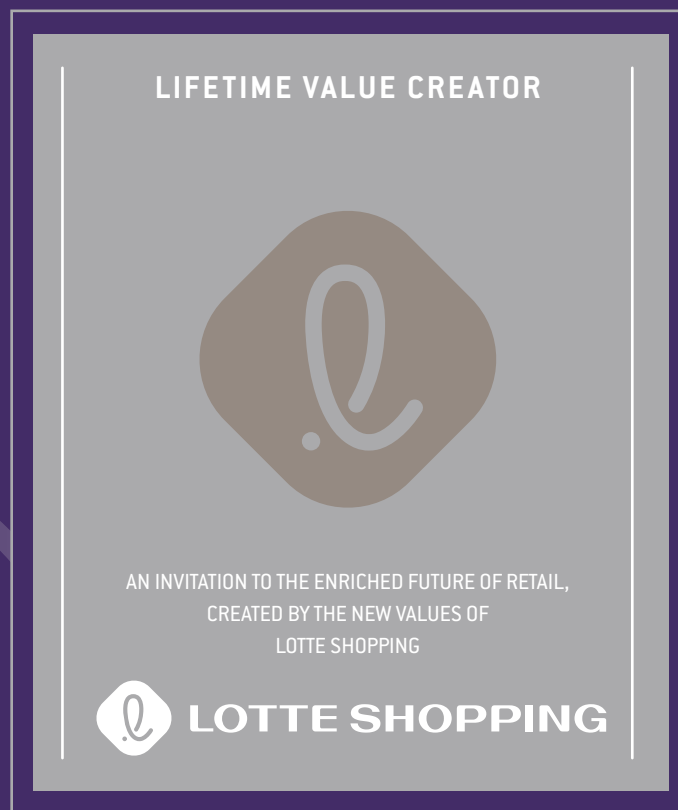


NEW

LOTTE SHOPPING

ANNUAL REPORT 2017



VALUE

REPORT OVERVIEW

This annual report informs readers about Lotte Shopping's wide range of initiatives and achievements. In particular, it introduces in detail our approach to realizing the future of retail while strengthening our core competencies in channels, innovations, customer satisfaction, and other areas, in response to changes in trends, technologies, and lifestyles.

UNIQUE FEATURE

This year's report is designed to demonstrate Lotte Shopping's commitment to adding new values to customers' lives with its new logo, Value Line. You will see the beautiful and luxurious image of the future of retail, shown through the varied colors and shapes of Lotte Shopping's Value Line logo.

Reader's Guide



MORE INFORMATION
Links to the related information of the contents in the report.



LINK TO WEBSITE
Please click to go to the homepage.



INTERACTIVE PDF & PR VIDEO DOWNLOAD
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LIFETIME VALUE CREATOR

Lotte Shopping established its vision of being a "Lifetime Value Creator", which includes our pledge to offer customers the highest value for every purchase they make from us. In order to create new values that will make their lives more beautiful and enriched, we are leading the evolution of retail through continuous change and innovation.

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more beautiful and enriched, we are leading the evolution of retail through continuous change and innovation.

ABOUT LOTTE GROUP




ONE OF THE WORLD’S MOST HIGHLY RESPECTED BUSINESS GROUPS

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

MISSION


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

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




RICHNESS

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



CONTRIBUTION

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



EXPANSION

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

VISION

Lifetime Value Creator

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

CORE VALUE

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



CHALLENGE

RESPECT

ORIGINALITY

Beyond Customer Expectation

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

CHALLENGE

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

START

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

PROGRESS

Take the initiative to improve work processes and achieve goals.

OUTCOME

Never give up, and set and achieve higher goals.

RESPECT

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

START

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

PROGRESS

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

OUTCOME

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

ORIGINALITY

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

START

Respond quickly to changes and trends in the business environment.

PROGRESS

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

OUTCOME

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

BUSINESS AREAS

FOOD	Lotte Confectionery Lotte Chilsung Beverage Lotte Liquor Lotte Foods Lotte-Nestle Lotte Asahi Liquor LotteImsc Lotte R&D Center Lotte GRS
RETAIL	Lotte Department Store Lotte Mart Lotte Super Korea Seven Lotte Hi-Mart Lotte Home Shopping Lotte.com LOHB's Lotte Cinema FRL Korea Lotte International
CHEMICAL/ CONSTRUCTION/ MANUFACTURING	Lotte MCC Lotte E&C Lotte CM Business Division Lotte E&M Lotte Aluminum Lotte Fine Chemical Lotte Advanced Materials Lotte Chemical Canon Korea Business Solutions KP ChemTech Fuji Film Korea
TOURISM/SERVICE/FINANCE	Global Logistics Lotte Rental Lotte Logistics Lotte Resort Lotte Members Lotte Duty Free Lotte Foundation for Arts Lotte Property & Development Lotte Institute of Economy & Business Strategy Lotte Welfare Foundation Lotte Samdong Welfare Foundation Lotte Insurance Lotte Skyhill CC Lotte World Lotte Academy Lotte Asset Development Lotte Giants Lotte Scholarship Foundation Lotte Data Communication Lotte JTB Lotte Card Lotte Capital Lotte PS Net Lotte Hotel Daehong Communications EB Card & Mybi Lotte Hotel Busan Hyundai Information Technology

CEO'S MESSAGE



“WE WILL BECOME A GLOBAL
RETAILER THAT ADDS VALUE
TO OUR CUSTOMERS’ LIVES
BY PURSUING QUALITATIVE
GROWTH BASED ON THE
CREATION OF SOCIAL VALUES.”

Dear Valued Customers and Shareholders:

In 2017, the growth of the retail industry slowed due to a prolonged economic downturn and rapid changes in the operating environment. In this climate, Lotte Shopping actively explored its potential in all of its business sectors, so as to weather crises and continue its growth.

One of our important focuses was on securing new growth engines, including our online operations and omnichannel services. We also opened a number of new stores, diversified our store formats, and differentiated our products both at home and abroad. In addition, we made significant improvements to the efficiency of our management. Our commitment to transparency, compliance, and social responsibilities continued as well. With my profound gratitude for the heartfelt support that you have always shown us, especially during times of difficulty, I would like to tell you about our performance in 2017 and our plans for the upcoming year.

2017 REVIEW

In 2017, we revamped our core competencies and built foundations for future growth by actively exploring potential in all of our business divisions.

Focused on core competencies and future growth foundations

South Korea’s retail industry faced a year of stagnant growth, due largely to lowered consumer confidence, increasing household debt, intensifying competition among business channels, expanding governmental regulations, and the Terminal High Altitude Area Defense (THAAD) issue. Despite this environment, online shopping, consumer electronics retail stores, and health and beauty stores continued to grow in popularity, backed by changes in purchasing patterns. These changes included an increasing number of single-person households, an aging society, a definite trend towards small-quantity, neighborhood-based purchases, value-conscious shopping, and rising sales of health- and environment-related products.

Lotte Shopping made multilateral efforts to improve its results while effectively adapting to these changes in its management environment. First, we opened a large number of new stores both at home and abroad. We also renovated our existing stores and upgraded our product inventory. In addition, we added to our menu of online operations with a special focus on mobile shopping, and significantly bolstered our omnichannel services which link our online and offline channels. Overseas, we concentrated our energy on enhancing our operational efficiency, including cost reductions, with a focus on improvements to our profitability.

However, our sales and operating profit decreased from the previous year to KRW 18.18 trillion and KRW 529.9 billion, respectively. Primary contributing factors were a drop in our offline store sales, a rise in our costs following new investments, and a slump in our overseas operations.

18,180

2017 Sales
(in KRW billions)

530

2017 Operating Profit
(in KRW billions)

We continued with our policy of new department store openings, focusing on outlets, eCUBE, and other growth channels, while reinforcing our private brand business by integrating our PB multi-store brands. Our omnichannel services were made even more attractive through their convergence with leading-edge technologies. We became the first player in the industry to introduce an “el.BOT” shopping assistant robot and a “Pepper” humanoid robot, as well as “LOSA,” or Lotte Shopping Advisor, an AI shopping guide chatbot. In addition, we added to our number of smart department stores by increasing Smart Shopper stores.

Another meaningful achievement, supported by our position as an official sponsor of the PyeongChang 2018 Winter Games in the department store category, was our launch of differentiated products like “Pyeongchang Long Padding” and “Pyeongchang Sneakers” which created sensation in the retail industry and helped to boost domestic demand.

We added more customer experience stores with four new hypermarket openings. These hypermarkets all feature unique shopping experiences: extremely comfortable rest and relaxation spaces through the creation of “urban 4 rest”; a “Grocerant” combined grocery and restaurant outlet that allows customers to purchase food products and have them cooked on the spot; and extended specialty stores. We also rolled out a series of value innovation products such as the “Only Price” single-cost PB products.

In the consumer electronics retail sector, we achieved balanced growth in our offline stores and online operations by opening new Himart stores, expanding the Omni Zone, and building a logistics center for online purchases. We also broadened the range of offerings by our flagship PB product brand, HIMADE, boosted our product competitiveness by introducing prominent global brands, and substantively augmented the service areas of our Home Care business, winning enthusiastic responses from customers.

In the supermarket sector, we introduced the Lotte Freezia frozen food specialty store, in addition to premium food markets, as part of our plural store opening strategy. Our online business founda-

tions were also strengthened by continuously developing fresh foods and PB products in line with changing consumption trends, while opening a delivery center for online purchases.

In the home shopping business, we continued solid growth by enhancing our competitiveness in each channel, including TV home shopping, data broadcasting, and mobile shopping. We also boosted customer satisfaction levels by developing new products, launching exclusive brands, and upgrading our products.

In the cinema sector, we continued with our strategy of new cinema openings both at home and abroad. Our commitment to providing state-of-the-art facilities was reflected by our introduction of the world’s-first LED cinema, which does not require projectors. We also invested in a number of movies, including “Along with the Gods: The Two Worlds”, which achieved an audience of over 14.41 million.

In the health and beauty store sector, we secured competitiveness by opening new format stores, including one in Dongseong-ro, Daegu, and fortified the position of our offline stores through ongoing store renewals and exclusive brand launches. In addition, we replenished our online business base by opening “LOHB’s MALL” for mobile commerce.

2018 OUTLOOK AND PLANS

Preparing for a challenging future through progress and innovation

Domestic consumption should grow moderately with a business upturn in 2018. It is expected, however, that traditional offline channels will be sluggish, governmental regulations on the distribution industry and competition between channels will intensify, and consumers’ purchasing patterns will continue to change.

In addition, the introduction of various new technologies such as AI, robots, big data, and the Internet of Things, will further expedite the industry’s evolution into new retail, breaking down the boundaries between online and offline economies.

In 2018, we will remain committed to improving our performance and securing growth drivers through ceaseless change and innovation, thereby enhancing customer values and contributing to the development of the retail industry.

Lotte Shopping plans to improve its sales and profits and establish solid foundations for future growth by quickly adapting to this changing environment, based on the capabilities that it has accumulated over its thirty-plus years as a retail industry leader.

To this end, we will continue to transform our offline stores into experience spaces through store renewals and the introduction of new formats. In order to strengthen our online operations, we intend to upgrade our mobile systems, expand the exclusive delivery center, and enter new platforms.

In addition to focusing on the development of new and distinguished products, content, and services, we will continue to identify new paradigms for retail by introducing more advanced omnichannel services through the linkage of leading-edge ICT technologies with our online and offline operations.

In the department store segment, we will augment our “digital retailer” strategy by building integrated digital channels and applying state-of-the-art technologies, as well as opening new stores of growth channels, increasing experience stores, and developing differentiated products.

In the hypermarket business, we will add to the quality of our fresh foods and meal solutions and focus on the strategic development of our PB products, while expediting our expansion of experience and specialty stores.

In the consumer electronics retail sector, we will strive to build omni-stores and scale up our omni-sales, while concentrating our capacity and efforts on developing PB products, introducing global brands, and tapping into new businesses.

In the supermarket sector, we will add to our product competitiveness and expand premium supermarkets and new-concept stores by commercial district, while aggressively invigorating our online operations.

In the home shopping sector, we will enhance our competitiveness through differentiated products and content by channel, while making efforts to bolster our mobile operations and foster new platforms.

Our multiplex cinema operations will also undergo significant improvements, including entering the online platform business, improving our profitability, and enhancing our qualitative competitiveness. In the health and beauty store sector, we will continue adding new stores, renovating our stores, upgrading the attractiveness of our offerings, and expanding our online operations.

One of our top priorities will be fulfilling our corporate social responsibilities, which will include realizing shared growth with our business partners, the communities in which we operate, and small- and medium-sized merchants. We will also take steps to help resolve societal issues such as youth unemployment and South Korea’s low birthrate. In addition, we will take the lead in improving the environment and creating pleasant and comfortable shopping experiences for our customers and safe workplaces for our employees.

