361
Construction-in-progress	887,620,416	-	-	887,620,416
Finance lease assets	65,139,860	(14,671,568)	(3,608,244)	46,860,048
	<u>₩ 22,433,081,895</u>	<u>₩ (6,393,986,823)</u>	<u>₩ (106,853,015)</u>	<u>₩ 15,932,242,057</u>

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

(in thousands of
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	2017							Ending book amount
	Beginning book amount	Acquisitions	Depreciation	Impairment	Disposals	Others ¹	Changes due to spin-off	
Land	₩ 8,043,145,478	₩ 6,932,398	₩ -	₩ -	₩ (15,190,205)	₩ (371,133,703)	₩ (11,476,076)	₩ 7,652,277,892
Buildings	5,071,332,432	23,292,769	(212,264,471)	(136,767)	(6,315,611)	150,622,551	(2,020,857)	5,024,510,046
Structures	235,587,163	264,582	(13,379,799)	(305,599)	(28,116)	223,975	(2)	222,362,204
Machinery	137,501,017	11,261,134	(23,937,151)	(1,673,071)	(240,679)	41,650,837	(101,047,826)	63,514,261
Vehicles	2,096,237	819,533	(839,710)	(93,183)	(32,661)	(42,798)	(127,387)	1,780,031
Display fixtures	270,354,400	51,224,153	(86,659,744)	(8,447,956)	(1,406,797)	249,208	(69,316,311)	155,996,953
Furniture and fixtures	1,042,097,718	191,628,457	(396,242,525)	(59,999,425)	(6,754,768)	173,079,832	(141,430,441)	802,378,848
Tools and equipment	76,536,787	6,268,150	(16,512,668)	(23,644,598)	(423,675)	6,888,723	(312,007)	48,800,712
Other PP&E	119,110,361	4,264,292	(12,727,802)	(41,921,806)	(446,454)	(6,817,509)	(3,376,642)	58,084,440
Construction-in-progress	887,620,416	550,483,239	-	-	(3,641,542)	(549,444,777)	(4,398,935)	880,618,401
Finance lease assets	46,860,048	-	(5,068,420)	(248,383)	(13,215)	(14,110,166)	(19,433,257)	7,986,607
	<u>₩ 15,932,242,057</u>	<u>₩ 846,438,707</u>	<u>₩ (767,632,290)</u>	<u>₩ (136,470,788)</u>	<u>₩ (34,493,723)</u>	<u>₩ (568,833,827)</u>	<u>₩ (352,939,741)</u>	<u>₩ 14,918,310,395</u>

¹ Others include reclassifications of construction-in-progress to intangible assets, reclassification to investment property, effects of loss of control of subsidiaries and foreign exchange effects.

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	2016							
	Beginning book amount	Acquisitions	Increase from business combination	Depreciation	Impairment	Disposals	Others ¹	Ending book amount
Land	₩ 7,991,800,560	₩ 71,960,426	₩ -	₩ -	₩ -	₩ (8,668,938)	₩ (11,946,570)	₩ 8,043,145,478
Buildings	5,060,086,032	28,289,602	-	(207,100,452)	(62,433)	(3,834,545)	193,954,228	5,071,332,432
Structures	251,617,230	495,552	-	(14,733,731)	(2,959,054)	(1,047,323)	2,214,489	235,587,163
Machinery	121,183,322	23,108,974	-	(22,791,536)	(427,328)	(39,654)	16,467,239	137,501,017
Vehicles	2,732,135	507,875	-	(914,847)	(59,019)	(186,431)	16,524	2,096,237
Display fixtures	285,669,201	84,222,398	-	(94,391,092)	(4,994,263)	(2,476,422)	2,324,578	270,354,400
Furniture and fixtures	1,085,827,666	250,481,824	1,606,710	(437,728,349)	(29,708,656)	(5,371,897)	176,990,420	1,042,097,718
Tools and equipment	79,721,903	21,919,534	-	(21,614,141)	(7,911,152)	(1,083,721)	5,504,364	76,536,787
Other PP&E	143,489,057	12,876,006	-	(14,717,859)	(25,504,552)	(11,383)	2,979,092	119,110,361
Construction-in- progress	679,472,784	684,772,245	-	-	-	(21,341,421)	(455,283,192)	887,620,416
Finance lease assets	57,507,026	498,478	-	(10,035,212)	(1,901,238)	(14,948)	805,942	46,860,048
	<u>₩ 15,759,106,916</u>	<u>₩1,179,132,914</u>	<u>₩ 1,606,710</u>	<u>₩ (824,027,219)</u>	<u>₩ (73,527,695)</u>	<u>₩ (44,076,683)</u>	<u>₩ (65,972,886)</u>	<u>₩15,932,242,057</u>

¹ Others include reclassifications of construction-in-progress to intangible assets, reclassification to investment property, effects of loss of control of subsidiaries and foreign exchange effects.

The CGUs of department stores, discount stores and supermarkets 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:

(in thousands of Korean won)	2017	2016
Impairment loss on property, plant and equipment	₩ 136,470,788	₩ 73,527,695
Impairment loss on intangible assets (excluding goodwill)	69,276,969	46,661,942
Impairment loss on goodwill	370,958,183	154,861,104
Impairment loss on other non-current assets	28,000,742	15,616,274
	<u>₩ 604,706,682</u>	<u>₩ 290,667,015</u>

₩38,966,193 thousand and ₩4,735,304 thousand of impairment loss are recognized for the years ended December 31, 2017 and 2016, respectively in profit from discontinued operations.

(*) 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.

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

(in thousands of Korean won)

Offered assets ¹	2017				
	Book amount	Guaranteed amount	Type of borrowings	Amount of borrowings	Guarantee recipient
Land and buildings	₩ 264,722,434	₩ 554,849,367	Secured Loan and others	₩ 287,000,000	Kookmin Bank and others

¹ Provided as collateral for borrowings, security for lease deposit, and provisional attachment of land.

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

(in thousands of Korean won)	2017	2016
Capitalized borrowing costs	₩ 7,613,884	₩ 8,665,085
Capitalization interest rates	2.24%~5.22%	2.31%~7.42%

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	₩ 574,579,095	₩ -	₩ 574,579,095	₩ 380,714,574	₩ -	₩ 380,714,574
Buildings	673,763,861	(99,319,526)	574,444,335	404,926,729	(93,795,942)	311,130,787
	₩ 1,248,342,956	₩ (99,319,526)	₩ 1,149,023,430	₩ 785,641,303	₩ (93,795,942)	₩ 691,845,361

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	Others ¹	Ending balance	
Land	₩ 380,714,574	₩ 60,723	₩ -	₩ 193,803,798	₩ 574,579,095	
Buildings	311,130,787	28,057,002	(11,578,244)	246,834,790	574,444,335	
	₩ 691,845,361	₩ 28,117,725	₩ (11,578,244)	₩ 440,638,588	₩ 1,149,023,430	

¹ Others include reclassification between property, plant and equipment and investment property and foreign exchange effects.

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	2016				
	Beginning balance	Acquisitions	Depreciation	Others ¹	Ending balance
Land	₩ 223,493,583	₩ 2,565,540	₩ -	₩ 154,655,451	₩ 380,714,574
Buildings	297,487,966	13,602,596	(11,939,393)	11,979,618	311,130,787
	₩ 520,981,549	₩ 16,168,136	₩ (11,939,393)	₩ 166,635,069	₩ 691,845,361

¹ Others include reclassification between property, plant and equipment and investment property and foreign exchange effects.

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	₩ 106,760,565	₩ 75,182,970
Direct operating expense (including maintenance and repair expenses)	52,755,087	29,609,824

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

(in thousands of Korean won)	Book amount	Fair value
Land and buildings	₩ 1,149,023,430	₩ 1,395,762,162

15. Goodwill and Intangible Assets

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

(in thousands of Korean won)

	2017				2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book amount	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book amount
Goodwill	₩ 3,223,325,480	₩ -	₩ (1,299,421,839)	₩ 1,923,903,641	₩ 3,558,053,623	₩ -	₩ (966,103,164)	₩ 2,591,950,459
Industrial property rights	144,932,916	(7,273,309)	(69,895)	137,589,712	145,347,076	(7,145,821)	-	138,201,255
Rights to use facility	525,910,450	(193,979,363)	(110,220,904)	221,710,183	525,134,514	(170,967,345)	(41,320,703)	312,846,466
Membership	31,428,712	-	(2,348,169)	29,080,543	39,965,753	-	(6,275,753)	33,690,000
Other intangible assets	477,028,638	(362,746,320)	(410,360)	113,871,958	544,546,380	(255,675,669)	(8,860,876)	280,009,835
	₩ 4,402,626,196	₩ (563,998,992)	₩ (1,412,471,167)	₩ 2,426,156,037	₩ 4,813,047,346	₩ (433,788,835)	₩ (1,022,560,496)	₩ 3,356,698,015

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

(in thousands of
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	2017							Ending balance
	Beginning balance	Acquisitions	Amortization	Impairment	Disposals	Others ¹	Changes due to spin-off	
Goodwill	₩ 2,591,950,459	₩ -	₩ -	₩ (370,958,183)	₩ (356,467)	₩ (9,734,935)	₩ (286,997,233)	₩ 1,923,903,641
Industrial property rights	138,201,255	439,799	(837,656)	(69,895)	-	(28,794)	(114,997)	137,589,712
Rights to use facility	312,846,466	-	(23,015,160)	(68,900,201)	-	779,078	-	221,710,183
Membership	33,690,000	2,557,039	-	108,193	(154,546)	-	(7,120,143)	29,080,543
Other intangible assets	280,009,835	69,868,042	(101,709,394)	(306,872)	(74,215)	4,519,413	(138,434,851)	113,871,958
	<u>₩ 3,356,698,015</u>	<u>₩ 72,864,880</u>	<u>₩ (125,562,210)</u>	<u>₩ (440,126,958)</u>	<u>₩ (585,228)</u>	<u>₩ (4,465,238)</u>	<u>₩ (432,667,224)</u>	<u>₩ 2,426,156,037</u>

¹ Others include reclassification of construction-in-progress to intangible assets and foreign exchange effects.

(in thousands of
Korean won)

	2016							Ending balance
	Beginning balance	Acquisitions	Business combination	Amortization	Impairment	Disposals	Others ¹	
Goodwill	₩ 2,715,569,131	₩ 1,125,000	₩ 30,735,338	₩ -	₩ (154,861,104)	₩ (186,444)	₩ (431,462)	₩ 2,591,950,459
Industrial property rights	138,016,283	1,313,060	-	(1,148,321)	-	-	20,233	138,201,255
Rights to use facility	380,012,817	484,741	-	(26,517,717)	(41,318,475)	-	185,100	312,846,466
Membership	34,142,353	291,270	-	-	(743,623)	-	-	33,690,000
Other intangible assets	310,648,563	73,263,772	5,788,433	(109,531,609)	(4,599,844)	(280,502)	4,721,022	280,009,835
	<u>₩ 3,578,389,147</u>	<u>₩ 76,477,843</u>	<u>₩ 36,523,771</u>	<u>₩ (137,197,647)</u>	<u>₩ (201,523,046)</u>	<u>₩ (466,946)</u>	<u>₩ 4,494,893</u>	<u>₩ 3,356,698,015</u>

¹ Others include reclassification of construction-in-progress to intangible assets and foreign exchange effects.

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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 Group.

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

<i>(in thousands of Korean won)</i>	2017	2016
Department stores	₩ 192,600,753	₩ 198,463,619
Discount stores	81,636,940	326,632,037
Finance business ¹	-	113,319,928
Consumer electronics retail	1,242,973,285	1,242,973,285
Convenience stores ¹	-	202,948,489
Other ¹	406,692,663	507,613,101
	<u>₩ 1,923,903,641</u>	<u>₩ 2,591,950,459</u>

¹ As at December 31, 2017, goodwill of ₩ 286,997,233 thousand is transferred to the newly established corporation from spin-off.

The value in use of each cash-generating unit was determined by discounting its estimated future cash flows. The approach used to determine value in use as at December 31, 2017 was consistent with those used in 2016. The calculation of value in use was based on the following key assumptions:

- Cash flows were estimated based on past experience, actual historical results of operations and the five-year business plan.
- The annual revenue growth rate for the five-year period in the future was estimated based on an analysis of past revenue growth rates. The revenues after the five-year period are assumed to grow constantly from zero to two percent (2016: from zero to three percent).