The growth of Lotte Shopping into a global retail company has been based on its strong potential and the solid capabilities that it has developed by overcoming many crises and trials over the years. We will continue to demonstrate our unique potential and capabilities, using them as a foundation for growth in the midst of the current difficult management environment.

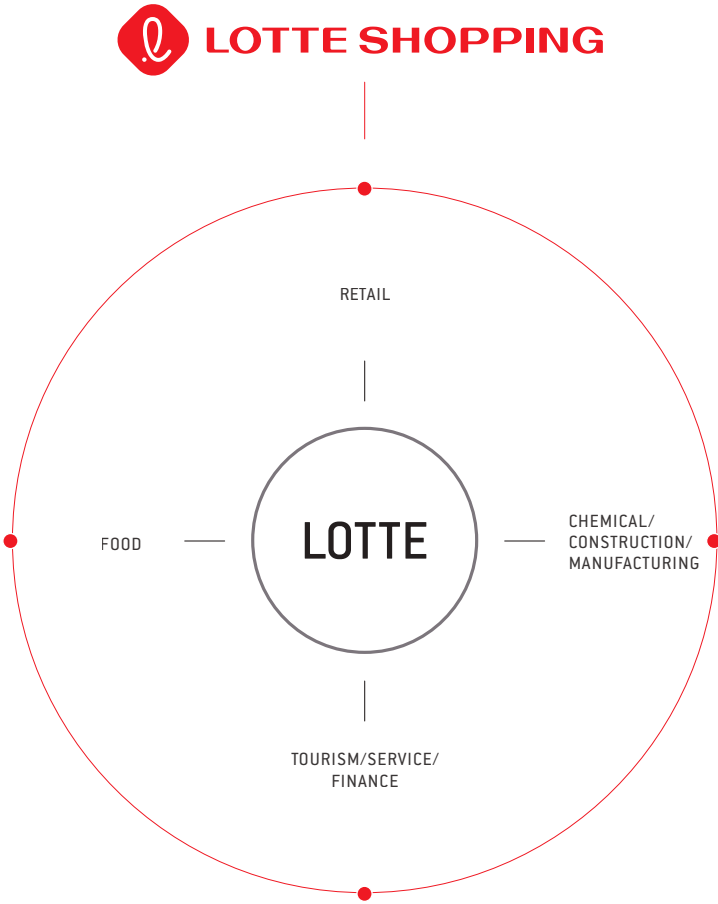
We will become a true “Lifetime Value Creator”, offering the best value for our customers’ lives by realizing qualitative growth based on the creation of social values.

I look forward to your unwavering trust and support.
Thank you.

Kang, Hee Tae
President and CEO

INTERVIEW WITH THE CEO

IN 2017, LOTTE SHOPPING TOOK ON NEW CHALLENGES WITH THE MOMENTUM CREATED BY THE REORGANIZATION OF THE LOTTE GROUP AND THE LAUNCH OF A HOLDING COMPANY. WE SPOKE WITH LOTTE SHOPPING'S CEO KANG, HEE TAE, CURRENTLY IN HIS SECOND YEAR IN OFFICE, ABOUT LOTTE SHOPPING'S BUSINESS STRATEGIES AND PRACTICES.



Q1.

LOTTE GROUP SWITCHED TO A HOLDING COMPANY STRUCTURE IN OCTOBER 2017. WHAT WAS THE PURPOSE OF THIS TRANSITION?



A1.

The transition was aimed at maximizing shareholder value by enhancing transparency in corporate governance and increasing management efficiency. It has allowed Lotte Group to simplify its governance by eliminating circular shareholdings. It has also laid the groundwork for its business units, including Lotte Shopping, to maximize revenue creation by concentrating resources on their core operations.

As an operating company, Lotte Shopping will continue to enhance shareholder value by improving its financial structure and promoting a shareholder-friendly dividend policy, at the same time concentrating on its core competencies.



Q2.

WHAT WAS THE PROCESS OF THIS TRANSITION?

A2.

Lotte Corporation, the holding company of Lotte Group, was established through the spin-off and merger of Lotte Confectionery, Lotte Shopping, Lotte Chilsung Beverage, and Lotte Foods. This transition was done through the spin-off of their investment business units, followed by the merger of the investment business units of Lotte Shopping, Lotte Foods, and Lotte Chilsung Beverage into the investment business unit of Lotte Confectionery.



Q3.

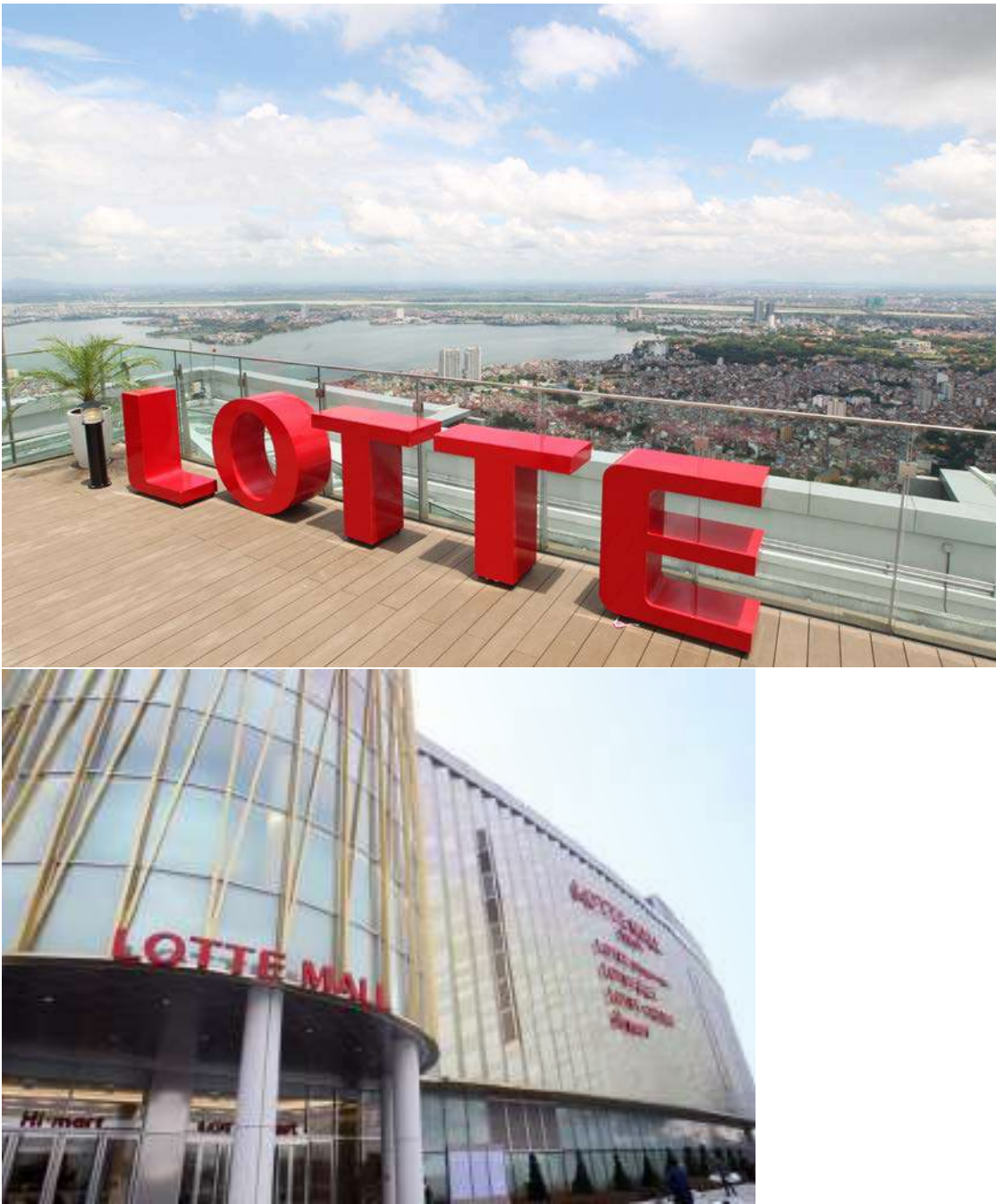
THE DOMESTIC MARKET ENVIRONMENT IS EXPECTED TO FACE MANY CHANGES IN THE NEAR FUTURE. HOW DO YOU PLAN TO DEVELOP YOUR DOMESTIC BUSINESS STRATEGIES?

A3.

It is true that we are faced with many challenges in the domestic market, such as lower consumer confidence, increased governmental regulations regarding store openings and opening hours, intensifying competition among channels, changing population structure and consumption trends, and demand for innovations through the introduction of new technologies. Lotte Shopping will focus on its core competencies to improve its profitability.

We will transform our offline stores into experience stores where customers want to spend time and enjoy themselves, and our online businesses will be strengthened through the use of mobile platforms. In addition, we will continue to offer a wide range of distinguished products, content, and services, while allowing customers to experience our differentiated omnichannel services through linkage with AI, AR, robot, big data, IoT, and other cutting-edge ICT technologies.

We will be also more dedicated than ever to improving our profit and loss structure, reducing costs, and increasing investment efficiency. Within Lotte Group's retail business units, we will maximize synergies among our retail affiliates, which will include organizing a consultative group to carry out procurement, publicity, and new businesses.




[MORE INFORMATION](#)
KEY MARKET
STRATEGY
[PP. 44-45](#)

Q4.

A SLUMP IN OVERSEAS BUSINESS HAS BEEN A MAJOR CAUSE OF A DECLINE IN THE PERFORMANCE OF LOTTE SHOPPING. WHAT IS YOUR APPROACH TO ADDRESS THIS GOING FORWARD?



A4.

Referring to hypermarkets, Lotte Mart decided to dispose of its facilities in China after its operations there were suspended by the Chinese government due to the THAAD issue last year. Therefore, we plan to instead develop our overseas business in Southeast Asia, with a focus on Indonesia and Vietnam, where stable economic growth continues.

We will closely monitor the economic outlook and retail market trend in each country to establish and implement an optimal business strategy. We plan to lay a stable earnings base by expanding our store opening areas and diversifying our store formats to reflect customer trends, while expanding B2B and online operations with new businesses. Although our earnings deteriorated due to the sluggish business in China, we expect our overseas operations to gradually stabilize once the disposal is completed smoothly and our operations in Indonesia and Vietnam start to perform well.

Q5.

FINALLY, PLEASE TELL US IF YOU HAVE ANYTHING THAT YOU WOULD LIKE SAY TO YOUR SHAREHOLDERS AND INVESTORS.

A5.

As I mentioned earlier, Lotte Shopping has laid the foundation to enhance the value offered to its shareholders and investors through the transition into a holding company structure. In the future, we will make even greater efforts to improve sales, profits, and other results. In addition, as a leading retail company in South Korea, we promise to thoroughly implement compliance and transparent management, and faithfully fulfill our social responsibilities including shared growth. I hope that you will continue to support us.


[MORE INFORMATION](#)
KEY MARKET STRATEGY
[PP. 46-47](#)

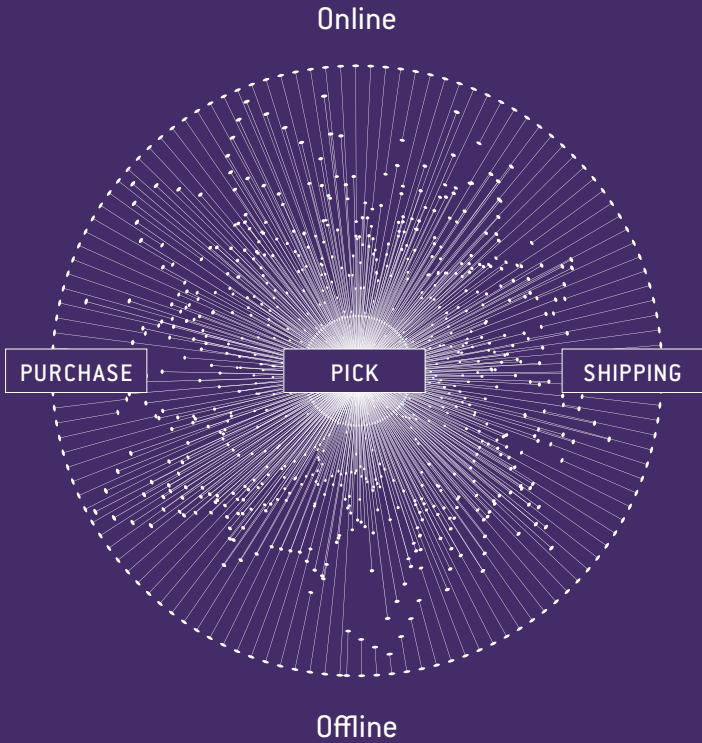
GLOBAL NETWORK
[PP. 34-35](#)



1

LEADING TRENDS IN RETAIL

EXPERIENCE OMNI



Our omnichannel services are continuously diversifying, offering customers pleasant and convenient shopping through the linkage of online and offline operations. Our Smart Pick service allows customers to pick up their purchases in more stores, while Himart omni-sales have developed into omni-stores where online shopping and offline shopping are done in one place. We invite you to experience new retail trend-leading shopping with the omnichannel services of Lotte Shopping.