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

	2017	2016
Department stores	7.17% ~ 8.43%	5.71% ~ 14.24%
Discount stores	7.17% ~ 11.96%	5.71% ~ 9.70%
Finance business	11.97%	7.00% ~ 11.00%
Consumer electronics retail	7.80%	7.10%
Convenience stores	15.64%	13.62%
Others	7.17% ~ 16.97%	5.43% ~ 19.90%

Value in use is based on the above assumptions representing management's estimation of future cash flows, and is calculated using external and internal sources of the Group. As a result of impairment testing as at December 31, 2017, recoverable amounts of the cash-generating units in department stores, discount stores, finance business and others were less than its book amount, including goodwill, therefore impairment losses were recognized. As a result of impairment testing, value in use of the other cash-generating units is higher than their respective carrying amount as at December 31, 2017 and 2016.

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
Department stores	₩ 5,862,867	₩ -	₩ -	₩ -
Discount stores	239,163,572	610,600,915	83,311,406	539,789,726
Finance business	38,617,464	1,749,439,132	-	-
Consumer electronics retail	-	-	39,722,903	1,458,959,268
Others	87,314,280	236,398,194	31,826,795	1,448,482
	₩ 370,958,183	₩ 2,596,438,241	₩ 154,861,104	₩ 2,000,197,476

The impairment loss of goodwill amounting to ₩ 38,909,321 thousand is included in 'profit from discontinued operations' for the year ended December 31, 2017.

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Details of intangible assets with indefinite estimated useful lives as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Department stores	₩ 12,544,709	₩ 11,011,709
Discount stores	1,976,374	1,976,374
Finance business	-	3,531,218
Consumer electronics retail	139,034,275	138,894,275
Convenience stores	-	2,347,971
Others	11,621,520	12,066,837
	<u>₩ 165,176,878</u>	<u>₩ 169,828,384</u>

During the year ended December 31, 2017, as a result of the Group's impairment test on indefinite intangible assets, there is no indefinite intangible asset whose book value exceeds its recoverable amount, but the Group recognized an impairment loss of ₩ 743,623 thousand for the year ended December 31, 2016.

16.Trade and Other Payables

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

<i>(in thousands of Korean won)</i>	2017	2016
Trade payables	₩ 2,175,463,411	₩ 3,764,738,397
Other payables	1,318,970,294	2,020,613,480
	<u>₩ 3,494,433,705</u>	<u>₩ 5,785,351,877</u>

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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>		2017		2016
Current:				
Short-term borrowings	₩	923,395,390	₩	1,537,254,583
Current portion of long-term borrowings		851,926,330		903,319,952
Current portion of discount on long-term borrowings		(4,967)		(86,994)
Current portion of long-term debentures		1,303,780,000		2,626,860,000
Current portion of discount on debentures		(277,336)		(9,117,802)
Convertible bonds redemption premium		-		1,172,659
Conversion rights adjustment		-		(351,602)
Exchange rights adjustment		(27,060)		(437,662)
		<u>3,078,792,357</u>		<u>5,058,613,134</u>
Non-current:				
Long-term borrowings		1,105,273,982		1,706,870,309
Discount on long-term borrowings		(6,037,489)		(790,586)
Long-term debentures		3,497,263,515		7,729,855,000
Discount on debentures		(7,608,445)		(11,599,598)
		<u>4,588,891,563</u>		<u>9,424,335,125</u>
	₩	<u>7,667,683,920</u>	₩	<u>14,482,948,259</u>

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

(in thousands of Korean won)

Lender	Details	Annual interest rate (%)		2017		2016
HSBC Bank and others	General	3M Libor+1.1 ~ 1M Jibor+1.8	₩	520,395,390	₩	849,754,583
Shinhan Bank and others	Financial notes	CD(91)+0.34 ~ 2.31		<u>403,000,000</u>		<u>687,500,000</u>
			₩	<u>923,395,390</u>	₩	<u>1,537,254,583</u>

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

(in thousands of Korean won)

Lender	Details	Annual interest rate (%)	2017	2016
Mizuho Corporate Bank, Ltd. and others	Local currency	2.38~2.67	₩ 657,000,000	₩ 1,242,250,000
Lotte Co., Ltd. (Japan) and others	Foreign currency	3M Tibor+1.13 ~ 7.95	1,300,200,312	1,367,940,261
			<u>1,957,200,312</u>	<u>2,610,190,261</u>
	Less: Discount on borrowings		<u>(6,042,456)</u>	<u>(877,580)</u>
			1,951,157,856	2,609,312,681
	Less: Current portion of long-term borrowings, net of discount		<u>(851,921,363)</u>	<u>(903,232,958)</u>
			<u>₩ 1,099,236,493</u>	<u>₩ 1,706,079,723</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. 03, 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
69-2nd placed	Jan. 29, 2019	3M USD Libor+0.02	107,140,000	120,850,000

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(foreign currency)				
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
71th placed	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	June 15, 2020	2.11	110,000,000	-
73-2nd placed	June 15, 2022	2.50	150,000,000	-
73-3rd placed	June 15, 2024	2.69	100,000,000	-
74th placed	June 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 ¹	Jan. 24, 2018	-	13,800,000	13,800,000
Korea Seven Co., Ltd. (convertible bonds) ²	-	-	-	7,920,000
Lotte Card Co., Ltd. ²	-	-	-	5,783,095,000
LOTTE Himart Co., Ltd.	Multiple	2.08~3.04	650,000,000	650,000,000
LSBM (foreign currency)	Sept. 05, 2020	2.38	325,843,515	-
			4,801,043,515	10,356,715,000
Less: Discount on debentures			(7,885,781)	(20,717,400)
Convertible bonds redemption premium			-	1,172,659
Less: Conversion rights adjustment			-	(351,602)
Less: Exchange rights adjustment			(27,060)	(437,662)
			4,793,130,674	10,336,380,995
Less: Current portion of debentures, net of discount			(1,303,475,604)	(2,618,125,593)
			<u>₩ 3,489,655,070</u>	<u>₩ 7,718,255,402</u>

¹ The Group 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 Group 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 third anniversary of the date of payment (January 24, 2016);
 - ii. If any change of control occurs in the LOTTE Himart; or
 - iii. The issued stocks of the Company are delisted from the stock exchange or their transaction is suspended for 30 consecutive transaction days or longer.
- (g) Call option by the Company:
 - The call option can be exercised if any of the following conditions occurs:
 - i. If the closing price of LOTTE Himart Co., Ltd for 20 transactional days in 30 consecutive transaction days reaches 130% or more of the exchange price between 3 years from the issuance date (January 24, 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.

² During 2017, it has been transferred to the newly established corporation from spin-off.

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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)

	2017		
	Borrowings	Debentures	Total
2018.01.01 ~ 2018.12.31	₩ 851,926,330	₩ 1,303,780,000	₩ 2,155,706,330
2019.01.01 ~ 2019.12.31	266,469,594	951,420,000	1,217,889,594
2020.01.01 ~ 2020.12.31	838,804,388	1,175,843,515	2,014,647,903
2021.01.01 ~ 2021.12.31	-	220,000,000	220,000,000
2022.01.01 and there after	-	1,150,000,000	1,150,000,000
	<u>₩ 1,957,200,312</u>	<u>₩ 4,801,043,515</u>	<u>₩ 6,758,243,827</u>

18. Unearned Revenues

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

(in thousands of Korean won)

	2017	2016
Current:		
Membership point	₩ 1,294,378	₩ 100,674,277
Other points	52,422,630	80,392,152
Unearned rental income	5,919,076	8,133,070
Others	72,928,034	32,242,821
	<u>132,564,118</u>	<u>221,442,320</u>
Non-current:		
Unearned rental income	7,519,852	10,735,885
	<u>7,519,852</u>	<u>10,735,885</u>
	<u>₩ 140,083,970</u>	<u>₩ 232,178,205</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)

	2017				
	Beginning balance	Increase	Utilization	Changes due to spin-off	Ending balance
Current:					
Provision for bonus points reward program	₩ 29,258,660	₩ 56,682,753	₩ (53,256,012)	₩ (31,114,777)	₩ 1,570,624
Provision for bonus payable	6,734,855	68,058,709	(67,173,386)	-	7,620,178
Provision for sales return	9,362,687	10,305,962	(9,348,982)	(229,109)	10,090,558
Other provisions ¹	23,399,276	49,244,460	(31,077,134)	(5,726,397)	35,840,205
	<u>68,755,478</u>	<u>184,291,884</u>	<u>(160,855,514)</u>	<u>(37,070,283)</u>	<u>55,121,565</u>
Non-current:					
Provision for unused credit card limits ²	33,560,067	8,208,324	-	(41,768,391)	-
Other provisions ¹	6,464,334	3,132,581	(2,362,046)	(3,932,235)	3,302,634
	<u>40,024,401</u>	<u>11,340,905</u>	<u>(2,362,046)</u>	<u>(45,700,626)</u>	<u>3,302,634</u>
	<u>₩ 108,779,879</u>	<u>₩ 195,632,789</u>	<u>₩ (163,217,560)</u>	<u>₩ (82,770,909)</u>	<u>₩ 58,424,199</u>

¹ Other provisions include provisions for litigation, provision for restoration and others.

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

(in thousands of
Korean won)

	2016			
	Beginning balance	Increase	Utilization	Ending balance
Current:				
Provision for bonus points reward program	₩ 27,961,990	₩ 54,063,305	₩ (52,766,635)	₩ 29,258,660
Provision for bonus payable	8,525,307	39,426,201	(41,216,653)	6,734,855
Provision for sales return	9,023,315	9,347,108	(9,007,736)	9,362,687
Other provisions ¹	14,848,386	25,057,426	(16,506,536)	23,399,276
	<u>60,358,998</u>	<u>127,894,040</u>	<u>(119,497,560)</u>	<u>68,755,478</u>
Non-current:				
Provision for unused credit card limits ²	27,290,568	6,269,499	-	33,560,067
Other provisions	5,166,992	2,590,627	(1,293,285)	6,464,334
	<u>32,457,560</u>	<u>8,860,126</u>	<u>(1,293,285)</u>	<u>40,024,401</u>
	<u>₩ 92,816,558</u>	<u>₩ 136,754,166</u>	<u>₩ (120,790,845)</u>	<u>₩ 108,779,879</u>

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¹ Other provisions include provisions for litigation, provision for closing up stores and others. During 2016, Qingdao LOTTE Mart Commercial Co., Ltd., a subsidiary, closed five discount stores. The Group estimated the expenditures to be incurred in connection with the closures and recognized other provision of ₩ 4,918,712 thousand as at December 31, 2016.

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

20. Other Non-financial Liabilities

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

<i>(in thousands of Korean won)</i>	2017	2016
Current:		
Withholdings	₩ 95,082,117	₩ 110,149,635
Withholdings of value added tax	115,017,468	92,353,743
Advances received	945,975,150	1,267,944,509
Other liabilities	707,774	1,027,304
	<u>1,156,782,509</u>	<u>1,471,475,191</u>
Non-Current:		
Other liabilities	132,365,102	119,083,555
	<u>132,365,102</u>	<u>119,083,555</u>
	<u>₩ 1,289,147,611</u>	<u>₩ 1,590,558,746</u>

21. Employee Benefits

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

<i>(in thousands of Korean won)</i>	2017	2016
Present value of defined benefit obligations	₩ 640,841,246	₩ 719,220,696
Fair value of plan assets	<u>(659,357,789)</u>	<u>(706,365,385)</u>
Net defined benefit liabilities (assets)	<u>₩ (18,516,543)</u>	<u>₩ 12,855,311</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>		2017		2016
Present value of other long-term employee benefits	₩	53,230,383	₩	56,052,147

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>		2017		2016
Beginning balance	₩	719,220,696	₩	640,057,892
Current service cost		116,092,963		118,846,763
Past service costs		(7,763)		(202,904)
Interest costs		23,305,216		21,760,653
Remeasurements:				
Actuarial loss from change in demographic assumptions		1,236,116		5,828,996
Actuarial gain from change in financial assumptions		(17,029,171)		(21,346,862)
Actuarial gain from experience adjustments		(2,136,315)		(1,720,267)
		<u>(17,929,370)</u>		<u>(17,238,133)</u>
Benefit payments		(64,299,912)		(48,388,976)
Others		3,197,192		4,385,401
Changes due to spin-off		<u>(138,737,776)</u>		<u>-</u>
Ending balance	₩	<u>640,841,246</u>	₩	<u>719,220,696</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>		2017		2016
Beginning balance	₩	706,365,385	₩	601,988,788
Return on plan assets		20,082,148		17,335,386
Remeasurements		(8,505,530)		(5,243,740)
Employer contribution		111,473,280		131,651,613
Benefit payments		(50,481,117)		(39,354,109)
Others		2,311,608		(12,553)
Changes due to spin-off		<u>(121,887,985)</u>		<u>-</u>
Ending balance	₩	<u>659,357,789</u>	₩	<u>706,365,385</u>

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The estimated contributions to the plan for the next annual reporting period are ₩ 109,956,633 thousand.