1.

ULTIMATE OMNICHANNEL
SMART PICK



“Smart Pick” is Lotte Shopping’s flagship omnichannel service, which combined the merits of online and offline shopping. It allows customers to order products at the online shopping malls of Lotte Department Store, Lotte Mart, Lotte Himart, and Lotte Super using PC or mobile devices and pick up their purchases at any Smart Pick offline store.

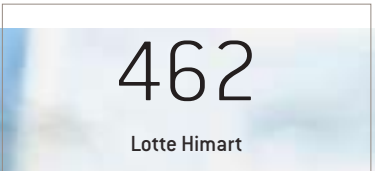
In 2017, the Smart Pick service of our retail affiliates was integrated to further enhance customer convenience. Customers are now able to pick up bags that they have ordered at Lotte Department Store’s official online mall, eLotte, at any nearby convenience store, or take delivery of consumer electronics that they ordered at Himart while shopping at Lotte Super. Lotte Mart and Lotte Super also offer a Drive & Pick service, which allows shoppers to shop online and then collect their order at a pick-up point in an offline store’s parking lot or at a gas station.

With the continuous evolution of Smart Pick, the number of customers using the service increases significantly each year. In 2017, Smart Pick sales amounted to KRW 32.8 billion (based on department store results), an impressive rise of 88% from the year before, and the number of cumulative orders exceeded 570 thousand.

Lotte Shopping is expanding the range of products available through Smart Pick while strengthening customer communications and promotions so that more customers can enjoy the convenience of the Smart Pick service. We will continue to improve our services, increasing pick-up stores and reducing the waiting time for pick-up from three hours to two hours.

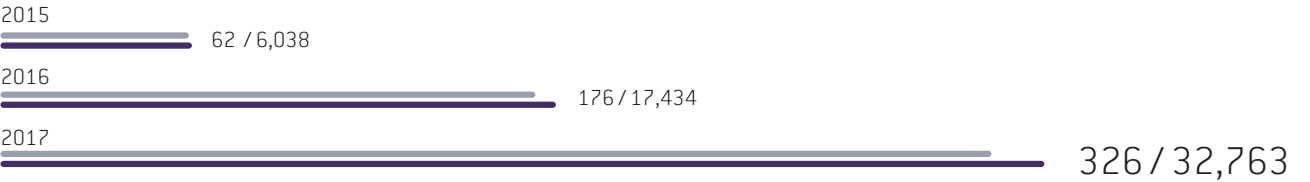
Smart Pick

Number of available stores for Smart Pick across South Korea



Smart Pick orders (2017, based on department store results)

Number of orders (Thousands) Sales (KRW million)





Omni Store



2.

EVOLUTION OF OMNICHANNEL
OMNI-STORE

Lotte Himart has operated the Omni Sales service since 2015. The service allows customers to access its online shopping mall and order products that are not in stock in the store by using a tablet PC in the store's Omni-Zone. As a strategy to overcome limitations to store display spaces and invigorate online operations, the service is now available at all Himart stores across the country.

In 2017, Lotte Himart enabled Omni-Zone orders to be delivered faster than ever by opening the domestic consumer electronics industry's first-ever logistics center for online purchases. In January 2018, we were the first in the domestic consumer electronics industry to launch an omi-store by combining online and offline stores. At Himart Guri, which was reborn as the first omi-store, customers can access its online shopping mall, order products that are not in the store by using an exclusive app found on in-store tablet PCs, and pick up their purchases on the spot.

Himart Guri evolved from a home appliance store to a lifestyle-oriented store by providing a relaxing space where customers can enjoy books or coffee in a pleasant environment while waiting for their purchases. We will continue to provide our customers with the joy and convenience of online and offline shopping combined by increasing the number of omni-stores.



Closing time for same day delivery

7PM



8,000

Number of daily shipments



4,300m²

Size of logistics center

Himart logistics center for online purchases

The logistics center for online purchases that Lotte Himart opened in 2017 is tasked with the delivery of Himart shopping mall and Omni Sales orders. Located on a 4,300m² site, the center can handle everything from goods warehousing to classifications and shipments. It is capable of processing approximately 8,000 items a day.

3.

WHAT'S NEXT FOR OMNICHANNEL
INTEGRATION OF DIGITAL CHANNELS

In 2018 Lotte Department Store will begin to integrate its digital channels to further strengthen its omnichannel services. This project aims to create a mobile-oriented marketing hub by organically combining its website, PR app, smart coupon book, mobile department store, and other channels which were previously operated separately. We will offer personalized marketing for each customer while converting paper DM to mobile and upgrading our customer services.

We also plan to make the "L.pay" mobile payment and digital wallet service available without any additional app required, and to further enhance the O2O (online to offline)-specialized service functions that are currently provided by existing mobile department stores. In addition, we will concentrate on offering specialized functions for our most valuable guests (MVGs), and will focus on managing customer service in a more consistent manner. Once the integration of digital channels is complete, we expect that mobile-based personalization services and digital marketing for our customers will be enhanced significantly.



Create a marketing hub



Build personalized marketing channels

DIRECTIONS FOR DIGITAL CHANNEL INTEGRATION

Enhance O2O service

Manage MVGs and customer services

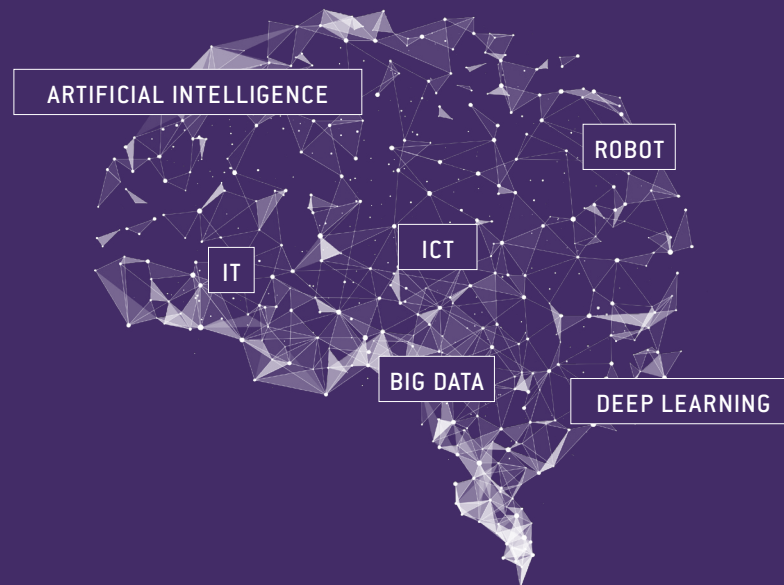




2

CONVERGING TECHNOLOGY AND INNOVATION

EXPECT THE FUTURE OF RETAIL



The convergence of shopping and ICT has opened up amazing and exciting shopping, the likes of which has never been experienced before. We are leading the evolution of retail through technological innovations, such as AI shopping guide chatbots that offer personalized shopping, shop assistant robots, and smart department stores which do not require a shopping cart or basket. Be the first to meet the future shopping, introduced by Lotte Shopping.

1.

AI LIFESTYLE MANAGER
DEEP LEARNING CHATBOT - LOSA

When customers log onto eLotte, Lotte Department Store's official online shopping mall, they will be warmly welcomed by "LOSA," an AI shopping guide chatbot. LOSA provides product recommendations while communicating with customers by voice or text through the eLotte mobile app. Offline, it offers in-store shopping guidance. For example, if a customer were to say "Show me trendy skirts", LOSA would use accumulated data from conversations and online and offline big data to suggest products that match the customer's requests and preferences.

LOSA can also recognize images: when customers show pictures they have taken of products that they like, it can inform them of similar products. The more that LOSA communicates with customers, the more data that will be accumulated, and the higher accuracy the system will achieve, allowing us to provide more accurate and customized services going forward. Through LOSA, Lotte Department Store has commercialized online and offline channel integrated services by utilizing AI. In the long term, it plans to develop LOSA into an AI assistant-cum-lifestyle manager.

* LOSA: Lotte Shopping Advisor

LOSA

15 millions	100	360
Number of products in database	Number of customer characteristics analysis	Number of communication scenarios for recommendation



2.

SMART SHOPPING ASSISTANT
SELF-DRIVING ROBOT - EL.BOT
HUMANOID ROBOT - PEPPER



eL.BOT

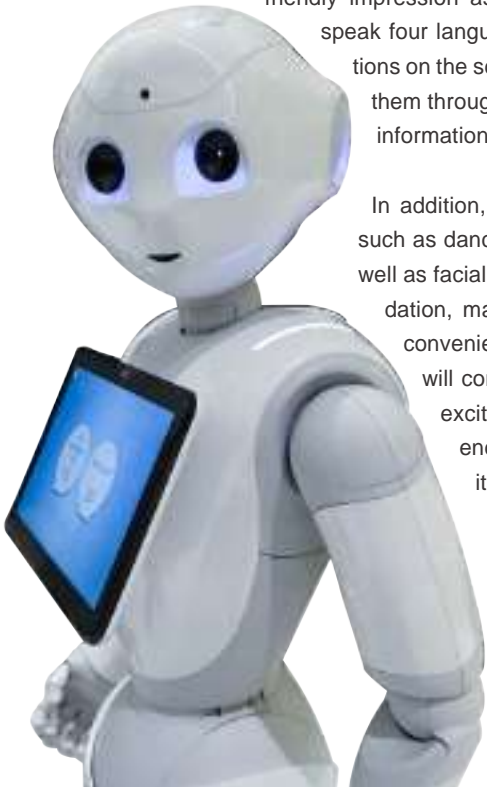


Shopping in Lotte Department Store has become all the more enjoyable and convenient thanks to the robots. In 2017, Lotte Department Store introduced an "eL.BOT" self-driving shopping assistant robot and a "Pepper" humanoid shopping assistant robot, bringing extra joy and excitement to our customers.

The eL.BOT has been active since April, greeting customers and helping with their shopping with buttons such as "Hungry," "Bored," and "Information" located on its touchpad. It moves by itself to guide customers around the store while offering information on restaurants and a 3D virtual fitting service, or connecting customers with service associates who can speak their language.

The "Pepper" humanoid robot, which started in October, offers a more friendly impression as it resembles a person. Pepper can speak four languages, and when customers ask questions on the screen located in its chest, it responds to them through voice, hand gestures, and on-screen information.

In addition, Pepper offers entertainment features such as dance performances and taking photos, as well as facial recognition-based product recommendation, making happy memories while ensuring convenient shopping. Lotte Department Store will continue to provide customers with more exciting and innovative shopping experiences through ongoing improvements to its robot services.



Pepper



LOSA, learning on its own through AI deep learning
The LOSA AI shopping guide chatbot is equipped with a number of functions including voice and text communication, image recognition, and department store information. Applying an AI deep learning recommendation engine, LOSA can recommend products that best match customers' shopping goals and preferences. Through online and offline purchase patterns, LOSA can analyze over 100 customer characteristics such as behavior, interests, and preferences, and can continue to improve the accuracy of its analysis through the data accumulated through conversations and the searches that it conducts.

Smart Table



Smart Locker

Smart Shopper



3.

SMART DEPARTMENT STORE
SMART SHOPPER, SMART TABLE, AND SMART LOCKER

The era of smart department stores, where there is no need for carrying luggage or a shopping cart, is in full swing. In 2016, Lotte Department Store introduced a “Smart Shopper” service that combines offline shopping with state-of-the-art ICT technologies. Starting in the food stores of Lotte Department Store Bundang, in 2017 the service was added to our Nowon branch’s food section, allowing more customers to use the innovative services offered by smart department stores.

Shoppers can have their purchases delivered to their homes by swiping the bar codes of the products at a terminal in the store and then paying for them at a self-serve checkout. They can also make changes to their purchases or cancel them by using an “Order Viewer” device while they’re still shopping. Smart Table provides customers with floor guides, shopping information, gaming, and other features on a large touch screen in the store. As a new-concept kiosk that can be used by several people at the same time, it attracts customers to the stores and encourages them to extend their stay once there.