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

<i>(in thousands of Korean won)</i>		2017		2016
Principal guaranteed insurance policies	₩	659,205,954	₩	706,190,859
Contributions to the National Pension Fund		151,835		174,526
	₩	<u>659,357,789</u>	₩	<u>706,365,385</u>

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

<i>(in thousands of Korean won)</i>		2017		2016
Current service costs	₩	100,215,069	₩	99,026,546
Past service costs		(7,763)		(202,904)
Interest costs		20,450,197		18,392,255
Return on plan assets		(17,807,737)		(14,861,639)
Contributions to defined contribution plans		2,081,589		2,057,107
Long-term employee benefits		10,675,368		15,144,958
	₩	<u>115,606,723</u>	₩	<u>119,556,323</u>

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

	2017	2016
Discount rate	2.09~7.32%	1.77~8.20%
Expected rate of promotion	1.44~4.00%	0.90~4.00%
Expected rate of increase in salaries	1.80~7.50%	1.00~8.00%

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>		Increase		Decrease
Discount rate (1% movement)	₩	(64,917,096)	₩	77,782,456
Expected rate of promotion (1% movement)		64,280,681		(55,259,836)
Expected rate of increase in salaries (1% movement)		77,372,571		(65,752,047)

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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.

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

<i>(in thousands of Korean won)</i>		Less than 1 year		Between 1-2 years		Between 2-5 years		Between 5-10 years		Over 10 years
Pension benefits	₩	47,815,482	₩	51,286,703	₩	177,558,049	₩	378,526,150	₩	1,977,638,108

The weighted average duration of the defined benefit obligation is 15.3 years.

22. Derivative Instruments and Hedge Accounting

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

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

The Group 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.

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

(in thousands of Korean won)

Description	Type	2017		2016	
		Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swaps	₩ 11,531,761	₩ 105,923,348	₩ 197,075,079	₩ 2,177,409
	Interest swaps	1,581,073	468,812	227,438	3,012,110
	Currency forward	-	-	22,467,173	-
Trade	Total return swap	35,615,810	-	15,721,640	-
	Stock options	-	101,173	1,312,363	26,281,467
		<u>₩ 48,728,644</u>	<u>₩ 106,493,333</u>	<u>₩ 236,803,693</u>	<u>₩ 31,470,986</u>

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Changes in the fair value of derivative instruments for the years 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 ¹	₩	(137,100,000)
		Unrealized loss on valuation of derivative		(2,891,598)
	Interest swaps	Unrealized gain on valuation of derivative instruments		4,117,760
	Currency forward	Unrealized gain on valuation of derivative instruments		312,828
Trade	Total return swap	Gain on valuation of derivative instruments		23,363,142
	Stock options	Loss on valuation of derivative instruments		(1,049,712)

¹ Fair value hedging is applied to currency rate swap portion of currency swaps.

23.Share Capital and Capital Surplus

The share capital of the Parent 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 ¹	₩	140,610,235	₩	157,454,460

¹ Share capital decreased due to spin-off.

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

<i>(in thousands of Korean won)</i>		2017	2016
Share premium ¹	₩	3,381,364,716	3,786,431,052
Others		124,320,816	124,320,816
	₩	<u>3,505,685,532</u>	<u>3,910,751,868</u>

¹ Share premium decreased due to spin-off.

24. Hybrid Securities

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

<i>(in thousands of Korean won)</i>	Date of issue	Date of maturity	Interest rate (%)		2017		2016
Hybrid security 1-1 ¹	Nov.15, 2013	Nov.15, 2043	4.723	₩	240,000,000	₩	240,000,000
Hybrid security 1-2 ¹	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>

¹ Details of hybrid securities are as follows:

	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 Group can call the hybrid security at year 5 and interest payment date afterwards. The hybrid security holder's preference in the event of liquidation is the same as the preferred shareholders; higher than the ordinary shareholders but lower than other creditors.	

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

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25. Capital Adjustments

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

<i>(in thousands of Korean won)</i>	2017	2016
Treasury shares ¹	₩ 3,795,475	₩ 1,805,705
Other capital adjustments ²	2,900,617,886	114,547,573
	<u>₩ 2,904,413,361</u>	<u>₩ 116,353,278</u>

¹ The Group acquired 18,074 shares of treasury shares for ₩ 3,795,475 thousand through acquisition of fractional shares after spin-off.

² 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>	2017	2016
Legal reserves	₩ 201,827,258	₩ 195,916,818
Voluntary reserves	10,790,052,125	10,810,052,125
Retained earnings before appropriation	738,433,131	989,641,491
	<u>₩ 11,730,312,514</u>	<u>₩ 11,995,610,434</u>

27. Accumulated Other Comprehensive Income(loss)

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

<i>(in thousands of Korean won)</i>	2017				
	Beginning balance	Changes	Tax effects	Changes due to spin-off	Ending balance
Changes in the fair value of available-for-sale financial assets	₩ 82,321,921	₩ (4,641,225)	₩ 743,545	₩ (25,744,389)	₩ 52,679,852
Exchange rate differences on translating foreign operations	(22,212,409)	(20,107,875)	1,250,690	798,499	(40,271,095)
Effective portion of unrealized changes in fair values of cash flow hedges	(6,878,187)	950,074	(8,513,132)	1,384,207	(13,057,038)
Share of other comprehensive income of associates	34,721,407	(28,593,580)	7,783,904	(95,991,749)	(82,080,018)
	<u>₩ 87,952,732</u>	<u>₩ (52,392,606)</u>	<u>₩ 1,265,007</u>	<u>₩ (119,553,432)</u>	<u>₩ (82,728,299)</u>

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(in thousands of
Korean won)

	2016			
	Beginning balance	Changes	Tax effects	Ending balance
Changes in the fair value of available-for-sale financial assets	₩ 90,698,289	₩ (12,106,932)	₩ 3,730,564	₩ 82,321,921
Exchange rate differences on translating foreign operations	(32,384,224)	10,286,693	(114,878)	(22,212,409)
Effective portion of unrealized changes in fair values of cash flow hedges	(12,264,390)	4,488,687	897,516	(6,878,187)
Share of other comprehensive income of associates	49,451,838	(16,183,500)	1,453,069	34,721,407
	₩ 95,501,513	₩ (13,515,052)	₩ 5,966,271	₩ 87,952,732

28. Earnings (loss) per Share

(a) Basic earnings (loss) per share

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

(in Korean won, except for number of shares)

	2017	
	Continuing operations	Discontinued operations
Profit (loss) attributable to the ordinary equity holders of the Parent Company	₩ (548,032,529,565)	₩ 411,637,356,685
Interests paid for hybrid securities, net of tax	(12,748,218,078)	-
Weighted average number of ordinary shares outstanding(in shares)	29,231,757	29,231,757
Basic earnings (loss) per share	₩ (19,184)	₩ 14,082

(in Korean won, except for number of shares)

	2016	
	Continuing operations	Discontinued operations
Profit attributable to the ordinary equity holders of the Parent Company	₩ 56,903,906,792	₩ 111,290,879,479
Interests paid for hybrid securities, net of tax	(12,849,147,941)	-
Weighted average number of ordinary shares outstanding(in shares)	29,552,204	29,552,204
Basic earnings per share	₩ 1,491	₩ 3,766

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(b) Diluted earnings (loss) per share

Diluted earnings (loss) per share for the years ended December 31, 2017 and 2016, are as follows:

(in Korean won, except for number of shares)

	2017	
	Continuing operations	Discontinued operations
Profit (loss) attributable to ordinary equity holders of the Parent Company	₩ (548,032,529,565)	₩ 411,637,356,685
Interests paid for hybrid securities, net of tax	(12,748,218,078)	-
Effect of convertible notes, net of tax	-	(219,449,077)
Effect of exchange of exchangeable bond, net of tax	(486,903,897)	-
Diluted profit (loss) attributable to ordinary shareholders	(561,267,651,540)	411,417,907,608
Weighted average number of ordinary shares for diluted earnings per share(in shares)	29,231,757	29,231,757
Diluted earnings (loss) per share	₩ (19,201)	₩ 14,074

(in Korean won, except for number of shares)

	2016	
	Continuing operations	Discontinued operations
Profit attributable to ordinary equity holders of the Parent Company	₩ 56,903,906,792	₩ 111,290,879,479
Interests paid for hybrid securities, net of tax	(12,849,147,941)	-
Effect of convertible notes, net of tax	-	(301,611,682)
Effect of exchange of exchangeable bond, net of tax ¹	-	-
Diluted profit attributable to ordinary shareholders	44,054,758,851	110,989,267,797
Weighted average number of ordinary shares for diluted earnings per share(in shares)	29,552,204	29,552,204
Diluted earnings per share	₩ 1,491	₩ 3,756

¹ For the year ended December 31, 2016, LOTTE Himart Co., Ltd. exchangeable bonds were excluded when calculating diluted earnings per share as their effect would have been anti-dilutive.

Diluted weighted average number of ordinary shares

(in number of shares)

	2017	2016
Weighted average number of ordinary shares outstanding	29,231,757	29,552,204
Effect of conversion of convertible bonds ¹	-	-
Weighted average number of ordinary shares for diluted earnings per share	29,231,757	29,552,204

¹ For the year ended December 31, 2016, the effect of the convertible bonds was excluded when

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calculating diluted earnings per share, as the convertible bonds denominated in JPY and USD were redeemed. In addition, for the year ended 31, 2016, USD convertible bonds were excluded when calculating diluted earnings per share as their effect would have been anti-dilutive.

29.Sales

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

<i>(in thousands of Korean won)</i>		2017	2016
Revenue from contracts with customers	Total sales	₩ 24,684,929,346	₩ 25,316,667,677
	Sales of merchandise	22,717,378,011	23,411,178,815
	Sales of products	54,451,001	55,395,745
	Other sales	1,913,100,334	1,850,093,117
	Sales deduction	7,817,382,690	2,496,851,262
	Sales discounts and sales returns	985,636,791	1,009,902,937
	Reserve for sales return and deferred sales	463,093,718	247,816,431
	Cost of specific sales	6,368,652,181	1,239,131,894
Revenue from other sources: rental revenue		1,312,324,445	1,294,512,380
		₩ 18,179,871,101	₩ 24,114,328,795

(*) 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 Group 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>	December 31, 2017	January 1, 2017
Contract assets		
Inventory expected for return	₩ 3,340,798	₩ -
	₩ 3,340,798	₩ -
Contract liabilities		
Customer loyalty program	₩ 63,116,532	₩ 69,002,091
Gift vouchers	760,758,460	785,973,686
Other	185,587,997	328,300,540
	₩ 1,009,462,989	₩ 1,183,276,317

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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:

(in thousands of Korean won)

2017

Revenue

Customer loyalty program	₩	69,002,091
Other		302,301,831
	₩	371,303,922

Collected

Gift vouchers	₩	325,874,234
	₩	325,874,234

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

(in thousands of Korean won)

Book amount		1 year		Between 1-5 years		Over 5 years	
₩	760,758,460	₩	315,419,696	₩	442,381,778	₩	2,956,987

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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>	2017	2016
Salaries	₩ 1,348,605,983	₩ 1,335,466,470
Post-employment benefits	104,651,878	104,085,128
Long-term employee benefits	10,675,368	15,144,958
Employee benefits	284,925,315	290,462,283
Training expenses	16,132,708	17,604,119
Travel expenses	28,559,929	31,816,878
Vehicles maintenance expenses	3,492,168	3,113,111
Insurance premium	17,416,008	17,059,075
Taxes and dues ¹	194,107,644	150,850,629
Entertainment expenses	4,902,063	8,389,425
Supplies expenses	71,912,001	75,728,316
Publication expenses	1,933,144	1,982,329
Communication expenses	26,733,371	29,389,856
Utility expenses	327,873,221	345,093,281
Repairs and maintenance	35,233,875	35,667,047
Rental expenses	1,046,591,416	1,002,681,867
Depreciation	700,925,900	732,570,863
Amortization	45,067,932	49,359,541
Depreciation of low price supplies	-	127
Commission expenses	1,081,394,938	999,657,615
Service commission expenses	943,301,897	919,127,290
Advertising expenses	265,341,665	269,311,280
Samples expenses	161,299	91,855
Sales commissions	192,591,250	215,991,590
Sales promotion expenses	134,667,612	225,369,774
Decoration expenses	17,119,094	19,181,055
Bad debt expense(reversal)	3,544,599	(27,697,931)
Transportation expenses	187,968,688	232,267,674
Research and development expenses	283,749	274,150
Provisions	4,363,361	591,076
Compensation expenses	2,194,708	2,407,766
Other	3,680,757	5,254,941
	<u>₩ 7,106,353,541</u>	<u>₩ 7,108,293,438</u>

¹ Taxes and dues exclude the comprehensive real estate holding tax refunds of ₩ 24,302,744

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thousand for the year ended December 31, 2016.