Smart Department Store



Smart Shopper



Smart Table



Smart Locker



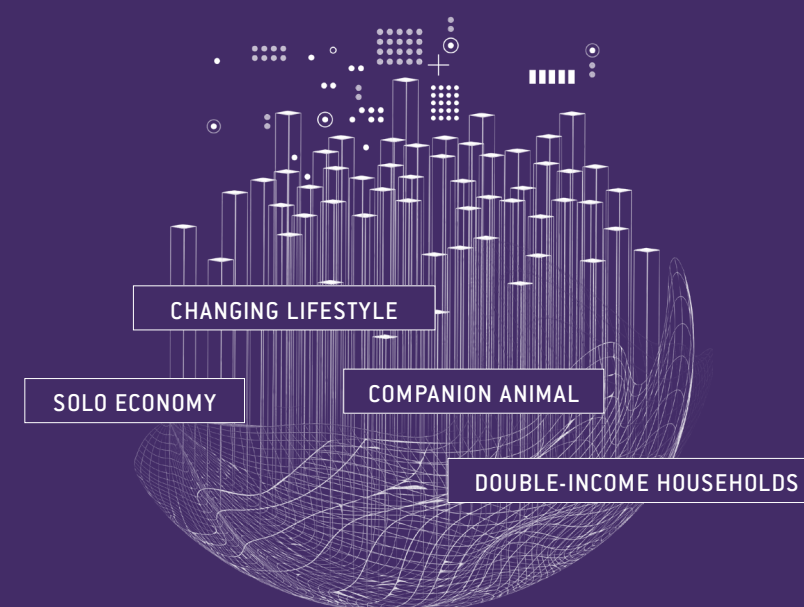
Smart Lockers are also available for customers who need to keep their products fresh and cold. When products are placed into the Smart Lockers, passwords are sent to the customers’ smartphones, with an alarm clock service that goes off every three hours to remind them that their items are still in their Smart Locker.

The number of Smart Shopper users is steadily increasing thanks to the positive feedback from customers, including parents with children in strollers, office workers shopping after work, and customers using public transportation. Going forward, we will continue to expand the stores that apply the Smart Shopper service, and will incorporate other cutting-edge ICT technologies into various fields. By doing so, we will continue offering smart department stores that lead the retail environment in this era of the Fourth Industrial Revolution.

3

CREATING NEW LIFESTYLES AND VALUES

ENJOY A FULLER LIFE



The lifestyles of customers are diversifying due to accelerating demographics and social environment changes. Lotte Shopping is proposing an advanced lifestyle where a variety of experiences and cultures are enjoyed in combination with shopping, by introducing next-generation experience stores, companion animal-specialized stores, and frozen food specialty stores.

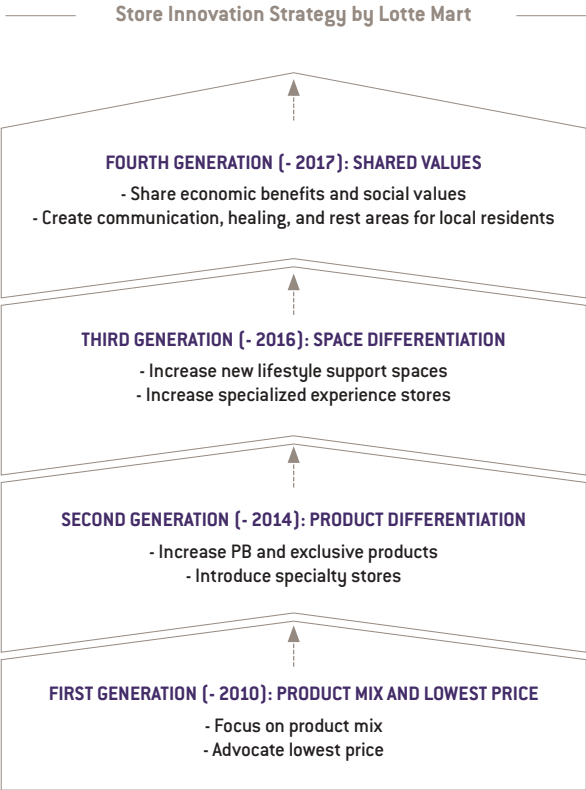
Experience the new values that Lotte Shopping presents, offering satisfying improvements to everyday life.

1.

RESPONDING TO CHANGES IN TRENDS
NEW CONCEPT -
LOTTE MART EXPERIENCE STORE

In response to a rise in the number of one-person households and dual-income families, a rapidly aging society, and more online, small-quantity, locally-based shopping, Lotte Mart has developed experience stores that will allow it to leverage the strengths of its offline stores. In 2017, Lotte Mart opened four new hypermarkets as fourth-generation experience stores in Yangpyeong and Seocho in Seoul, Hangang in Gimpo, and Chilseong in Daegu.

The Yangpyeong, Seocho, and Chilseong branches all feature extremely comfortable rest and relaxation “urban forest” concept spaces through the creation of an “Urban 4 Rest” section on the entire first floor of each branch. They also contain famous restaurants and food & beverage stores, further increasing the customers’ enjoyment.



Urban 4 rest



These four branches have introduced a “Grocerant” section, allowing customers to purchase food products and have them cooked on the spot. Hungry shoppers can now enjoy their own steaks, hamburgers, lobsters, fruit juices, salads, and so on, prepared for them by our cooks right in the store.

Our innovative attempts to break away from the existing, monotonous domestic hypermarket format are winning positive reviews from customers. Lotte Mart will continue to develop a new frontier for offline retail with novel store configurations that maximize the strengths of offline stores, improve the customer experience, and support customers’ lifestyles.

Won Red Dot Design Award
Lotte Mart won the Red Dot Award in the Communication Design category at the Red Dot Design Awards 2017 for its “Urban 4 Rest”, which opened on the first floor at Lotte Mart Seoul Yangpyeong in April 2017. “Urban 4 Rest” was created as a healing and rest area, in the concept of an “urban forest”.

Grocerant Market



2.

RESPONDING TO CUSTOMER NEEDS
NEW OPPORTUNITY - PET BUSINESS

Pet Garden

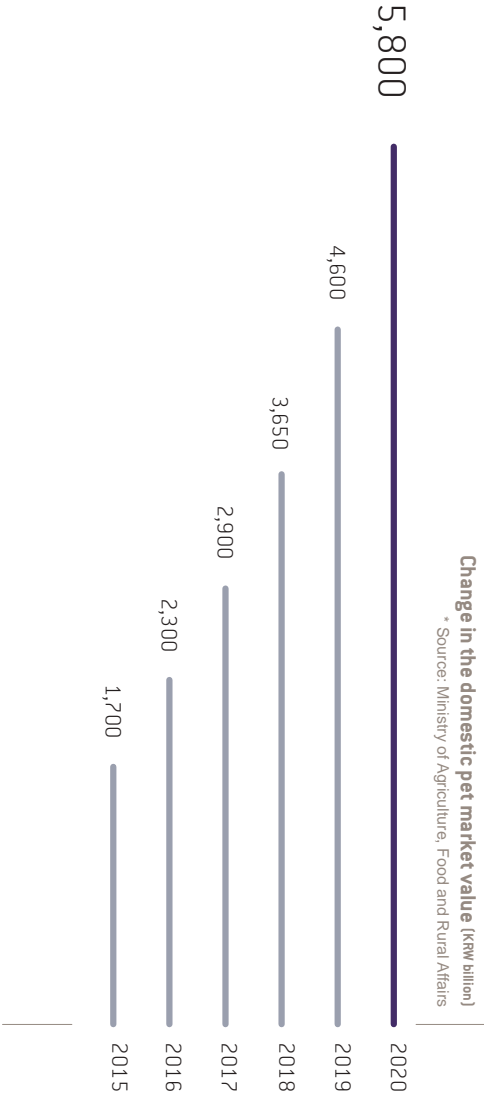


Driven by an aging society and an increase in one-person households, the number of households living with companion animals has been on the rise and now makes up as much as 30% of total households. This has led to rapid growth in the companion animal-related market in recent years. Lotte Shopping has quickly adapted to this change, advancing into the market ahead of its competitors.

Since 2012, Lotte Mart has operated the PET GARDEN store which specializes in pet products and relevant services. Currently operated in 25 Lotte Mart stores, PET GARDEN carries more than 2,500 related products, including PB products. It offers care services for animal hospitals, hotels, beauty parlors, and customers with companion animals, as well as companion animal funerals. Lotte Mart is dedicated to animal welfare, carrying out a campaign for the rehoming of abandoned animals.

In 2018, Lotte Department Store was the first department store to open a consulting store for companion animals, named "ZIPSA (butler)". In this store, professionally trained pet consultants analyze problems and present customized solutions according to the life cycle and characteristics of companion animals, just like butlers. In addition to selling pet foods and supplies, it also offers differentiated services such as pet walking and consultations relating to basic healthcare and nutrition.

ZIPSA



Rapidly growing companion animal market
As of 2017, the percentage of households living with companion animals accounted for 28.1% of total households, an increase of 10.2% over the past five years. The domestic pet market value grew sharply from KRW 900 billion in 2012 to exceed KRW 2 trillion in 2017, and is expected to reach approximately KRW 6 trillion by 2020.

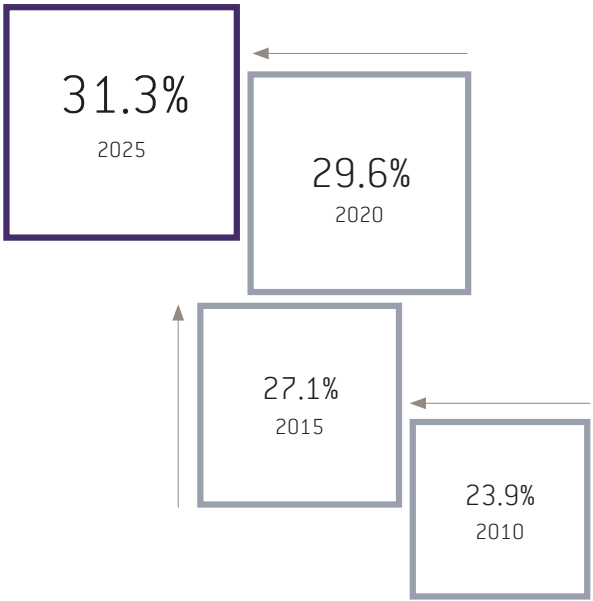
3.

RESPONDING TO CHANGES IN SOCIETY
NEW FORMAT - LOTTE FREEZIA

LOTTE freezia



Change in the ratio of one-person households
* Source: Statistics Korea



Since 2012 the frozen food market has been steadily growing by more than 7% per year, following increases in one-person households and dual-income families. Responding agilely to changes in consumption trends and customer lifestyles, in 2017 Lotte Super opened Lotte Freezia, the nation's first high-quality frozen food specialty store, in Banpo, Seoul.

Lotte Freezia carries more than 1,200 frozen items, including dumplings, pizza, late-night snacks, and ice cream, as well as over 300 refrigerated and room-temperature products and its own "Yorihada" (cook) PB brand for home meal replacements. It also lends ice packs and bags in which customers can carry their purchased products home, and has a customer service area with microwaves and other appliances where purchases can be cooked on the spot.



4

ABOUT LOTTE SHOPPING

ENHANCING OUR REPUTATION
AS A TOP-TIER
GLOBAL RETAILER

Lotte Shopping is committed to pursuing transparent and ethical corporate management along with balanced growth in both quality and quantity, further elevating its profile as the No. 1 retailer in South Korea and as a global retail player around the world.