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>	2017	2016
Other income:		
Gain on foreign currency transactions	₩ 1,092,461	₩ 1,879,628
Gain on foreign currency translation	95,989	786,304
Gain on disposal of property, plant and equipment	6,814,354	2,625,948
Gain on disposal of intangible assets	35,455	-
Reversal of impairment losses on intangible assets	108,194	-
Gain on disposal of other non-current assets	2,885,979	-
Reversal of impairment losses on other non-current assets	41,824	9,347
Others	98,652,885	128,039,472
	<u>₩ 109,727,141</u>	<u>₩ 133,340,699</u>
Other expenses:		
Loss on foreign currency transactions	₩ 875,314	₩ 3,662,617
Loss on foreign currency translation	5,827,309	697,146
Loss on disposal of property, plant and equipment	7,254,421	5,669,448
Impairment loss on property, plant and equipment	136,470,788	73,482,235
Loss on disposal of intangible assets	292,906	183,894
Impairment loss on intangible assets	401,268,959	196,833,202
Impairment loss of assets held for sale	2,598,704	431,715
Impairment loss on other non-current assets	28,000,742	15,616,274
Donation	30,702,503	23,217,484
Other bad debt expenses	3,017,619	4,544,526
Taxes and dues	2,784,687	455,295
Others	115,068,986	138,199,928
	<u>₩ 734,162,938</u>	<u>₩ 462,993,764</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>	2017	2016
Purchase of inventories	₩ 10,048,723,993	₩ 15,923,332,734
Changes in inventories	86,274,893	(35,586,911)
Employee benefits	1,755,873,499	1,752,259,810
Rental expenses	1,056,868,968	1,014,151,430
Depreciation and amortization	790,346,871	828,931,955
Sales commissions	192,591,250	223,289,530
Sales promotion expenses	174,254,186	226,585,507
Commission expenses	1,097,626,925	1,019,058,442
Service expenses	990,693,863	958,852,636
Advertising expenses	288,718,622	292,880,772
Utility expenses	331,041,050	348,561,270
Taxes and dues	194,325,960	157,265,999
Other	642,671,885	641,419,415
	<u>₩ 17,650,011,965</u>	<u>₩ 23,351,002,589</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>	2017		2016	
Finance income:				
Interest income	₩	85,934,981	₩	71,953,991
Dividend income		9,172,054		7,043,255
Gain on foreign currency transactions		33,088,916		10,783,442
Gain on foreign currency translation		207,878,857		38,755,861
Gain on valuation of financial assets and liabilities at fair value through profit or loss		110,030		-
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		12,354		-
Gain on disposal of investments in subsidiaries, associates and joint ventures		183,895		5,519,355
	₩	<u>361,908,735</u>	₩	<u>196,018,851</u>
Finance costs:				
Interest expense	₩	243,733,471	₩	223,847,027
Loss on foreign currency transactions		7,196,788		696,810
Loss on foreign currency translation		63,173,624		96,718,222
Loss on disposal of available-for-sale financial assets		3,430,241		419,995
Impairment loss on available-for-sale financial assets		17,247,799		1,971,057
Loss on valuation of derivative instruments held for hedging		137,100,000		-
Loss on valuation of derivative instruments held for trading		1,049,712		1,673,091
Loss on transaction of derivative instruments held for hedging		30,598,800		17,906,589
Loss on transaction of derivative instruments held for trading		914,033		-
Loss on redemption of debentures		-		20,060,299
Financial guarantee costs		81,058		7,696,943
Loss on disposal of investments in associates, joint ventures and subsidiaries		1,255,221		58,997
	₩	<u>505,780,747</u>	₩	<u>371,049,030</u>

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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							Total
	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		
Recognized in profit or loss :								
Interest income	₩ 44,718,373	₩ 41,067,851	₩ 148,757	₩ -	₩ -	₩ -	₩ -	₩ 85,934,981
Interest expense	-	-	-	-	-	(243,733,471)	-	(243,733,471)
Dividend income	-	-	9,172,054	-	-	-	-	9,172,054
Valuation / Disposal	-	-	(1,265,735)	22,423,460	(137,100,000)	-	-	(115,942,275)
Impairment	-	(6,562,218)	(17,247,799)	-	-	-	-	(23,810,017)
Exchange differences	(444,823)	(13,228,851)	27,502	650,013	-	178,079,347	-	165,083,188
Others	-	-	-	(901,679)	(30,598,800)	(81,058)	-	(31,581,537)
	<u>44,273,550</u>	<u>21,276,782</u>	<u>(9,165,221)</u>	<u>22,171,794</u>	<u>(167,698,800)</u>	<u>(65,735,182)</u>	-	<u>(154,877,077)</u>
Recognized in other comprehensive income (loss) ¹ :								
Changes in the fair value of available-for-sale financial assets	-	-	(22,886,357)	-	-	-	-	(22,886,357)
Gain on valuation of derivative instruments	-	-	-	-	1,538,990	-	-	1,538,990
	-	-	(22,886,357)	-	1,538,990	-	-	(21,347,367)
	<u>₩ 44,273,550</u>	<u>₩ 21,276,782</u>	<u>₩ (32,051,578)</u>	<u>₩ 22,171,794</u>	<u>₩ (166,159,810)</u>	<u>₩ (65,735,182)</u>	-	<u>₩ (176,224,444)</u>

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

(in thousands of
Korean won)

	2016							Total
	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		
Recognized in profit or loss :								
Interest income	₩ 45,136,685	₩ 778,856,419	₩ 54,352	₩ 131,800	₩ -	₩ -	₩ -	₩ 824,179,256
Interest expense	-	-	-	-	-	(412,446,232)	-	(412,446,232)
Dividend income	-	-	7,115,010	-	-	-	-	7,115,010
Valuation / Disposal	-	31,262,509	(255,205)	14,103,426	86,658,358	-	-	131,769,088
Impairment	-	(186,691,761)	(4,495,708)	-	-	-	-	(191,187,469)
Exchange differences	179,593	7,176,269	52,755	-	-	(83,000,067)	-	(75,591,450)
Commission revenue	-	846,135,351	-	-	-	-	-	846,135,351
Others	-	(811,409,395)	-	(834,194)	(20,084,775)	(26,923,048)	-	(859,251,412)
	<u>45,316,278</u>	<u>665,329,392</u>	<u>2,471,204</u>	<u>13,401,032</u>	<u>66,573,583</u>	<u>(522,369,347)</u>	-	<u>270,722,142</u>
Recognized in other comprehensive income (loss) ¹ :								
Changes in the fair value of available-for-sale financial assets	-	-	(15,689,385)	-	-	-	-	(15,689,385)
Gain on valuation of derivative instruments	-	-	-	-	4,760,001	-	-	4,760,001
	-	-	(15,689,385)	-	4,760,001	-	-	(10,929,384)
	<u>₩ 45,316,278</u>	<u>₩ 665,329,392</u>	<u>₩ (13,218,181)</u>	<u>₩ 13,401,032</u>	<u>₩ 71,333,584</u>	<u>₩ (522,369,347)</u>	-	<u>₩ 259,792,758</u>

¹ 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>	2017	2016
Current income taxes	₩ 260,192,034	₩ 271,490,625
Deferred tax due to temporary differences	21,745,255	(32,180,287)
Total income tax effect	281,937,289	239,310,338
Income tax charged directly to equity	19,046,900	3,235,488
Income tax expense	₩ 300,984,189	₩ 242,545,826

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>	2017	2016
Changes in the fair value of available-for-sale financial assets	₩ 1,840,323	₩ 4,597,053
Exchange differences on translating foreign operations	1,494,461	(114,878)
Gain (loss) on valuation of derivative instruments	(8,655,473)	831,682
Remeasurements of defined benefit liabilities	(3,429,507)	(3,685,425)
Share of other comprehensive income of associates	7,379,283	1,590,119
Effect of changes in revenue recognition	20,417,813	-
Other	-	16,937
Income tax charged directly to equity	₩ 19,046,900	₩ 3,235,488

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

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>	2017	2016
Profit before income tax expense	₩ 280,347,495	₩ 489,420,581
Income tax based on statutory tax rate	68,306,094	124,970,108
Tax effects of:		
Tax effects on non-taxable income	(110,465,112)	(21,305,761)
Tax effects on non-deductible expense	19,421,786	19,891,384

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Tax credit	(1,041,129)	(276,101)
Adjustment in respect of prior years	1,013,909	11,785,555
Tax effects on share of profit of subsidiaries, associates and joint ventures	26,271,957	27,390,591
Unused tax losses for which no deferred tax asset is recognized	171,049,140	75,287,711
Deferred tax expense due to changes in tax rate	121,463,179	-
Other	4,964,365	4,802,339
Income tax expense	<u>₩ 300,984,189</u>	<u>₩ 242,545,826</u>
Effective tax rate	107.4%	49.6%

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.

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	Profit or loss	Equity	Spin-off	Ending balance
Impairment loss on available-for- sale financial assets	₩ 6,843,204	₩ 7,087,257	₩ -	₩ (5,854,852)	₩ 8,075,609
Buildings	(12,817,693)	1,213,261	-	-	(11,604,432)
Depreciation	63,232,737	12,533,601	-	(712,300)	75,054,038
Allowance for bad debt expense	1,971,353	876,885	-	(1,813,278)	1,034,960
Accrued income	(958,355)	(515,581)	-	84,240	(1,389,696)
Unearned revenues	13,639,112	3,020,286	-	(16,074,775)	584,623
Long-term prepaid expenses	(38,012,675)	4,935,967	-	441,902	(32,634,806)
Losses on valuation of inventories	6,927,312	1,085,123	-	(291,637)	7,720,798
Provision for sales return	2,281,459	(205,879)	-	(58,169)	2,017,411
Property, plant and equipment (capitalization of borrowing costs)	(9,361,945)	(1,970,656)	-	-	(11,332,601)
Land	32,548,494	4,438,431	-	-	36,986,925
Land (asset revaluation)	(1,021,725,693)	(134,666,103)	-	1,195,866	(1,155,195,930)
Provision for mileage program	7,450,137	(135,541)	-	(6,962,860)	351,736
Accrued expense	25,283,776	8,040,684	-	(1,352,461)	31,971,999
Gain (loss) on foreign currency translation	1,409,558	229,173	-	-	1,638,731
Construction-in-progress	1,625,189	146,367	-	-	1,771,556
Other intangible assets	(48,529,722)	1,556,023	-	(805,745)	(47,779,444)
Rental guarantee deposits	12,078,206	7,504,348	-	(88)	19,582,466
Goodwill	(44,946,456)	26,830,605	-	3,252,103	(14,863,748)
Exchangeable bonds	(105,914)	98,472	-	-	(7,442)
Other capital surplus	62,285,769	-	-	(62,285,769)	-
Investments in subsidiaries and associates	(361,120,804)	(28,910,280)	7,379,283	285,030,116	(97,621,685)

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Changes in the fair value of available-for-sale financial assets	(70,075,957)	-	1,840,323	11,517,706	(56,717,928)
Loss (gain) on valuation of derivatives	12,690,430	(4,976,298)	(8,655,473)	(7,540,214)	(8,481,555)
Salaries and retirement benefits	23,786,040	(924,072)	(3,429,507)	(3,620,441)	15,812,020
Translation difference of foreign subsidiaries	2,314,916	-	1,494,461	-	3,809,377
Others	57,539,531	51,915,772	20,417,813	(15,899,909)	113,973,207
	<u>₩ (1,273,747,991)</u>	<u>₩ (40,792,155)</u>	<u>₩ 19,046,900</u>	<u>₩ 178,249,435</u>	<u>₩ (1,117,243,811)</u>

(in thousands of Korean won)

	2016				
	Beginning balance	Profit or loss	Equity	Ending balance	
Impairment loss on available-for-sale financial assets	₩ 5,758,755	₩ 1,084,449	₩ -	₩ 6,843,204	
Buildings	(13,877,427)	1,059,734	-	(12,817,693)	
Depreciation	46,462,050	16,770,687	-	63,232,737	
Allowance for bad debt expense	2,557,509	(586,156)	-	1,971,353	
Accrued income	(1,380,621)	422,266	-	(958,355)	
Unearned revenues	14,449,783	(810,671)	-	13,639,112	
Long-term prepaid expenses	(40,002,009)	1,989,334	-	(38,012,675)	
Losses on valuation of inventories	5,169,616	1,757,696	-	6,927,312	
Provision for sales return	2,185,676	95,783	-	2,281,459	
Property, plant and equipment (capitalization of borrowing costs)	(9,783,124)	421,179	-	(9,361,945)	
Land	32,548,494	-	-	32,548,494	
Land (asset revaluation)	(1,021,654,638)	(71,055)	-	(1,021,725,693)	
Provision for mileage program	14,396,960	(6,946,823)	-	7,450,137	
Accrued expense	24,151,999	1,131,777	-	25,283,776	
Gain (loss) on foreign currency translation	1,831,744	(422,186)	-	1,409,558	
Gain (loss) on valuation of convertible bonds	(450,291)	450,291	-	-	
Construction-in-progress	1,650,728	(25,539)	-	1,625,189	
Other intangible assets	(51,020,918)	2,491,196	-	(48,529,722)	
Rental guarantee deposits	12,432,455	(354,249)	-	12,078,206	
Goodwill	(50,986,986)	6,040,530	-	(44,946,456)	
Exchangeable bonds	(4,705,250)	4,599,336	-	(105,914)	
Other capital surplus	62,270,219	15,550	-	62,285,769	
Investments in subsidiaries and associates	(332,893,713)	(29,834,147)	1,607,056	(361,120,804)	
Changes in the fair value of available-for-sale financial assets	(74,673,010)	-	4,597,053	(70,075,957)	
Loss (gain) on valuation of derivatives	16,960,692	(5,101,944)	831,682	12,690,430	

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Salaries and retirement benefits	20,682,472	6,788,993	(3,685,425)	23,786,040
Translation difference of foreign subsidiaries	2,429,794	-	(114,878)	2,314,916
Others	29,560,763	27,978,768	-	57,539,531
	<u>₩ (1,305,928,278)</u>	<u>₩ 28,944,799</u>	<u>₩ 3,235,488</u>	<u>₩ (1,273,747,991)</u>

As at December 31, 2017 and 2016, the amounts of total deductible temporary differences related to investments in associates, joint ventures and subsidiaries for which deferred tax assets were not recognized are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Investments in associates	₩ 260,175,535	₩ 321,551,841
Investments in subsidiaries	2,549,394,175	2,105,461,603
	<u>₩ 2,809,569,710</u>	<u>₩ 2,427,013,444</u>

35. Consolidated 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>	2017	2016
Cash	₩ 38,432,887	₩ 54,891,505
Deposits	353,446,409	655,860,784
Other cash equivalents	2,234,364,630	1,558,424,945
	<u>₩ 2,626,243,926</u>	<u>₩ 2,269,177,234</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>	2017	2016
Income tax expense	₩ 300,984,189	₩ 242,545,826
Post-employment benefits	119,308,268	123,069,126
Long-term employee benefits	13,148,057	17,660,297
Depreciation	779,210,534	835,966,612
Amortization	125,562,210	137,197,647
Impairment loss on intangible assets	440,235,152	201,523,046
Loss on disposal of intangible assets	292,906	183,894
Loss on foreign currency translation	69,140,151	97,426,659
Loss on foreign currency transactions	1,651,918	161,706

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Loss on disposal of property, plant and equipment	8,082,134	7,404,482
Impairment loss on property, plant and equipment	136,470,788	73,527,695
Bad debt expense (reversal of bad debt expense)	8,014,283	(19,599,846)
Impairment loss on other non-current assets	28,000,742	15,616,274
Loss on valuation of financial liabilities at fair value through profit or loss	117,870	-
Loss on transactions of derivative instruments	31,512,833	19,995,791
Loss on valuation of derivative instruments	138,149,712	1,673,091
Share of loss of associates and joint ventures	67,623,942	42,741,069
Loss on disposal of investments in subsidiaries, associates and joint ventures	1,255,221	58,997
Impairment loss on investments in subsidiaries, associates and joint ventures	-	5,232,909
Rental expenses (amortization of discount on deposit, etc.)	81,904,334	94,602,352
Loss on disposal of available-for-sale financial assets	3,430,241	419,996
Impairment loss on available-for-sale financial assets	17,247,799	1,971,057
Loss on redemption of debentures	-	20,060,299
Miscellaneous losses	7	51,100,941
Loss on disposal of assets held for sale	19,752	-
Impairment loss on assets held for sale	2,598,704	431,715
Other expenses	7,490,605	52,900
Cost of card business	393,235,201	472,122,023
Interest expense	252,581,674	237,071,927
Financial guarantee costs	81,058	7,696,943
Gain on foreign currency translation	(207,975,731)	(39,814,705)
Gain on foreign currency transactions	(32,715,551)	(12,044,681)
Gain on disposal of property, plant and equipment	(6,990,305)	(2,786,412)
Gain on disposal of intangible assets	(35,455)	(56,093)
Gain on transactions of derivative instruments	(12,354)	-
Gain on valuation of derivative instruments	(23,363,142)	(61,954,477)
Share of profit of associates and joint ventures	(137,992,127)	(104,150,292)
Gain on disposal of available-for-sale financial assets	(2,164,506)	(8,470)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(183,895)	(5,519,355)
Miscellaneous gains	(1,609)	-
Other income	(8,313,961)	(1,172,284)
Gain on settlement of spin-off	(377,543,489)	-
Income of card business	(596,245,400)	(777,813,152)
Interest income	(96,048,035)	(87,037,059)
Dividend income	(9,172,054)	(7,070,255)

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₩	1,528,592,671	₩	1,588,488,193
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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>	2017	2016
Increase in trade receivables	₩ (131,190,771)	(117,044,577)
Increase in other receivables	(143,035,577)	(145,272,002)
Increase in other financial assets	(616,108,830)	(763,588,776)
Decrease (increase) in inventories	295,448,130	(47,093,234)
Decrease in other non-financial assets	107,184,718	1,139,187
Increase in trade payables	357,827,733	38,871,673
Increase in other payables	273,389,483	285,729,729
Increase in other financial liabilities	4,924,352	43,165,398
Decrease in unearned revenues	(8,070,337)	(8,968,487)
Increase (decrease) in provisions	7,390,659	(8,473,636)
Increase (decrease) in other non-financial liabilities	(96,922,724)	248,064,918
Payment of post-employment benefits and other long-term employee benefits	(63,857,203)	(53,491,587)
Increase in plan assets	(64,883,752)	(92,297,504)
	₩ (77,904,119)	(619,258,898)

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

<i>(in thousands of Korean won)</i>	2017	2016
Other payables for acquisition of property, plant and equipment	₩ 37,424,692	₩ 27,824,193
Reclassification of borrowings to current portion	2,155,396,967	3,521,358,551
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:

(in thousands of Korean won)	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	₩ (214,580,171)	₩	5,058,613,134	₩ 9,424,335,125	₩ 14,268,368,088
Net cash flow from financing activities	102,686,976		176,708,552	1,511,393,188	1,790,788,716
Non-cash flows					
Spin-off	(1,831,531)		(2,998,888,255)	(5,178,058,030)	(8,178,777,816)
Others ¹	207,004,052		842,358,926	(1,168,778,720)	(119,415,742)
Ending balance	₩ 93,279,326	₩	3,078,792,357	₩ 4,588,891,563	₩ 7,760,963,246

¹ Others include gain (loss) on valuation and transaction of derivative assets (liabilities), interest expenses of borrowings and debentures, gain (loss) on foreign currency translation, reclassification of non-current portion into current portion, and others.

36. Operating Leases

(a) Lessee

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

(in thousands of Korean won)	2017	2016
Within 1 year	₩ 880,254,546	₩ 850,684,871
1 ~ 5 years	2,851,160,381	2,922,003,066
Thereafter	6,230,582,885	6,844,820,931
	₩ 9,961,997,812	₩ 10,617,508,868

Operating lease payments recognized as rental expenses for the years ended December 31, 2017 and 2016, amount to ₩1,056,868,968 thousand and ₩1,014,151,430 thousand, respectively.

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(b) Lessor

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

<i>(in thousands of Korean won)</i>	2017	2016
Within 1 year	₩ 112,945,129	₩ 142,714,106
1 ~ 5 years	195,029,401	206,794,357
Thereafter	122,734,293	129,865,095
	<u>₩ 430,708,823</u>	<u>₩ 479,373,558</u>

Operating lease revenues recognized as rental income for the years ended December 31, 2017 and 2016, amount to ₩1,289,288,323 thousand and ₩1,271,153,246 thousand, respectively.

37.Greenhouse Gases Emission Rights

(a) Emission Right

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

<i>(in thousands of Korean won)</i>	Emission (tCO₂-eq)
2015	860,971
2016	983,180
2017	945,425
	<u>2,789,576</u>

There is no pledged emission and the Group has 994,053tCO₂-eq of emissions as at December 31, 2017. The emissions submitted to the government in 2015 and 2016 were 806,687 tCO₂-eq and 833,836 tCO₂-eq, respectively.

(b) Emission liability

The Group disposed of 155,000tCO₂-eq of emission and estimated to emit 859,455tCO₂-eq of CO₂ during the year ended in December 31, 2017.

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38. Operating Segment

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

	Department stores	Discount stores	Finance business¹	Consumer electronics retail	Convenience stores¹	Others¹
Main business	Retail stores for middle and higher-end merchandise	Retail and whole-sale stores for middle and discounted price merchandise	Credit financial services	Retail store for home appliance	General retail stores for mainly beverages and groceries	Others
Major products or services	Sales of merchandise and leasing	Sales of merchandise and leasing	Credit card and loan services	Sales of home appliance	Sales of merchandise and others	Sales of merchandise, leasing and others
Major customers	General consumers					

¹ Certain segments of financial business, convenience stores and others are classified to discontinued operations due to spin-off.

Information about reportable segments as at and for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			
	Department stores	Discount stores	Finance business	Consumer electronics retail
Revenue from external customers	₩ 3,178,228,816	₩ 6,566,502,004	₩ 1,281,790,032	₩ 4,098,829,215
Inter-segment sales	25,942,480	10,908,805	145,905,864	512,091
Total segment sales	₩ 3,204,171,296	₩ 6,577,410,809	₩ 1,427,695,896	₩ 4,099,341,306

(in thousands of Korean won)

	2017			
	Convenience stores	Others	Discontinued operations	Total
Revenue from external customers	₩ 2,841,620,215	₩ 4,434,886,397	₩ (4,221,985,578)	₩ 18,179,871,101
Inter-segment sales	9,367,996	206,270,175	(255,005,008)	143,902,403
Total segment sales	₩ 2,850,988,211	₩ 4,641,156,572	₩ (4,476,990,586)	₩ 18,323,773,504

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	2016			
	Department stores	Discount stores	Finance business	Consumer electronics retail
Revenue from external customers	₩ 7,997,834,606	₩ 8,147,207,862	₩ 1,588,513,965	₩ 3,934,231,366
Inter-segment sales	31,929,591	53,527,989	198,482,523	5,211,052
Total segment sales	₩ 8,029,764,197	₩ 8,200,735,851	₩ 1,786,996,488	₩ 3,939,442,418

(in thousands of Korean won)

	2016			
	Convenience stores	Others	Discontinued operations	Total
Revenue from external customers	₩ 3,688,009,223	₩ 4,170,615,550	₩ (5,412,083,777)	₩ 24,114,328,795
Inter-segment sales	16,183,580	235,706,749	(374,934,773)	166,106,711
Total segment sales	₩ 3,704,192,803	₩ 4,406,322,299	₩ (5,787,018,550)	₩ 24,280,435,506