18,180
Sales
(in KRW billion)

530
Operating Profit
(in KRW billion)

27,948
Assets
(in KRW billion)

13,351
Shareholders' equity
(in KRW billion)

20 YEARS

Korea Brand Power Index (K-BPI)
- Ranked first in the department store category for the twentieth consecutive year
- Ranked first in the consumer electronics retail category for the twelfth consecutive year

1ST

National Customer Service Index (NCSI)
- Ranked first in the department store category for the fifteenth consecutive year
- Ranked first in the hypermarket category for the seventh consecutive year

BEST

Korea Ethical Management Awards
- Received Grand Prix from the Korean Association of Business Education (KABE)

1ST

Korean Standard Service Quality Index (KS-SQI)
- Ranked first in the department store category
- Ranked first in the premium outlet category

COMPANY PROFILE

LEADING THE WORLD OF
RETAILING THROUGH CHANGE
AND INNOVATION

COMPANY OVERVIEW

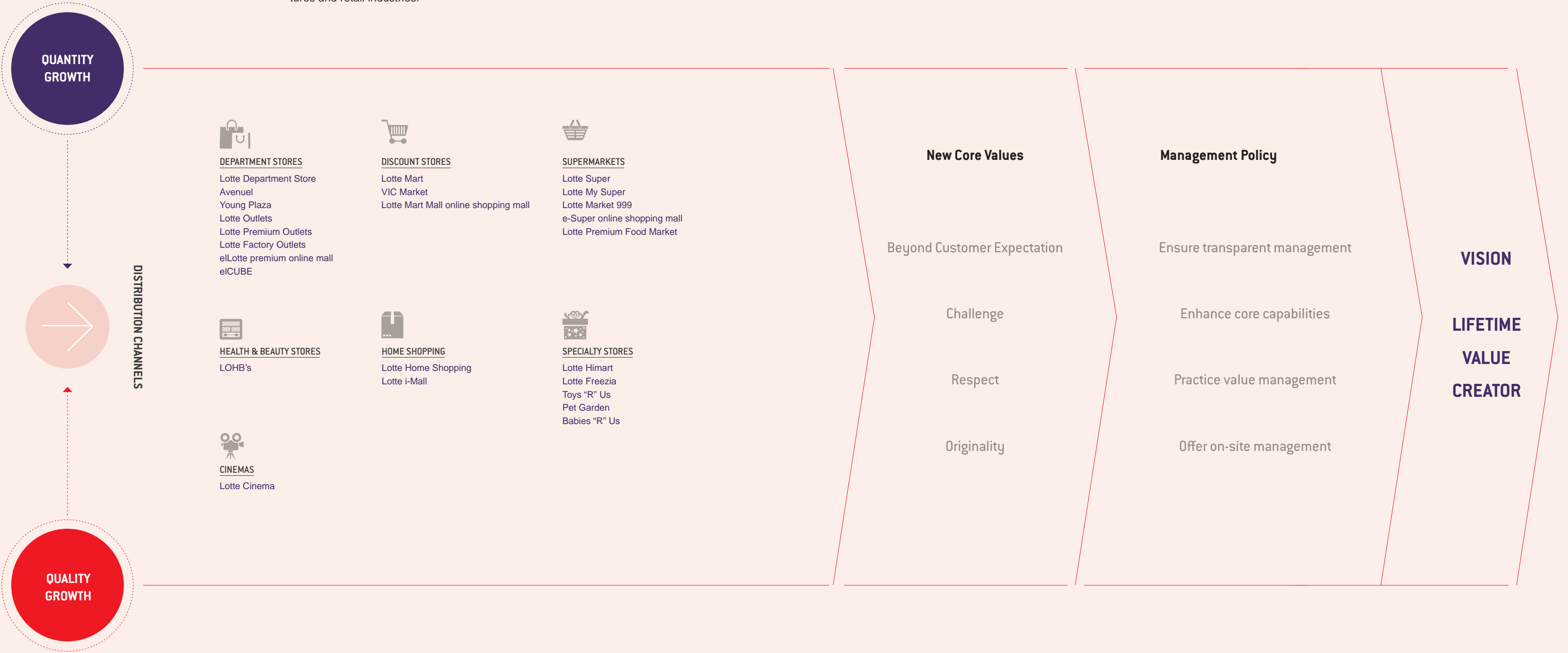
Lotte Shopping has been a leader in the development of South Korea’s re-tail industry since its founding in 1979. We have grown into the country’s top retailer by expanding our business interests to include a wide range of retail categories. Our business operations range from department stores, hypermarkets, consumer electronics retail stores, and supermarkets to home shopping, cinemas, and health and beauty stores.

We offer a host of innovative products and services along with continuous new store openings and store renovations. In addition, we take the lead in creating the future of retail through our smart shopping environment and omnichannel services which tie in with the Fourth Industrial Revolution. We are also active globally, advancing into countries such as Russia, China, Vietnam, and Indonesia, and contributing to the development of local cul-tures and retail industries.

RETAIL CHANNELS

Lotte Shopping boasts the industry’s largest portfolio of offline stores and on-line and mobile shopping malls. The variety of our retail channels, including department stores, hypermarkets, consumer electronics retail stores, super-markets, home shopping, cinemas, and health and beauty stores, is among the highest both in South Korea and around the world.

We are also developing many different new retail operations, such as mul-tipurpose shopping malls and outlets, mini department stores, experience hypermarkets, omni-stores, premium food markets, frozen food specialty stores, and T-Commerce. Moving forward, we will continue to present a never-before-experienced retail culture through our innovative omnichannel services, while enhancing the strengths of our offline stores and the competi-tiveness of our online operations with a focus on mobile platforms.

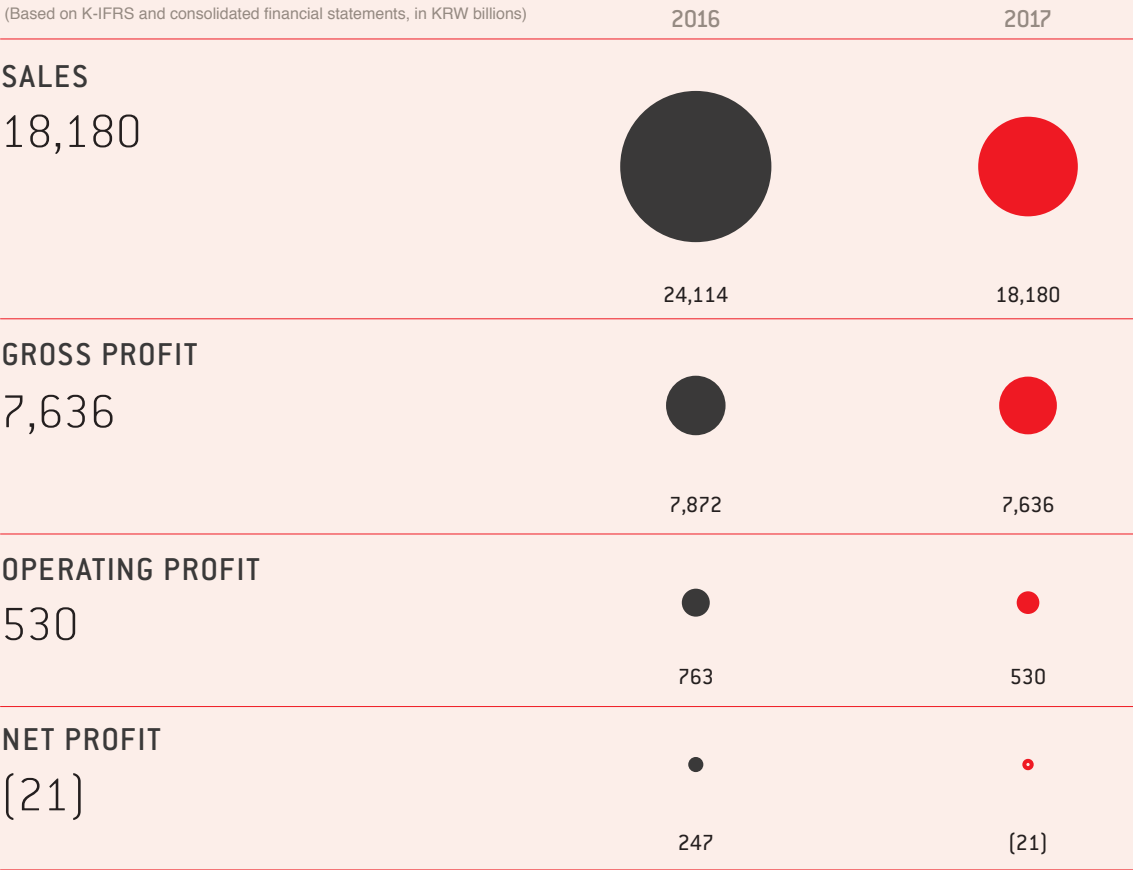


FINANCIAL HIGHLIGHTS



<http://www.lotteshoppingir.com>

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



CONDENSED CONSOLIDATED FINANCIAL POSITION STATEMENTS

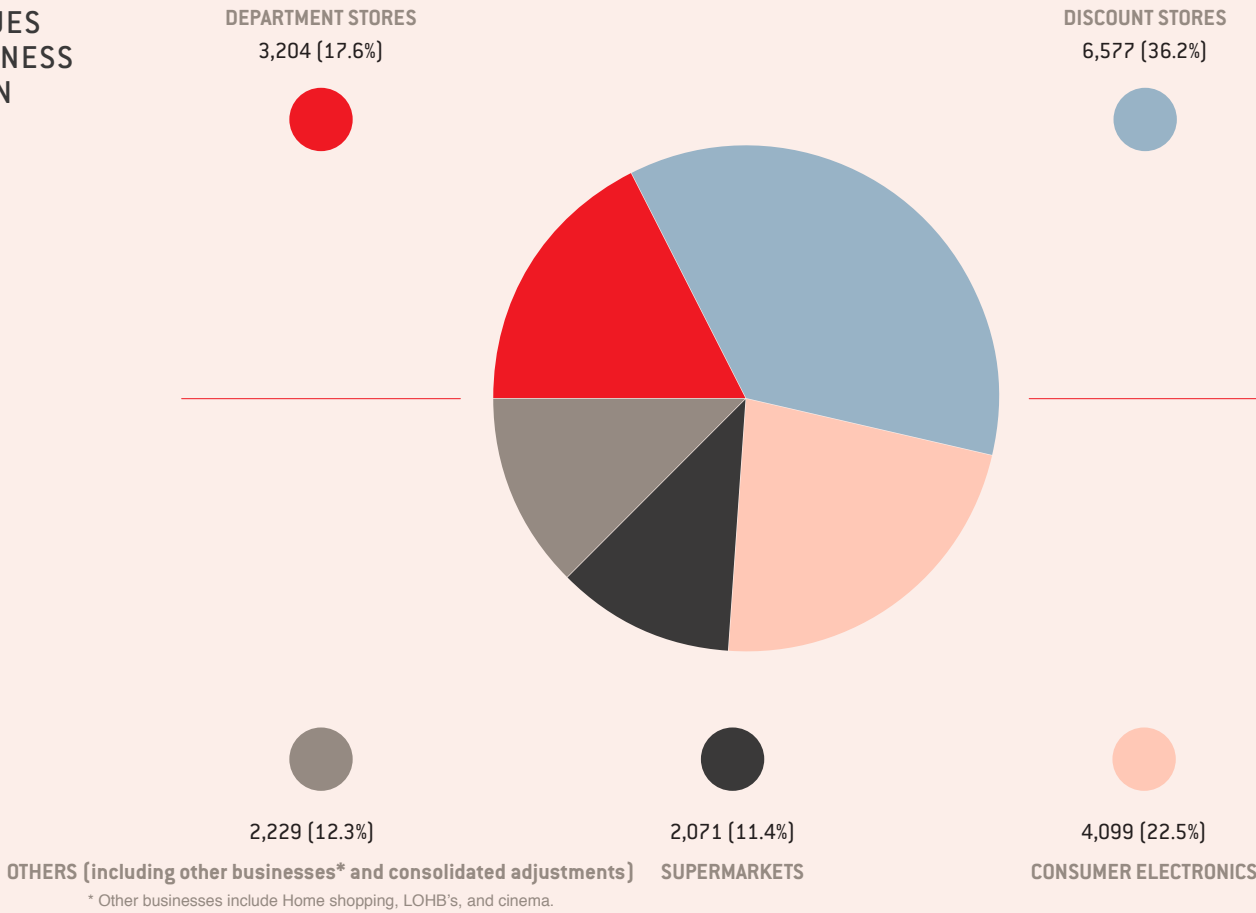
(Based on K-IFRS and consolidated financial statements, in KRW billions)

	2016	2017
Assets	41,916	27,948
Current assets	16,932	6,295
Non-current assets	24,984	21,653
Liabilities	24,652	14,597
Current liabilities	13,386	8,545
Non-current liabilities	11,266	6,053
Shareholders' equity	17,264	13,351
Controlling shareholders' equity holdings	16,305	12,659
Capital stock	157	141
Capital surplus	3,911	3,506
Hybrid bonds	269	269
Capital adjustments	(116)	(2,904)
Retained earnings	11,996	11,730
Accumulated other comprehensive income	88	(83)
Non-controlling shareholders' equity holdings	960	693

Lotte Shopping was aggressive in its efforts to expand sales and secure profits in each business segment in 2017, even though the country's retail industry as a whole suffered from very slow growth due to the effects of a prolonged recession. In 2018, we will focus on our core competencies to improve profitability and ensure the efficiencies of our overseas operations. Through these efforts, we will continue to build our status as South Korea's number one retailer and a global distributor.