Reconciliations of total segment sales and profit to their respective consolidated financial statements line items for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	Sales		Operating profits	
	2017	2016	2017	2016
Department stores	₩ 3,204,171,296	₩ 8,029,764,197	₩ 395,619,052	₩ 614,358,707
Discount stores	6,577,410,809	8,200,735,851	(228,585,496)	(96,649,019)
Finance business	1,427,695,896	1,786,996,488	82,989,524	137,775,827
Consumer electronics retail	4,099,341,306	3,939,442,418	207,463,228	174,539,881
Convenience stores	2,850,988,211	3,704,192,803	37,460,542	49,539,071
Others	4,641,156,572	4,406,322,299	160,813,244	79,864,160
	22,800,764,090	30,067,454,056	655,760,094	959,428,627
Elimination of inter-segment amounts	(398,907,411)	(541,041,484)	(16,034,636)	(19,067,985)
Discontinued operations	(4,221,985,578)	(5,412,083,777)	(109,866,322)	(177,034,436)
After consolidated adjustments	₩ 18,179,871,101	₩ 24,114,328,795	₩ 529,859,136	₩ 763,326,206

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<i>(in thousands of Korean won)</i>	Depreciation and amortization				Profit (loss) for the period			
	2017		2016		2017		2016	
Department stores	₩	335,453,562	₩	363,461,291	₩	377,415,234	₩	519,479,645
Discount stores		234,158,850		233,027,356		(781,718,791)		(510,989,503)
Finance business		45,089,518		50,503,548		34,459,964		110,493,897
Consumer electronics retail		49,193,332		52,412,507		148,435,181		121,428,017
Convenience stores		46,913,578		65,104,759		30,984,493		16,256,488
Others		180,314,599		194,261,316		78,756,614		16,241,706
		891,123,439		958,770,777		(111,667,305)		272,910,250
Elimination of inter-segment amounts		13,649,306		14,393,483		136,396,128		70,205,528
Discontinued operations		(114,425,874)		(144,232,305)		(45,365,516)		(96,241,023)
After consolidated adjustments	₩	790,346,871	₩	828,931,955	₩	(20,636,693)	₩	246,874,755

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

<i>(in thousands of Korean won)</i>	2017	
	Assets	Liabilities
Department stores	₩ 14,006,561,723	₩ 9,225,475,580
Discount stores	8,576,096,060	2,908,405,739
Finance business	-	-
Consumer electronics retail	3,204,628,140	1,178,849,678
Convenience stores	-	-
Others	<u>7,354,760,503</u>	<u>3,202,592,688</u>
	<u>33,142,046,426</u>	<u>16,515,323,685</u>
Elimination of inter-segment amounts	<u>(5,193,558,377)</u>	<u>(1,918,188,228)</u>
After consolidated adjustments	₩ <u>27,948,488,049</u>	<u>14,597,135,457</u>

<i>(in thousands of Korean won)</i>	2016	
	Assets	Liabilities
Department stores	₩ 16,725,046,124	₩ 9,817,551,560
Discount stores	9,510,129,051	2,821,322,022
Finance business	10,225,622,908	8,074,714,302
Consumer electronics retail	3,004,858,847	1,109,197,480
Convenience stores	1,223,553,492	821,700,756
Others	<u>7,341,040,793</u>	<u>2,987,128,467</u>
	<u>48,030,251,215</u>	<u>25,631,614,587</u>

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Elimination of inter-segment amounts	(6,114,344,715)	(979,749,980)
After consolidated adjustments	₩ 41,915,906,500	₩ 24,651,864,607

Sales, before consolidated adjustments, by geographical areas for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Domestic	₩ 20,697,801,804	₩ 27,346,192,030
China	634,132,715	1,243,674,603
Vietnam	341,001,495	339,418,972
Indonesia	1,127,828,076	1,138,168,451
	22,800,764,090	30,067,454,056
Discontinued operations	(4,476,990,586)	(5,787,018,550)
	₩ 18,323,773,504	₩ 24,280,435,506

39. Contingencies and Commitments

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

<i>(in thousands of Korean won)</i>		Credit line	Amount used under credit facility
General loan	KRW	423,000,000	211,000,000
	CNY	1,409,500,000	889,870,832
	VND	2,192,900,000,000	2,042,632,651,072
	USD	1,112,532,146	1,074,532,146
	IDR	2,826,440,000,000	2,270,000,000,000
Discount of bill	KRW	803,000,000	553,000,000
Buyer's credit	KRW	481,000,000	98,266,318
Bank overdraft	KRW	73,000,000	-
	CNY	219,395,975	219,395,975
Letter of credit and others	USD	30,500,000	6,941,791

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

Company	Contractor	Description of contract
Lotte Shopping Co., Ltd.	Lotte Station Building Co., Ltd.	Providing management services
Woori Home Shopping & Television Co., Ltd.	Lotte Capital Co., Ltd.	Contract of operating leases
	Shinhan Card	Issuing credit cards
	Lotte Card Co., Ltd.	
	BC CARD CO., LTD.	
	LOTTE LOGISTICS CORP.	Logistics services
	Lotte Global Logistics Co., LTD. (formerly, Hyundai Logistics Co., Ltd.)	
	CJ Korea Express Corporation	
	HANJIN TRANSPORTATION CO., LTD.	
	Cable TV operators	Providing broadcast programs
NCF Co., Ltd.	Nice Claup Co., Ltd.	Royalty payments based on net revenue of selling and manufacturing amounts

(c) As at December 31, 2017, the Group is involved in 45 lawsuits as a plaintiff with damage claims totaling ₩52,978,190 thousand and the Group is involved in 283 lawsuits as a defendant with damage claims totaling ₩148,238,570 thousand. Regarding 81 lawsuits out of various with damage claims as a defendant, the Group recorded ₩22,869,768 thousand as provision as at December 31, 2017.

Among ₩148,238,570 thousand of damage claims against the Group, ₩23,264,793 thousand is related to victims of humidifier disinfectant. The Group recognized other liabilities of ₩9,055,349 thousand in regard to the claim on victims of humidifier disinfectant as at December 31, 2017.

The management believes that the ultimate resolutions of other legal actions, except lawsuits above, will not have a material effect of the financial position or results of operations of the Group.

As Woori Home Shopping & Television Co., Ltd., a subsidiary of the Group, received a six-month suspension (6 hours per day) penalty from the government in 2016, Woori Home Shopping & Television Co., Ltd. won the first trial of the administrative litigation for cancellation of business suspension. However, Ministry of Science and ICT filed an appeal and the litigation is in progress as at December 31, 2017. The Group cannot reliably estimate the impacts from litigation results.

(d) As at December 31, 2017, the Group has entered into loan agreements securing trade receivables with Industrial Bank of Korea and others amounting to ₩2,894,721,209 thousand.

(e) As at December 31, 2017, the Group 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 Group 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

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Group pays for management consulting and management support service the amount allocated by Lotte Corporation, based on objective and reasonable allocation criteria, from the costs that have incurred in the course of performing such relevant business plus 5% of such allocated amount.

(g) The Group disposed of land and buildings to structured entities and the Group has been leasing back the assets. The details are as follows:

i) The Group 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 Group has the options to purchase the assets at a fair value at the end of the lease.

ii) The Group 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 Group has the options to purchase the assets at a fair value at the end of the lease.

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

iv) In 2014, the Group disposed of land and buildings of 2 Lotte department stores including Ilsan store and 5 Lotte mart stores including Bupyeong store to KB Lotte Master Lease Private Real Estate Investment Trust for ₩602 billion and the Group has been leasing the assets. The Group 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 Group has been leasing the assets. The Group has the preferential right of negotiation to purchase the assets at the end of the lease.

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

The Group does not consolidate these structured entities.

(h) Uncertainty in business in China

As at December 31, 2017, many of the discount stores operated by the Group in China are not in operation due to suspension of business by the Chinese authorities. If any additional measures are taken by the Chinese authorities, it is difficult to predict how the relevant uncertainty will affect the Group. Accordingly, such effect is not reflected on the consolidated financial statements of the Group.

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40. Inter-company Transactions and Balances with Consolidated Companies

The Group has provided guarantees for consolidated companies as at December 31, 2017, are as follows:

Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings
Subsidiaries¹				
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. ²	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
	HSBC	VND 763,300,000,000	April 28, 2017 ~ May 28, 2018	Working capital
LOTTE VIETNAM SHOPPING JOINT STOCK COMPANY	HSBC	USD 35,000,000	May 29, 2017 ~ June 22, 2018	Working capital
	DBS	USD 8,000,000	October 5, 2016 ~ October 5, 2019	Working capital
LOTTE CINEMA VIETNAM CO., LTD.	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
	ING	USD 120,213,804	January 20, 2015 ~ January 19, 2018	Working capital

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Consolidated company	Guarantee recipient	Guaranteed amount	Guarantee period	Type of borrowings
	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
	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

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

² The subsidiary is included in 'Swift Harvest Ltd. and its subsidiaries'.

In 2015, the Group 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 Group 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.

The Group 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.

Lotte Shopping Co., Ltd. and Subsidiaries

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41.Related Party Transactions

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

Related company	Percentage of ownership (%)
Lotte Corporation ¹	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

¹ It has a significant influence over the Group.

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 ¹	2017				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income	Other expenses
Shareholders:					
Lotte Corporation ⁴	₩ 849,718	₩ -	₩ -	₩ 12,411	₩ 10,489,383
Lotte Confectionery Co., Ltd. (existing corporation) ⁴	8,917,362	119,093,906	-	24	15,351,490
Hotel Lotte Co., Ltd.	108,798,680	-	-	203,606	124,874,200
Korea Fuji Film Co., Ltd.	1,541,342	609,342	-	135	21,828
LOTTE IT TECH CO., LTD. ⁵	3,002,112	1,710,183	61,483,808	224,390	202,321,748
Hotel Lotte Pusan Co., Ltd.	9,899,931	-	827,083	7,714	25,409,682
	133,009,145	121,413,431	62,310,891	448,280	378,468,331
Associates:					
FRL Korea Co., Ltd.	39,689,860	80,691,092	-	106,846	6,629
Others	12,650,297	-	-	137,917	1,005,300
	52,340,157	80,691,092	-	244,763	1,011,929
Others²:					
LOTTE Engineering & Construction Co.,Ltd	9,575,148	-	257,401,332	21,535	1,466,999
Lotte Confectionery Co., Ltd.(newly established corporation) ⁴	1,294,575	30,822,479	-	68,368	2,703,742
Lotte Chilsung Beverage Co., Ltd.	13,423,388	99,937,532	-	106,704	694,977
Lotte Data Communication Company(newly established corporation) ⁵	295,465	-	14,268,519	-	20,964,328

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

Related parties ¹	2017				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income	Other expenses
Daehong Communications Inc.	8,877,056	-	1,722,365	37,786	80,582,393
Lotte Station Building Co., Ltd.	16,424,307	-	-	1,353,837	5,603,853
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	20,670,078	6,594,575	286,580	4,904	1,382,927
Lotte Trading Co., Ltd.	1,618,362	177,990,273	-	-	422,701
LOTTE FOOD CO., LTD.	16,134,850	237,350,061	-	-	8,771,800
Lotte Aluminum Co., Ltd.	2,379,191	10,717,937	29,484,362	-	30,313,407
Lotte Logistics Co., Ltd.	47,147,844	1,811,313,401	667,397	-	247,381,874
Others	191,070,861	64,175,833	19,236,292	28,639,281	321,939,923
	<u>328,911,125</u>	<u>2,438,902,091</u>	<u>323,066,847</u>	<u>30,232,415</u>	<u>722,228,924</u>
Total ³	<u>₩514,260,427</u>	<u>₩2,641,006,614</u>	<u>₩ 385,377,738</u>	<u>₩ 30,925,458</u>	<u>₩1,101,709,184</u>

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

² 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.

³ Includes amount reclassified as profit for the year from discontinued operation. In addition, 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.

⁴ 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 39).

⁵ 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.

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

Related parties	2016				
	Sales	Purchase	Acquisition of property, plant and equipment and intangible assets	Other income	Other expenses
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 91,918,520	₩ 43,710	₩ 391,715	₩ 528,917	₩ 120,625,818
Lotte Confectionery Co., Ltd.	16,132,502	164,822,765	18,000	216	18,774,688
Lotte Chilsung Beverage Co., Ltd.	17,232,291	110,741,284	-	146,086	730,770
Lotte Engineering & Construction Co., Ltd.	7,428,723	-	295,712,725	4,590	333,422
Hotel Lotte Pusan Co., Ltd.	9,735,719	-	-	10,051	20,760,180
Lotte Data Communication Company	3,211,307	1,331,426	83,921,151	228,450	209,589,659
Korea Fuji Film Co., Ltd.	1,376,609	841,805	-	-	45,213
	<u>147,035,671</u>	<u>277,780,990</u>	<u>380,043,591</u>	<u>918,310</u>	<u>370,859,750</u>
Associates:					
Daehong Communications Inc.	39,409,050	144,457	581,891	-	85,743,033
Lotte Station Building Co., Ltd.	24,788,221	-	217,073	2,212,513	4,732,610
Lotteria Co., Ltd.	20,335,335	6,246,575	132,815	90,835	1,443,276
Lotte Trading Co., Ltd.	6,011,764	196,633,961	-	-	225,370
Others	103,059,220	83,355,833	8,942,348	83,974	69,533,101
	<u>193,603,590</u>	<u>286,380,826</u>	<u>9,874,127</u>	<u>2,387,322</u>	<u>161,677,390</u>
Others:					
LOTTE FOOD CO., LTD.	24,503,965	262,140,221	-	-	8,848,621
Lotte Aluminum Co., Ltd.	3,502,692	21,023,262	36,885,775	-	32,552,123
Lotte Logistics Co., Ltd.	52,175,350	2,335,490,138	2,138,285	-	266,183,099
Others	64,265,155	39,740,338	24,882,917	20,294,431	219,143,349
	<u>144,447,162</u>	<u>2,658,393,959</u>	<u>63,906,977</u>	<u>20,294,431</u>	<u>526,727,192</u>
	<u>₩485,086,423</u>	<u>₩ 3,222,555,775</u>	<u>₩ 453,824,695</u>	<u>₩ 23,600,063</u>	<u>₩ 1,059,264,332</u>

During 2016, the Group 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:

(in thousands of Korean won)

Related parties ¹	2017				
	Loans	Borrowings	Repayment	Capital increase	Capital deduction
Associates:					
Stonebridge Innovation Quarter Fund	₩ -	₩ -	₩ -	₩ 3,000,000	₩ -
Lotte-IMBC Contents Fund	-	-	-	1,500,000	-
Lotte Shopping Rus Ltd.	4,794,515	-	-	-	-
Others	-	-	-	1,223,930	1,222,700
	4,794,515	-	-	5,723,930	1,222,700
Joint ventures:					
PT. INDO LOTTE MAKMUR	-	-	-	9,410,067	-
CITIC PACIFIC LOTTE(SHANGHAI) COMMERCIAL MANAGEMENT CO.,LTD.	-	-	-	1,658,160	-
	-	-	-	11,068,227	-
Others²:					
LOTTE rental Co., Ltd.	-	1,814,826	362,272	-	-
Lotte Global Logistics Co.,LTD.	-	-	-	978,064	-
LOTTE CAPITAL CO., LTD.	-	50,000,000	25,001,878	-	-
Mybi.Co.Ltd	-	10,000,000	10,000,000	-	-
Lotte Capital Lease & Finance(China) Co., Ltd. and others	-	9,805,092	26,868,153	-	-
	-	71,619,918	62,232,303	978,064	-
	₩ 4,794,515	₩ 71,619,918	₩ 62,232,303	₩ 17,770,221	₩ 1,222,700

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

² 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.

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(in thousands of Korean won)

Related parties	2016			
	Borrowings	Repayment	Capital increase	Capital deduction
Associates:				
LOTTE Accelerator Corporation	₩ -	₩ -	₩ 5,000,000	₩ -
BUSAN-LOTTE CREATIVE FILM FUND	-	-	6,000,000	-
Coralis S.A.	-	-	4,474,368	-
LOTTE Giants Co., Ltd.	-	-	9,000,000	-
Stonebridge Innovation Quarter Fund	-	-	3,000,000	-
Capital One Middle-Low Budget Cinema Fund	-	-	-	1,350,000
Lotte Capital Co., Ltd.	20,000,000	21,125,278	-	-
Others	-	-	4,134,100	4,945,749
	<u>20,000,000</u>	<u>21,125,278</u>	<u>31,608,468</u>	<u>6,295,749</u>
Joint ventures:				
LOTTE JTB Co., Ltd.	-	-	10,000,000	-
PT. INDO LOTTE MAKMUR	-	-	14,433,125	-
	<u>-</u>	<u>-</u>	<u>24,433,125</u>	<u>-</u>
Others:				
LOTTE rental Co., Ltd.	3,805,639	350,463	27,054,868	-
Lotte Capital Lease & Finance (China) Co., Ltd. and others	21,588,587	5,064,572	-	-
	<u>25,394,226</u>	<u>5,415,035</u>	<u>27,054,868</u>	<u>-</u>
	<u>₩ 45,394,226</u>	<u>₩ 26,540,313</u>	<u>₩ 83,096,461</u>	<u>₩ 6,295,749</u>

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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 ¹	2017					
	Receivables			Payables		
	Trade receivables	Loans	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:						
Lotte Corporation ³	₩ 269,568	₩ -	₩10,263,907	₩ -	₩ -	₩ 3,637,867
Hotel Lotte Co., Ltd.	281,090	-	54,282,922	-	-	60,200,357
Korea Fuji Film Co., Ltd.	4,772	-	-	129,345	-	1,500,744
Hotel Lotte Pusan Co., Ltd.	-	-	17,869,470	-	-	2,968,670
	555,430	-	82,416,299	129,345	-	68,307,638
Associates:						
FRL Korea Co., Ltd.	-	-	568	10,981,944	-	19,117,065
Others	-	4,794,515	27,080	-	-	5,578,826
	-	4,794,515	27,648	10,981,944	-	24,695,891
Others²:						
LOTTE Engineering & Construction Co.,Ltd	101,200	-	5,071,899	-	-	82,421,937
Lotte Confectionery Co., Ltd.(newly established corporation) ³	433,206	-	410,925	13,003,030	-	2,810,225
Lotte Chilsung Beverage Co., Ltd.	231,238	-	4,087,834	6,357,784	-	6,235,661
Lotte Data Communication Company(newly established corporation) ⁴	-	-	47,574,999	3,912	-	27,333,753
Daehong Communications Inc.	6,473,428	-	286,607	7,062	-	27,182,611
Lotte Station Building Co., Ltd.	5,739,967	-	11,887,824	-	-	6,796,964
LotteGRS Co., Ltd. (formerly, Lotteria Co., Ltd.)	47,016	-	479,373	401,066	-	9,624,352
Lotte Trading Co., Ltd.	82,137	-	711,249	9,860,971	-	19,538
LOTTE FOOD CO., LTD.	278,663	-	1,611,317	13,206,768	-	8,728,890
Lotte Aluminum Co., Ltd.	244,713	-	39,809	1,882,119	-	4,580,111
Lotte Logistics Co., Ltd.	49,490	-	336,965	900,664	-	15,865,447
Others	158,705,111	-	21,654,705	4,182,612	149,142,415	190,696,481
	172,386,169	-	94,153,506	49,805,988	149,142,415	382,295,970
Total ⁵	₩172,941,599	₩ 4,794,515	₩176,597,453	₩60,917,277	₩149,142,415	₩475,299,499

¹ The related party classification reflects the changes in the ownership interest due to spin-off and

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merger during the year ended December 31, 2017.

² 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.

³ 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.

⁴ 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.

⁵ 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	2016				
	Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Shareholders:					
Hotel Lotte Co., Ltd.	₩ 2,920,019	₩ 94,287,673	₩ 500	₩ -	₩ 50,788,677
Lotte Confectionery Co., Ltd.	598,487	12,310,780	21,422,147	-	3,275,492
Lotte Chilsung Beverage Co., Ltd.	1,048,852	57,290,423	6,594,415	-	6,243,432
Lotte Engineering & Construction Co., Ltd.	14,505	55,136,364	-	-	108,179,528
Hotel Lotte Pusan Co., Ltd.	149,875	12,382,150	-	-	7,596,950
Lotte Data Communication Company	30,531	72,735,514	367,993	-	56,644,049
Korea Fuji Film Co., Ltd.	9,792	124,494	167,465	-	1,548,579
	4,772,061	304,267,398	28,552,520	-	234,276,707
Associates:					
Daehong Communications Inc.	4,308,987	2,334,132	98,710	-	30,411,920
Lotte Station Building Co., Ltd.	8,259,999	14,498,151	373	-	16,240,164
Lotteria Co., Ltd.	313,464	1,271,460	593,581	-	13,290,651
Lotte Trading Co., Ltd.	135,493	1,089,954	8,642,822	-	104,092
Others	2,476,234	15,932,290	14,489,824	15,000,000	38,976,823
	15,494,177	35,125,987	23,825,310	15,000,000	99,023,650

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Others:

LOTTE FOOD CO., LTD.	292,772	5,361,169	25,472,267	-	8,409,529
Lotte Aluminum Co., Ltd.	-	12,496,546	3,039,118	-	12,471,286
Lotte Logistics Co., Ltd.	1,903	1,078,435	253,238,599	-	30,609,363
Others	2,450,809	112,416,384	4,312,456	135,335,421	84,754,811
	2,745,484	131,352,534	286,062,440	135,335,421	136,244,989
	<u>₩ 23,011,722</u>	<u>₩470,745,919</u>	<u>₩338,440,270</u>	<u>₩150,335,421</u>	<u>₩469,545,346</u>

Details of payment guarantees and collateral provided by the Group 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:

<i>(in thousands of Korean won)</i>		Guaranteed by	Guaranteed amount	Guarantee period	Remark
Associates	Shandong Longzhile Cinema Co., Ltd.	Industrial Bank of Korea	CNY 13,000,000	January 11, 2017 ~ January 11, 2020	
Joint ventures	International Business Center Company Limited	The Export-Import Bank of Korea	USD 15,000,000	April 6, 2016 ~ April 6, 2019	
		Woori Bank	USD 4,000,000	April 6, 2017 ~ April 6, 2018	Working capital
Others	Lotte Properties (Shenyang) Limited	The Export-Import Bank of Korea	USD 30,500,000	March 30, 2016 ~ March 30, 2019	
		Woori Bank	USD 31,500,000	April 25, 2016 ~ April 25, 2019	
		Korea Development Bank	USD 57,500,000	May 4, 2016 ~ May 4, 2019	

The Group 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).

The Group entered into an agreement to jointly provide financial support for HND able 2nd limited ("HND able"), Invest Farmland Co., Ltd. and Mars L D, LLC. 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., 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, and on the asset backed loan (₩620,000,000 thousand of par value in maturing on October 27, 2021) issued by LOTTE Town Dongtan Co., LTD.

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

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Details of purchasing card transactions with related parties as at December 31, 2017, are as follows:

(in thousands of Korean won)

Type ¹	Related parties ²	Used amount	Collected amount
Perspective of provider	Lotte Chemical Corporation	₩ 1,529,424,366	₩ 1,505,159,876
	Lotte Skyhill CC	571,886	732,486
	M.Hub Inc.	6,089,859	5,180,991
	CANON KOREA BUSINESS SOLUTIONS INC.	89,934,231	90,212,611
	Lotte Station Building Co., Ltd.	69,331,000	69,331,000
	Lotte Engineering & Construction Co., Ltd.	455,381,746	383,563,664
	Lotte Aluminum Co., Ltd.	143,327,047	135,300,585
	Lotte Data Communication Company	79,053,041	79,068,506
	Lotte Chilsung Beverage Co., Ltd.	125,410,026	148,622,793
	Lotte Trading Co., Ltd.	96,061,503	95,990,730
	MOBIZAP MEDIA INC.	736,751	1,232,009
	Lotte Asahi Liquor Company Ltd.	7,601,194	7,601,194
	Lotte Logistics Co., Ltd.	1,402,267,886	1,402,267,886
	LOTTE Corporation	142,035,868	152,731,513
	LOTTE FOOD CO., LTD.	192,616,096	191,515,733
	Hotel Lotte Co., Ltd.	119,967,499	137,885,216
	Lotte Advanced Materials Co., Ltd	83,936,243	83,936,243

¹ Due to spin-off during the year ended December 31, 2017, the purchasing card transactions between the Group and the related parties are shown from January 1, 2017 to September 30, 2017 in the perspective of the provider.