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

REVENUES
BY BUSINESS
DIVISION



CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

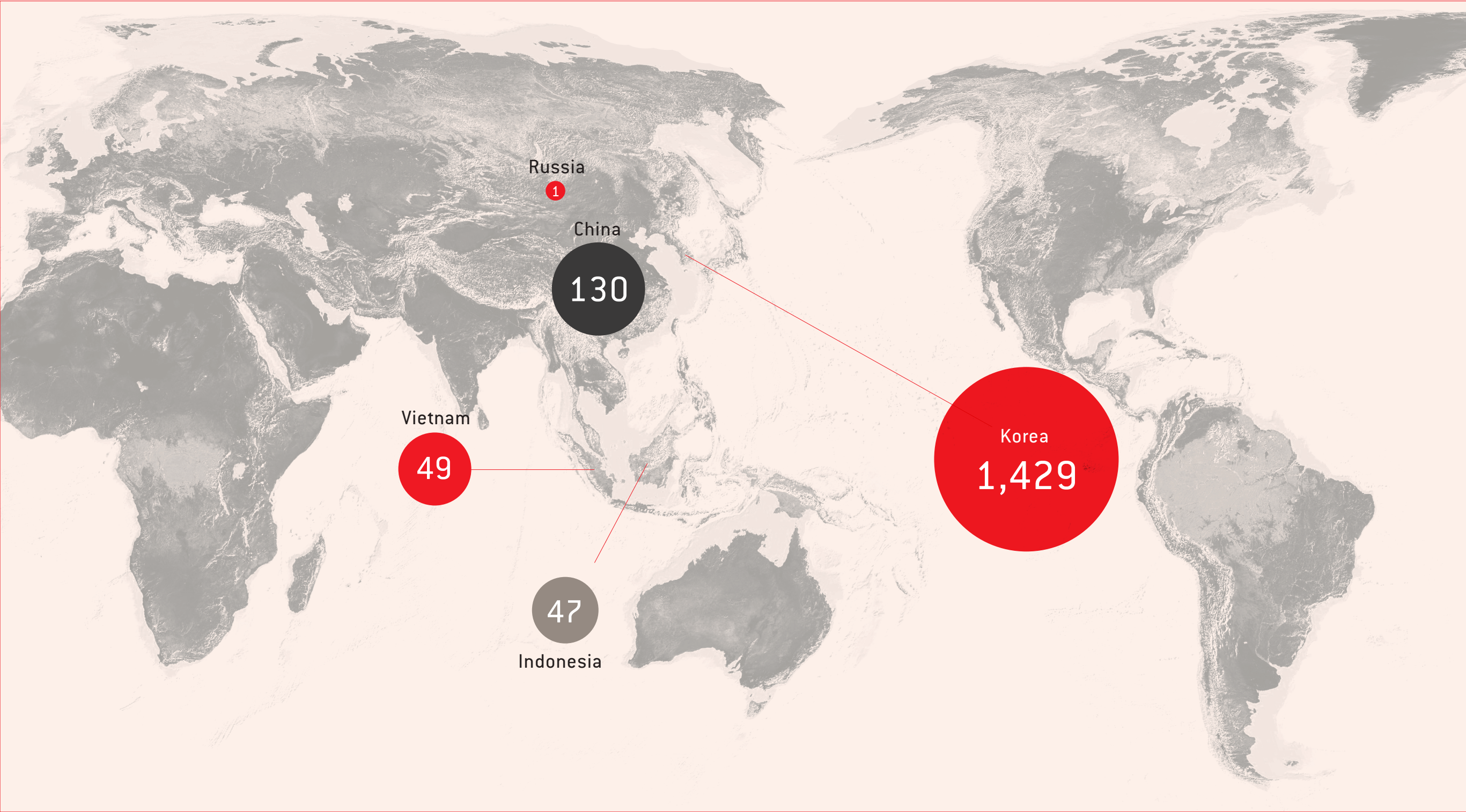
(Based on K-IFRS and consolidated financial statements, in KRW billions)

	2016	2017
Sales	24,114	18,180
Cost of sales	(16,243)	(10,544)
Gross profit	7,872	7,636
Selling and administrative expenses	(7,108)	(7,106)
Operating profit	763	530
Profit before income tax	320	(170)
Net profit	247	(21)

*The company adopted K-IFRS 1115, "Revenue from Contracts with Customers", prior to the required date of compliance. In accordance with the transitional provisions in K-IFRS 1115, the new standards were applied retroactively, and the cumulative effects of the first application were reflected on January 1, 2017, the initial date of application. As a result, the amounts recognized in the financial statements have been revised, leading to adjustments such as a decrease of KRW 4.828 trillion in sales.

Global Network

Lotte Shopping has been adding to its profile and its reputation as a world-class retail operator by expanding into such countries as Russia, China, Vietnam, and Indonesia. Wherever we go, we strive to provide our customers with new values and experiences while pursuing a well-thought-out localization strategy. Our current plan is to increase our presence in Southeast Asia, an area that we believe has a very high potential for growth.



KOREA	
1,429	
Department Stores	35 ¹⁾
Outlets	21
Discount Stores	5
Consumer Electronics	123 ²⁾
Supermarkets	462
H&B Stores	572 ³⁾
Cinemas	96
Convenience Stores	114
Home Shopping	1

CHIINA	
130	
Department Stores	5
Discount Stores	112 ⁴⁾
Cinemas	12
Home Shopping	1

INDONESIA	
47	
Department Stores	1
Discount Stores	46

VIETNAM	
49	
Department Stores	2
Discount Stores	13
Cinemas	33
Home Shopping	1

RUSSIA	
1	
Department Stores	1

* As of the end of 2017
1) Includes two Young Plaza stores and three stores that are managed under contract
2) Includes five VIC Mart stores
3) Lotte Super (leased, owned, and merchant stores) + Market 999 (leased and merchant stores) + CS Retail (leased and owned stores)
4) Includes thirteen Lotte Super stores in Beijing

Board of Directors

Enhancing our enterprise value
and earning the trust of society by
carrying out our responsibilities
openly and transparently



Shin, Dong Bin
Chairman, Lotte Group



Lee, Won Joon
Vice Chairman Lotte Group



Kang, Hee Tae
President and CEO, Lotte Shopping



Yoon, Jong Min
President and Head of HR Team,
Management Innovation Office, Lotte Group

Inside Directors

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

Lotte Shopping's Board of Directors is composed of nine directors, all of whom are elected at an annual General Shareholders' Meeting. Five of them must be from outside the company. The Board also has three sub-committees--the Audit Committee, the Outside Director Nominating Committee, and the Internal Transactions Committee. The Board is tasked with enhancing our enterprise value by putting transparent, accountable, and responsible management processes in place that will help us earn the trust of society.



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



Lee, Jae Won
Lawyer, Yulchon LLC



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



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



Lee, Jae Sool
Auditor, PyeongChang Olympic
Organizing Committee

Outside Directors

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

Corporate Governance

Realizing shareholder value through open, honest, transparent, and accountable decision-making

Board operations and decision-making

Lotte Shopping’s Board of Directors makes decisions regarding matters set forth in the company’s articles of incorporation, issues assigned to it at the General Shareholders’ Meeting, and matters relating to the company’s basic managerial policies and operations. It met sixteen times in 2017.

Board Committee Operation

The Board operates three committees: the Audit Committee, the Outside Director Nominating Committee, and the Internal Transaction Committee. The composition, authority, and operation of each committee are determined by rules and regulations determined by the Board.

Audit Committee

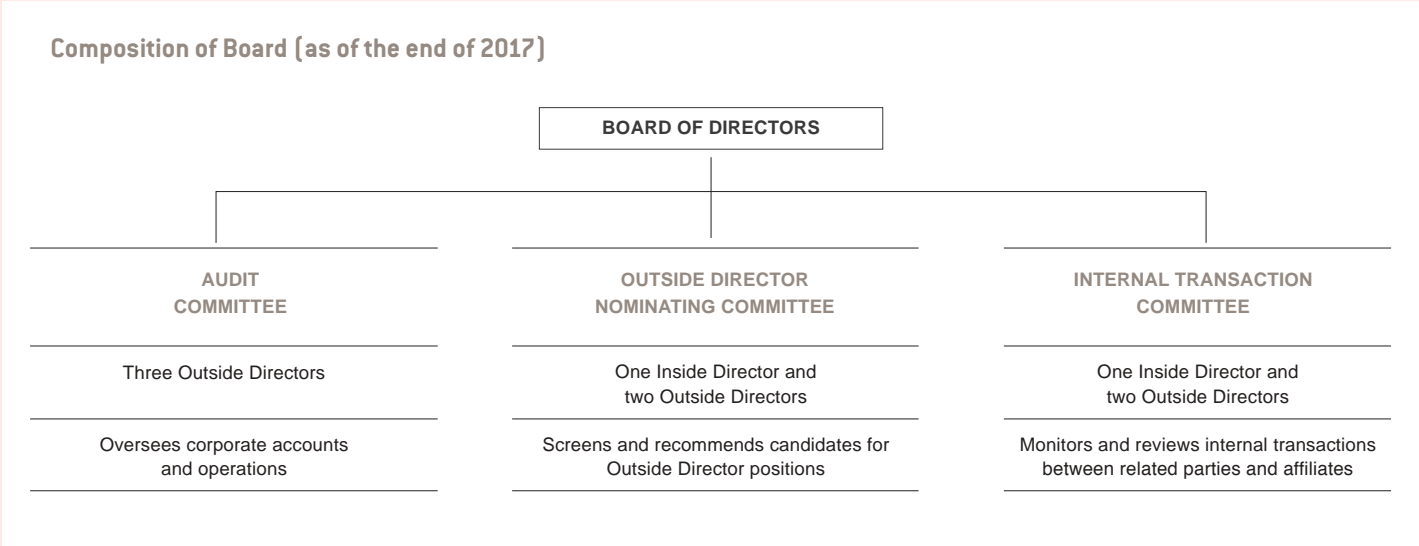
Composed of three outside directors, this committee is responsible for auditing the company’s accounts and operations. It also provides oversight and support to assist the company’s executive team manage its operations properly. It met five times in 2017.

Outside Director Nominating Committee

Composed of one inside and two outside directors, this committee is tasked with ensuring management transparency by recommending Outside Director candidates to represent the interests of shareholders. The committee met once in 2017.

Internal Transaction Committee

Composed of one inside and two outside directors, this committee is tasked with ensuring that the company engages in free and fair trade practices. It also reviews and approves all contracts negotiated between the company’s affiliates. The committee met three times in 2017.



Ethical Management

Realizing shareholder value through open, honest, transparent, and accountable decision-making

Focusing on Integrity

Lotte Shopping’s ethical management rules and regulations ensure that all its employees will act in a transparent, ethical, and principled manner. They are expected to behave with honesty, fairness, and sincerity.

The company has also established “The Lotte Code of Ethical Conduct”, which outline the basic required standards of employee conduct in the workplace. Our employees can also access webtoons and a guidebook with detailed guidelines regarding specific employment situations. The company takes a two-track approach of investigation and prevention through its Ethics Improvement Team and its Ethics Planning Team. Both of them operate under the aegis of the Ethical Management Division.

Ethical Management System

The goal of Lotte Shopping’s ethical management system is to ensure that ethical management practices occur in all facets of its operations. To this end, we have set up an ethical management website and a mobile hotline to make it easier for our employees to report violations of our ethics guidelines by their colleagues and our partner companies.

In addition, each Lotte Department Store has an Ethical Management Officer, whose job is to receive feedback from our employees. We also operate a “Clean Center” where employees can report and return gifts, money, or other valuables received from any of our partner firms.

The Lotte Code of Ethical Conduct

01. Customer safety is our number one priority.
02. Always keep company information confidential.
03. Do not play golf with employees of partner companies.
04. Do not go drinking with employees of partner companies.
05. Always pay the bill when dining with employees of partner companies.

Reducing Incidence of Unethical Behavior

Lotte Shopping takes a number of steps to reduce the incidence of unethical behavior among its employees and managers. They include offering “clean leadership education” to our executives, and “clean Lotte practical education” to our employees. We also carry out periodical “clean holiday campaigns” and “clean vacation campaigns”.

We share a similar commitment with our partner companies through a “clean Lotte” campaign”, in which we implement themed campaigns and ethics projects involving communications, gender equality, and company dining rules. We also produce ethical management materials, such as a “Clean Lotte Report” and instructions in ethical behavior.

In addition, we require that our employees and executives sign a pledge of compliance regarding ethical management and behavior and read our “Ethics Q&A Book”. We also provide our partner companies with a “listening tour”, during which they visit our business sites and sign a “mutual upright deal contract”.

Promoting Ethical Behavior Externally

Our efforts to encourage a culture of ethical behavior extend to society in general. To begin, we encourage our employees to practice ethical behavior voluntarily, rewarding those who do so and publicizing exemplary cases. We have also striven to help create a fair market environment by joining the Fair Players Club, a public- and private-sector anti-corruption project organized by the Global Compact Network Korea.

In addition, we have provided a wide range of ethical management materials to a series of Business Ethics Briefs produced by the Anti-Corruption and Civil Rights Commission of Korea. We also operate a “clean sharing” program, encouraging our employees to donate to charities any fees they receive for outside speaking engagements and other outside activities.

Awards for Ethical Management

Lotte Department Store won a number of awards for ethical management in 2017. They included the Grand Prix at the Korea Ethical Management Awards from the Korean Association of Business Education (KABE) in recognition of our commitment to ethical management, as well as an appreciation plaque by the British Foreign Office in recognition of our participation in anti-corruption activities organized by the United Nations Global Compact (UNGC).

06. Do not accept gifts of money, valuables, entertainment, or other favors.
07. Avoid all instances of nepotism, influence peddling, and all requests for favors.
08. Do not use company funds for personal purposes.
09. Do not abuse or harass other people, either verbally, sexually, or physically.
10. Do not give gifts to fellow employees, or accept gifts from them.

2017 News Highlights

March

Opened eCUBE LIVING Sejong

Lotte Department Store opened an eCUBE LIVING store in the city of Sejong. The company’s fourth eCUBE store as well as its first specializing in the “living” concept, it is designed to reflect the characteristics of its local area, including many married customers in their 30s to 40s. The store boasts thirty brands that enjoy a high level of popularity at both online and ordinary stores, as well as a Kids’ Total Zone, an experiential living multi-shop, and a lifestyle-oriented bookstore.



Lotte Mart Yangpyeong



eCUBE LIVING Sejong, Gwangbok

Reopened Lotte Premium Outlets Icheon

Lotte Premium Outlets Icheon reopened after completing an extensive renovation project, adding much more space to its FASHION & KIDS MALL. The floor space has grown to 67,200m², making it the nation’s largest outlets. It also boasts the largest amount of floor space for children’s goods in the entire country, along with other outlets selling fashion brands from both South Korea and abroad.

Opened Lotte Mart Yangpyeong

Lotte Mart opened its Yangpyeong branch, a customer experience store boasting an “urban forest” concept. Taking up 13,775m² with eight stories above the ground and two below, it features an “urban 4 rest” section on the entire first floor where customers can rest and relax. It also contains a “Grocerant” section, allowing customers to purchase food products and have them cooked on the spot, as well as specialty stores like Toys “R” Us, ROOM X HOME, ROOM X HOME KITCHEN, TE, and PET GARDEN.

April

May

Opened eCUBE Gwangbok

Lotte Department Store opened eCUBE Gwangbok, its fifth eCUBE branch in Busan. Built on a site of 1,038m² with four stories above the ground, it includes a design character specialty shop, a multi-shop specializing in cosmetics, a fitness zone selling general fitness and water sports brands, and a variety of brands targeting young customers.

Opened LOHB's in Dongseong-ro, Daegu

LOHB’s opened a new-format store in Dongseong-ro, Daegu. Boasting an enhanced shopping environment, it features innovative displays, eye-catching interior colors, and furnishings that reflect their product categories. It boasts a large number of highly popular brands seen on SNS and online platforms, including a section dedicated to K-Dermo and related brands. Customers are also attracted by its wide variety of imported cosmetics brands, makeup tools, and male and diet products.

Opened PyeongChang 2018 Official Stores

Lotte Department Store began carrying out marketing activities for the PyeongChang 2018 Winter Games at its main branch in its role as a PyeongChang 2018 Official Store. This was later expanded to many stores nationwide, selling more than 800 items including Olympic mascots like Soohorang and Bandabi. In addition, its official online mall, eLotte, opened a PyeongChang Olympic Pavilion. This was followed by offering such Games-themed products as PyeongChang Padding and PyeongChang Sneakers in November. All the stores’ employees wore official Olympic Games badges and acted as PR ambassadors for them.



LOHB's in Dongseong-ro, Daegu



PyeongChang 2018 Official Stores

June

Opened Lotte Himart Logistics Center

Lotte Himart opened South Korea’s the first-ever logistics center for online purchases in the country’s consumer electronics industry. Located on a 4,300m² site in Icheon, Gyeonggi-do Province, the center can handle everything from goods warehousing to classifications and shipments, all in one place. It is capable of processing 8,000 items a day for Himart shopping mall, mobile app, and Omni Sales orders.

July

Opened “Super S” LED cinema

Lotte Cinema opened Super S, the world’s first LED cinema that does not require projectors, at the Lotte Cinema Lotte World Tower in Jamsil, Seoul. Movies screened there boast ten times more brightness than conventional cinemas, since the light is emitted directly from a LED display board. The contrast ratio is also significantly improved, enabling viewers to see movies with a higher image quality in a brighter environment.

August

Opened first Lotte Freezia

Lotte Super opened Lotte Freezia, the nation’s first high-quality frozen food specialty store. Concentrating its sales on single-person households and dual-income families, Lotte Freezia carries over 1,200 frozen items, including dumplings, pizza, and late-night snacks, as well as over three hundred refrigerated and room-temperature products and its own “Yori-hada” (cook) PB brand. It also has an area where purchases can be cooked on the spot.



“Super S” LED cinema



Lotte Freezia

October

Established holding company structure for Lotte Group

Lotte Group switched to a holding company structure on October 1. This was done by separating the human resources of Lotte Shopping, Lotte Confectionery, Lotte Foods, and Lotte Chilsung Beverage into the investment and business units, while the investment companies of Lotte Shopping, Lotte Foods, and Lotte Chilsung Beverage were merged into the investment unit from Lotte Confectionery.

Lotte Group had already reorganized itself into a business unit system the preceding February. The transition is expected to enhance management transparency within the company, as well as improving shareholder value. It also enables Lotte Shopping to concentrate more of its efforts on revenue creation by allowing it to make decisions independently. It can now focus its investments on its core businesses and secure its own growth engines.

Opened Lotte Outlets Goyang

Lotte Department Store opened Lotte Outlets Goyang, spanning 16,628m² of floor space with one story above the ground and one below. It is being operated as a lifestyle outlet facility, with over 120 fashion, household item, and food brands on display. Customers can also visit a number of restaurants and a kid’s café. In addition, South Korea’s second IKEA store is located right inside its premises.



Established holding company structure for Lotte Group

AWARDS

Lotte Shopping was honored with a number of awards in 2017, continuing to rank first in quality and satisfaction level surveys both at home and abroad.

- Received **Grand Prix at Korea Ethical Management Awards** from Korean Association of Business Education (KABE)
- Ranked first in department store category for twentieth consecutive year, and in consumer electronics retail category for twelfth consecutive year in **Korea Brand Power Index (K-BPI)** survey
- Ranked first in department store category for fifteenth consecutive year, and in hypermarket category for seventh consecutive year in **National Customer Service Index (NCSI)** survey
- Ranked first in department store category for fifteenth consecutive year, and in consumer electronics retail category for second consecutive year in **National Brand Competitiveness Index (NBCI)** survey
- Ranked first in department store and premium outlet categories in **Korea Customer Satisfaction Index (KCSI)** survey
- Ranked first in department store and premium outlet categories in **Korean Standard Service Quality Index (KS-SQI)** survey

Key Market Strategy

LOTTE SHOPPING WILL INCREASE ITS RANGE OF OPERATIONS IN SOUTH KOREA AND SOUTHEAST ASIA AND CONTINUE TO IMPROVE ITS PROFITABILITY AS A LEADING GLOBAL RETAILER.

Lotte Shopping has adopted a strategy of enhancing its core competencies and improving its profitability as a means of dealing with this changing operating environment. For example, our offline stores are concentrating on improving their profit structure, and reducing their costs. They are also enhancing their competitiveness through new store openings (with a pronounced focus on high-growth channels), adding more new format, experience, and specialized stores, product innovation, content expansion, and service development.

The many new stores that we have introduced, such as the “eICUBE” mini department store, fourth-generation hypermarkets, Himart omni-stores, premium food markets, and the Lotte Freezia frozen food specialty store, have won enthusiastic responses from their customers.

We are capturing the hearts of shoppers with a constantly-widening number of products, content, and services, such as Smart Shopper, AI shopping helpers, and high-quality, value-priced PB products that meet the needs of value-conscious shoppers.

In our online businesses, we are constantly adding to our range of products and our accessibility, while making dramatic service improvements with a focus on our mobile operations. In addition, we are introducing digital commerce businesses, such as T-commerce and V-commerce, to complement our existing online channels.

We will also continue offering our customers the ultimate in shopping experiences. This includes upgrading our omnichannel services even further by combining our Smart Pick, O2O service, omni-sale, and other online and offline operations, and introducing AI, AR, robot, big data, IoT, and other new ICT technologies.



**DEALING WITH DIFFICULTIES
IN SOUTH KOREA'S RETAIL INDUSTRY**

South Korea's retail industry has long been beset by such difficulties as economic slowdowns, weakening consumption, the THAAD issue, governmental regulations regarding store openings and their hours of operation, intensifying competition among channels, and upward pressure on wages. In addition, consumption trends are changing due to a rise in the number of one-person households and dual-income families, a rapidly aging society, and more online, small-quantity, locally-based, and value-conscious shopping.

The country's retailers are responding by pursuing a variety of growth strategies. They include strengthening their online and mobile businesses, developing differentiated products and services, and making the best possible use of their offline stores.



Indonesia

**AN EMERGING MARKET WITH
A HIGH POTENTIAL FOR GROWTH**

Indonesia is a country of 260 million people with very high growth potential, rich resources, and a reputation for political stability. The market there is growing steadily, due to high economic growth rates, low unemployment, and sustainable wage increases. Although growth in the hypermarket sector is slowing, online markets and small-sized stores like supermarkets and convenience stores are picking up the slack.



www.ilotte.com

Lotte Shopping operates one department store and forty-six hypermarkets in the country. Lotte Department Store, which operates Lotte Shopping Avenue, is working on increasing its profitability by strengthening its merchandising, expanding its online operations, and improving its business structure. Lotte Mart is focusing on building a nationwide network to broaden its range from twenty-five cities to thirty-five. It will especially focus on promoting supermarket openings, bringing the total number of its operations to sixty hypermarkets and twenty-two smaller-sized stores by 2020.

One way that Lotte Mart intends to enhance its product competitiveness in Indonesia is by increasing its number of PB products. It will also continue opening new, small-sized format stores, with a focus on fresh-packed goods. In addition, the online shopping malls of Lotte Department Store and Lotte Mart entered the "ilotte" online shopping mall that Lotte Group had established in collaboration with the Salim Group of Indonesia. These operations will continue to grow by bolstering our e-commerce and O2O alliances, with a major focus on the ilotte business.



Lotte Shopping entered Vietnam in 2008. Since then, it has tapped into the department store, hypermarket, home shopping, and cinema businesses. Lotte Department Store operates two department stores in Hanoi and Ho Chi Minh City. In addition to earning the trust of local communities through localized merchandising, we plan to continue with our strategy of new store openings throughout the country.

Lotte Mart has thirteen stores in Hanoi, Ho Chi Minh City, and other cities. It plans to open more mid- to large-sized stores and other small ones focusing on small-portion PB products, and will also enter the B2B business, exporting PB products to Myanmar, Laos, and other countries while increasing its online presence.

In addition, we will continue with our strategy of new store openings, especially department stores and hypermarkets. The Lotte Mall Hanoi, currently under construction, will be a multipurpose shopping mall when completed in 2021. The construction of a large-scale complex, called "Eco Smart City," is also ongoing in Ho Chi Minh City.

Lotte Home Shopping is engaged in 24/7 home shopping broadcasts in major Vietnamese cities after establishing a Lotte DatViet joint venture with DatViet, the nation's largest media group, in 2012. The company is now concentrating on stabilizing its operations to increase sales and enhance its revenues.

**GROWTH POTENTIAL BOOSTED BY
THE YOUNGER GENERATION**

Vietnam is an emerging market with very high potential for growth. This is due to a large population of young people, a stable political environment, and a high level of spending capacity and consumption. Its GDP growth is expected to be in the range of 6.2%-6.5%* from 2017 to 2020. The country's number of convenience stores and online markets are growing faster than its hypermarkets, while retailers are continuously making inroads into it as a means of entering other Southeast Asian nations in the future.

* Source: IMF



Vietnam

5

REVIEW OF OPERATIONS

PROVIDING INDUSTRY-LEADING CHANNELS, PRODUCTS, AND SERVICES

Lotte Shopping provides innovative and original channels, products, and services, leading the rapidly changing market environment and consumption trends. Through these efforts, we realize the ultimate in customer satisfaction and contribute to the development of the distribution industry and improvement of local communities.