² 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:

(in thousands of Korean won)

Type ¹	Company name	Contractual amount ²	Used amount	Repayment	Unsettled amount ²
Perspective of	LOTTE SHOPPING CO.,LTD.	₩ 325,000,000	₩ 735,448,194	₩ 679,212,664	₩ 98,068,076
	LOTTE Himart Co.,Ltd	150,000,000	401,149,396	401,149,396	-

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user	LOTTE DEPARTMENT STORE MASAN CO.,LTD	6,000,000	1,015,054	816,812	198,242
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¹ Due to spin-off during the year ended December 31, 2017, the purchasing card transactions between the Group and the related parties are shown from October 1, 2017 to December 31, 2017 in the perspective of the provider.

² As at December 31, 2017

42. Risk Management

42.1 Management of Financial Risks

(a) Objectives and Policies of the Group

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

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

(b) Credit Risk

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

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

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>		2017		2016
Cash equivalent ¹	₩	2,587,811,039	₩	2,214,285,729
Trade and other receivables		870,455,687		1,031,337,760
Other financial assets (current)		1,245,665,288		9,979,328,622
Other financial assets (non-current) ²		1,228,350,821		1,706,519,063
	₩	<u>5,932,282,835</u>	₩	<u>14,931,471,174</u>

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

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

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)

	2017			
	Receivables that are neither past due nor impaired	Receivables that are past due but not impaired ¹	Receivables impaired ¹	Total
Trade and other receivables	₩ 853,503,714	₩ 16,951,973	₩ 17,058,175	₩ 887,513,862
Other financial assets (current)	1,245,665,288	-	33,978	1,245,699,266
Other financial assets (non-current)	1,228,350,821	-	3,592,302	1,231,943,123
	<u>₩ 3,327,519,823</u>	<u>₩ 16,951,973</u>	<u>₩ 20,684,455</u>	<u>₩ 3,365,156,251</u>

¹ Provision for impairment is recognized for financial assets that are determined individually impaired.

(in thousands of
Korean won)

	2016			
	Receivables that are neither past due nor impaired	Receivables that are past due but not impaired ¹	Receivables impaired ¹	Total
Trade and other receivables	₩ 999,280,195	₩ 31,632,525	₩ 29,257,856	₩ 1,060,170,576
Other financial assets (current)	9,777,180,207	196,387,723	215,577,367	10,189,145,297
Other financial assets (non-current)	1,706,519,063	-	4,621,074	1,711,140,137
	<u>₩ 12,482,979,465</u>	<u>₩ 228,020,248</u>	<u>₩ 249,456,297</u>	<u>₩ 12,960,456,010</u>

¹ Provision for impairment is recognized for financial assets that are determined individually impaired.

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Movements in the allowance provision of trade and other receivables for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Beginning balance	₩ 28,832,816	₩ 51,227,639
Provision	8,249,330	13,105,977
Reversal of impairment loss	(442,926)	(34,923,652)
Write-offs	(3,059,671)	(7,275,388)
Recoveries	25,040	49,904
Others	(328,413)	6,648,336
Changes due to spin-off	(16,218,001)	-
Ending balance	<u>₩ 17,058,175</u>	<u>₩ 28,832,816</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>	2017	2016
Beginning balance	₩ 209,816,675	₩ 206,989,961
Provision	167,006,689	206,405,720
Reversal of impairment loss	(3,068)	-
Write-offs	(179,431,966)	(221,663,327)
Recoveries	13,527,497	18,079,485
Transfer	-	4,836
Changes due to spin-off	(210,881,849)	-
Ending balance	<u>₩ 33,978</u>	<u>₩ 209,816,675</u>

The movement in the allowance provision 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>	2017	2016
Balance at beginning of the year	₩ 4,621,074	₩ 4,056,980
Provision	2,931	2,249,740
Reversal	(2,938)	(211)
Write-offs	(1,000,000)	(1,680,599)
Transfer	-	(4,836)
Changes due to spin-off	(28,765)	-
Balance at end of the year	<u>₩ 3,592,302</u>	<u>₩ 4,621,074</u>

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

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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	₩ 16,951,973	₩ 8,359,912	₩ 5,374,345	₩ 2,636,802	₩ 580,914
	₩ 16,951,973	₩ 8,359,912	₩ 5,374,345	₩ 2,636,802	₩ 580,914

*(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	₩ 31,632,525	₩ 19,327,531	₩ 4,821,642	₩ 2,975,138	₩ 4,508,214
Other financial assets (current)	196,387,723	193,702,849	2,684,874	-	-
	₩ 228,020,248	₩ 213,030,380	₩ 7,506,516	₩ 2,975,138	₩ 4,508,214

iv) Payment guarantees

As at December 31, 2017, the Group has provided financial guarantees to associates and joint ventures. Should the Group be liable for payment upon defaults of the associates and joint ventures, the expected amounts which the Group is liable to pay within 1 year are ₩150,516,350 thousand.

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(c) Liquidity Risks

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

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

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

Aggregate maturities of financial liabilities, including estimated interest, as 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
Current portion of borrowings and debentures ^{1,2}	₩ 583,405,641	₩ 1,082,181,588	₩ 1,458,991,918	₩ -
Trade and other payables	3,459,569,016	34,713,012	151,677	-
Other financial liabilities (current)	374,399,827	45,008,417	82,667,502	-
Borrowings and debentures (non-current) ¹	59,852,042	36,979,540	109,727,203	4,835,441,972
Other financial liabilities (non-current)	2,899,471	7,160,002	10,759,450	160,790,271
Acceptances and guarantees	150,516,350	-	-	-
	<u>₩ 4,630,642,347</u>	<u>₩ 1,206,042,559</u>	<u>₩ 1,662,297,750</u>	<u>₩ 4,996,232,243</u>

¹ Interest expenses are included.

² The borrowing (amount: ₩ 102.1 billion, maturity: November 2018) which has a clause for maintenance in credit rating is included, and accordingly, there is a possibility of events of default.

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

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

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

i) Currency risk

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

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

Assets and liabilities denominated in foreign currencies other than the Group'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	₩ 5,661,773	₩ 1,755,032,286	₩ 35,930,637	₩ 3,293,726,474
EUR	230,345	1,620,287	33,650	1,105,265
JPY	4,433	94,911,000	145,245	103,697,902
HKD	5,104,927	-	13,462,922	1,247,484
CNY	7,210,297	26,274	40,936,143	25,553,170
VND	-	-	3,044	-
GBP	-	-	82	-
SGD	238	-	-	-
	<u>₩ 18,212,013</u>	<u>₩ 1,851,589,847</u>	<u>₩ 90,511,723</u>	<u>₩ 3,425,330,295</u>

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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
HKD		145.13		149.51		137.07		155.83
CNY ¹		167.46		174.40		163.65		173.26
VND		-		0.0519		-		0.0531
GBP		-		1,572.18		-		1,480.17
SGD		818.91		-		800.63		-

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

The Group regularly measures exchange risks on Korean won against foreign currency fluctuations. The Group assumes that foreign currency exchange rates fluctuate 10% at the end of reporting period 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	₩	(56,541,795)	₩	56,541,795	₩	(9,524,913)	₩	9,524,913
EUR		(138,994)		138,994		(107,162)		107,162
JPY		(9,490,657)		9,490,657		(10,355,265)		10,355,265
HKD		510,493		(510,493)		1,221,544		(1,221,544)
CNY		718,402		(718,402)		1,538,297		(1,538,297)
VND		-		-		304		(304)
GBP		-		-		8		(8)
SGD		24		(24)		-		-
	₩	(64,942,527)	₩	64,942,527	₩	(17,227,187)	₩	17,227,187

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 Group's functional currency, as at December 31, 2017 and 2016, of the Group entities in Korea.

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

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

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

<i>(in thousands of Korean won)</i>		2017		2016
Variable rate instruments:				
Financial assets	₩	413,705,109	₩	1,029,846,268
Financial liabilities		2,307,905,569		4,147,528,202

The table below summarizes the impact of increases/decreases of interest rates in deposits and borrowings with floating interest rate on the Group'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.

<i>(in thousands of Korean won)</i>	2017				2016			
		100bp increase		100bp decrease		100bp increase		100bp decrease
Interest income	₩	4,055,226	₩	(4,055,226)	₩	10,298,463	₩	(10,298,463)
Interest expense		8,563,921		(8,563,921)		6,781,104		(6,781,104)

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

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iii) Price risk

The Group 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 ₩270,711,624 thousand and ₩280,519,592 thousand, respectively.

The Group 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	₩ 27,071,162	₩ (27,071,162)	₩ 28,051,959	₩ (28,051,959)

42.2 Capital Management

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

The liabilities to equity ratios and net borrowings to equity ratios as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017	2016
Liabilities (a)	₩ 14,597,135,457	₩ 24,651,864,607
Equity (b)	13,351,352,592	17,264,041,893
Financial instruments (c)	3,674,134,541	3,129,594,935
Borrowings (d)	7,667,683,920	14,482,948,258
Liabilities to equity ratio (a/b)	109.33%	142.79%
Net borrowings to equity ratio ((d-c)/b)	29.91%	65.76%

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43. Spin-off

On April 26, 2017, the Group'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.

Category	Details
Method of stock split	Spin-off
Companies subject to 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

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	₩ 1,331,260,561
Trade and other receivables	416,563,572
Other financial assets	9,774,822,779
Inventories	105,649,696
Income tax refund receivable	194,378
Other non-financial assets	138,813,066
Non-current assets held for sale	1,733,777
	<u>11,769,037,829</u>

Non-current assets

Investments in associates and joint ventures	873,226,989
Other financial assets	486,234,327
Property, plant and equipment	352,939,741
Goodwill	286,997,233
Intangible assets	145,847,339
Deferred tax assets	55,055,420
Other non-financial assets	42,935,918
	<u>2,243,236,967</u>
Total assets	<u>₩ 14,012,274,796</u>

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Current liabilities

Borrowings and debentures	₩	2,998,888,255
Trade and other payables		2,045,973,482
Other financial liabilities		136,682,763
Current tax liabilities		20,805,849
Unearned revenues		113,147,028
Provisions		37,070,283
Other non-financial liabilities		271,697,622
		<u>5,624,265,282</u>

Non-current liabilities

Borrowings and debentures		5,178,058,030
Other financial liabilities		196,529,992
Net of defined benefit liabilities and other long-term employee benefits		27,002,404
Deferred tax liabilities		233,304,855
Unearned revenues		2,269,664
Provisions		45,700,626
		<u>5,682,865,571</u>
	₩	<u>11,307,130,853</u>

Details of profit from discontinued operations for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017	2016
Sales	₩ 4,221,985,578	₩ 5,412,083,777
Cost of sales	<u>(3,064,342,284)</u>	<u>(3,953,571,846)</u>
Gross profit	1,157,643,294	1,458,511,931
Selling, general and administrative expenses	<u>(1,047,776,972)</u>	<u>(1,281,477,495)</u>
Operating profit	<u>109,866,322</u>	<u>177,034,436</u>
Other income	8,124,292	27,850,182
Other expenses	(48,108,753)	(32,186,196)
Finance income	10,127,119	17,247,574
Finance costs	(9,124,486)	(20,577,600)
Share of profit of associates	<u>2,002,303</u>	<u>518,802</u>
Profit before income tax	<u>72,886,797</u>	<u>169,887,198</u>
Income tax expense	<u>(27,521,281)</u>	<u>(47,571,751)</u>
Profit for the year	<u>45,365,516</u>	<u>122,315,447</u>
Gain on settlement of spin-off	<u>377,543,489</u>	<u>-</u>
Profit from discontinued operations	<u>₩ 422,909,005</u>	<u>₩ 122,315,447</u>

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There is no additional profit and loss recognized as the group of assets classified as held for distribution to owners included in discontinued operations were measured at fair value less costs to sell in accordance with Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operation*.

Cash flows related to the discontinued operation for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Cash flows from operating activities	₩ (267,677,136)	₩ (211,042,062)
Cash flows from investing activities	(113,334,464)	(311,286,226)
Cash flows from financing activities	464,422,545	519,673,199
	<u>₩ 83,410,945</u>	<u>₩ (2,655,089)</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 Group recognizes dividends payable using the fair value at the date when the Group 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 Group 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 ₩377,543,489 thousand was recognized as gain on settlement of spin-off on October 1, 2017, the spin-off and merger date.

The Group measured the fair value based on projected financial statements for the next five years. These financial statements were developed based on the Group'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%

44.Subsequent Event

The Board of Directors of the Group made a resolution to merge with 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 Group merged with Lotte Department Store Masan Co., Ltd.