Avenuel - Jamsil





Lotte Himart - Omni Store





LOHB's - Dongseong-ro, Daegu



Lotte Cinema - World Tower

Business Review

LOTTE DEPARTMENT STORE



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

MAJOR BUSINESSES

LOTTE Department Store
Avenuel/Young Plaza
LOTTE Outlets/LOTTE Premium Outlets
e!LOTTE Premium Online Mall
eLCUBE

SALES (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	3,204
2016	<div></div>	8,030
2015	<div></div>	8,033

OPERATING PROFIT (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	396
2016	<div></div>	614
2015	<div></div>	513

* The company adopted the Korean IFRS 1115, Revenue from Contracts with Customers, in 2017. Sales amounted to KRW 7,567.0 billion when applying the K-IFRS prior to this change.

2017 REVIEW

The continuing slow growth in South Korea’s department stores in 2017 was mainly due to the Terminal High Altitude Area Defense (THAAD) issue, the central government’s tightened rules regarding multiplex shopping malls, changes in purchasing patterns by value-conscious shoppers, and lower offline store sales.

Lotte Department Store responded by adding new stores and products and by strengthening its online operations and omnichannel services. Sales and operating profit fell from 2016 to KRW 3,204.2 billion and KRW 395.6 billion, respectively.

The company’s new store openings focused on growth channels, like outlets and the “eLCUBE” mini department store, while Lotte Premium Outlets Icheon reopened as the nation’s largest when expansion work finished in April. In October, Lotte Outlets Goyang began operating as a lifestyle outlet, with over 120 brands featuring fashions and lifestyle and food offerings.

We also opened an eLCUBE LIVING in Sejong in March and an eLCUBE Gwangbok in Busan in May, bringing the total of these facilities to five. Innovations to our existing stores continued as well. This



included reopening the food court at Lotte Department Store Jamsil in Seoul as a “Food Avenue”, including a “Grocerant” combined grocery and restaurant outlet where orders are cooked on the spot.

Our ongoing efforts to innovate our products and services and use differentiated types of marketing continued apace. This included strengthening our private brand business by folding our five PB multi-store brands—Eliden, By Et Tol, Between, Archiv, and UNIT—into a single umbrella brand called Eliden.

We also contributed to the success of the PyeongChang 2018 Winter Games, carrying out company-wide marketing as their official department store sponsor. Many of our stores including PyeongChang 2018 Official Store supplied more than 800 items. They included such high-quality, reasonably-priced products as “PyeongChang Long Padding” and “PyeongChang Sneakers”. All our offerings proved to be very popular with shoppers keen to support the Games.

Our omnichannel services were made even more attractive through their convergence with cutting-edge ICT technologies, such as artificial intelligence (AI) and robot. We also became the first player in the industry to introduce an “el.BOT” shopping assistant robot and a “Pepper” humanoid robot, as well as “LOSA,” or Lotte Shopping Advisor, an AI shopping guide chatbot that offers voice communications and chats on customers’ mobile devices. “LOSA” uses both online and offline big data to suggest products that match a customer’s requests and preferences. In addition, we added to our number of smart department stores by introducing Smart Shopper, Smart Table, and Smart Locker services in our Nowon Store’s food section.

The main focus of our overseas operations was adding to our competitiveness and securing new revenue bases. Although we faced difficult operating conditions due to the THAAD issue in China, our efforts to increase cost savings and sales in Vietnam and Indonesia showed healthy results.

2018 OUTLOOK AND PLANS

Although consumption is expected to improve in 2018 compared to 2017, we will also confront a number of changes, including rules regarding multipurpose shopping malls, interest rate and minimum wage increases, and a growing trend concerning proper work-life balances. In response, Lotte Department Store will continue with its policy of new store openings focusing on growth channels, such as multipurpose shopping malls, outlets, and eLCUBE. We will also add to our “digital retailer” strategy through the ongoing digitalization of shopping using AI, big data, and other ICT technologies. In addition, we will continue offering a wide range of products, content, and services, and expanding our number of experiential stores.

In terms of our overseas operations, our profitability-centered management will continue through improvements to our business structure and our cost management processes. We will also undertake a series of new projects in Vietnam and Indonesia.

Business Review

LOTTE
MART

NUMBER OF STORES IN SOUTH KOREA

118 5
Lotte Mart VIC Market

NUMBER OF STORES OVERSEAS

112 46 13
China Indonesia Vietnam

MAJOR BUSINESSES

LOTTE Mart
VIC Market
LOTTE Mart Mall Online Mall
Specialty Stores

SALES [K-IFRS consolidated basis]

In billions of KRW

2017		6,577
2016		8,201
2015		8,324

OPERATING PROFIT [K-IFRS consolidated basis]

In billions of KRW

2017		(229)
2016		(97)
2015		(61)

* The company adopted the Korean IFRS 1115, Revenue from Contracts with Customers, in 2017. Sales amounted to KRW 6,969.0 billion when applying the K-IFRS prior to this change.



Lotte Mart Gimpo Hangang added more specialized stores, including a “Smashing 9” multi-brand shoe shop. We also introduced the “Grocerant” concept to these sites, allowing customers to purchase food products and have them cooked on the spot. Hungry shoppers can now enjoy their own steaks, lobsters, fruit juices, salads, and so on, prepared for them by our cooks right in the store.

Our investments in value innovation products continued apace. In February, we launched a series of “Only Price” single-cost PB products. We also developed more than 150 new PB products, including the very popular “1st Grade Milk”, “Mineral Water”, and “Wet Tissues”. In addition, we added to our menu of “Hav’eat” premium-quality PB products, targeting value-conscious consumers who want the safest and healthiest possible foods, with sales doubling from the previous year. We also made improvements to the quality of our fresh foods, strengthened our sales of home meal replacements, and introduced a number of small-portion food products aimed at single-person households.

Our online shopping mall, Lotte Mart Mall, totally revamped its website to better focus on its mobile operations. It now offers consumers three million products, including lifestyle-oriented goods for seniors and rental products. We also opened Bonafit Socks, an online store specializing in the sale of socks, and consolidated our Smart Beacon, Smart Pick, Smart Scan, and other omnichannel services even more. Customer convenience was also enhanced by the installation of electric vehicle chargers at all our sites.

Our overseas operations saw a pronounced focus on enhancing our operating efficiencies. This included increased product competitiveness, more innovative customer services, and strengthened online operations in Vietnam and Indonesia. We also decide to dispose of our facilities in China after our operations there were suspended by the Chinese government.

2017 REVIEW

South Korea’s hypermarket industry performed poorly in 2017, mainly due to lower consumer confidence, increased governmental regulations regarding store openings and opening hours, the THAAD issue, and product crises involving contaminated eggs and sanitary napkins. Other factors included an increase in small-quantity online shopping, more value-conscious consumption, and intensified competition.

Although Lotte Mart took decisive steps to face these challenges, sales dropped from 2016 to KRW 6,577.4 billion. Operating profit also fell, mostly owing to our high investments in store and product innovations and our decision to withdraw from the Chinese market.

We added more customer experience stores by opening four new hypermarkets in Yangpyeong and Seocho in Seoul, Hangang in Gimpo, and Chilseong in Daegu. The Yangpyeong, Seocho, and Chilseong branches all feature extremely comfortable rest and relaxation spaces through the creation of first-floor “urban 4 rest”.

2018 OUTLOOK AND PLANS

The South Korean hypermarket industry is expected to experience more difficulties in 2018, due to reduced consumer confidence, constantly tightening governmental regulations, and greater competition among retailers. To deal with this situation, Lotte Mart will speed its transition into a mobile-based, specialized merchandiser. We will build a quality innovation center to improve our quality and price competitiveness, focusing our efforts on developing health-food products. We will also add to the quality of our home meal replacements and other meal solutions, increase our range of PB products, and continue to innovate the structure of our offline stores—especially experiential and specialized sites.

On the overseas front, we will strive to continue with new store openings and revamp our online malls in Vietnam and Indonesia. In Vietnam, we plan to increase our exports of PB products to Myanmar, Laos, and other neighboring countries.

Business Review

LOTTE HIMART

NUMBER OF STORES

462

MARKET SHARE

44%

MAJOR BUSINESSES

Global/
HIMADE/TV · AV/Digital/
Mobile/Kitchen/
Living/
General Merchandise/
Health

SALES (K-IFRS consolidated basis)		In billions of KRW
2017		4,099
2016		3,939
2015		3,896

OPERATING PROFIT (K-IFRS consolidated basis)		In billions of KRW
2017		207
2016		175
2015		160

2017 REVIEW

The South Korean consumer electronics industry did not fare well in 2017, largely due to lowered consumer sentiments and slow sales of mobile and AV appliances. On the plus side, sales of health- and environment-related products, such as clothes dryers, air conditioners, and air purifiers, grew rapidly. Lotte Himart made a series of moves to strengthen the operations of its online shopping malls and add to its omni-sales, while also increasing its number of high-margin products. These efforts helped us to record sales of KRW 4,099.3 billion, up 4.1% over the year. Our operating profit surged by 18.9% to KRW 207.5 billion.

We opened five new stores, bringing our total to 462. We also enhanced the competitiveness of our offline stores through store renewals, improved operational efficiencies, and by continuing to diversify and differentiate our items. In addition, our flagship PB product brand, HIMADE, expanded its range of offerings from small appliances to larger ones, including air conditioners and washing machines.

We also added more global brands, including large appliance makers like Beko and AEG and home appliance and other household brands such as Siemens, Karcher, and Sonax. In addition, we expanded our menu of futuristic products, increased our range of AI products such as AI speakers and AI air conditioners, and began operating an electric wheel experience zone.

Our Home Care business grew to include boiler and plumbing cleaning, mold removal, insulation, insect screen replacements, and drain smell blocking services, leading to many new users. We also scaled up our B2B operations, targeting apartment residents, wedding fairs, and general businesses.

Our omnichannel services were also revamped by expanding the Omni Zone, which allows customers to access our online shopping mall products at all our stores. We also strengthened our online business base through improvements to their infrastructures, such as building a logistics center for online purchases—another “first” for South Korea’s consumer electronics industry.

Our “Smart Pick” and “Cross Pick” services, which allow customers who have ordered products online to take delivery of them at any Himart, 7-Eleven, Lotte Super or other offline stores, increased their number of pickup sites and applicable products. We also introduced an “AR Showroom” service to enhance our customers’ shopping convenience. This is an augmented reality mobile app that lets customers view virtual arrangements of home appliances, with their own living spaces seen in the background. These various efforts boosted our on-line sales by 171.5% from the year before.

2018 OUTLOOK AND PLANS

Although the South Korean consumer electronics market will probably experience slower growth due to a maturing premium market and lowered demand for white goods, online sales and demand for home appliances, such as clothes dryers and air cleaners, should increase steadily. Himart will continue strengthening its Omni Sales business by building Himart-style omni-stores, introducing next-generation omni-apps, and expanding its investments in online channels.

We will broaden our range of premium-quality PB products and global brands, activate our B2B operations, and increase our number of Home Care services. We are also planning to enhance the competitiveness of our offline stores by offering more professional and specialized merchandising in them.



Business Review

LOTTE
SUPER



2017 REVIEW

Growth in South Korea’s super-supermarket industry slowed in 2017 due to ongoing governmental regulations, lower consumer confidence, growing competition, and crises involving contaminated eggs and sanitary napkins. To deal with this, Lotte Shopping diversified its business portfolio, introduced products that better mirrored current trends, strengthened its online operations, improved the efficiency of its outlets, and reduced its costs. Despite this, sales in 2017 fell to KRW 2,071.4 billion.

We continued with the development of new store formats that reflected changes in South Korea’s population structure and consumption patterns. An example is Lotte Premium Food Market, which received favorable customer responses by meeting their demand for safe, high-quality food. We opened its third site, Lotte Premium Food Market Gongdeok.

We also opened Lotte Freezia Banpo, the nation’s first frozen food specialty store, in August. Calculated to appeal to the lifestyles of busy office workers and one-person households, it maximizes customer convenience with its own dining areas and by selling a variety of small-portion products. In addition, we established a two-hour delivery system for online purchases in Seoul by opening the Lotte Fresh Gimpo Center.

We unveiled a number of unique new services. They included leading the industry by installing an electric vehicle charging station at Lotte Super Yongin, and introducing the nation’s first 360-degree auto-scan, self-pay service. We also took the lead in the development of smart supermarkets, expanding the use of a soundwave pay service in all our stores.

Another step that we took involved launching “Lotte Smart Quick”, the country’s first-ever paid-within-an-hour delivery service. We also enhanced the quality of our omnichannel services, such as Smart Beacon, Smart Pick, and Drive & Pick, by merging their online and offline channels.

SALES (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	2,071
2016	<div></div>	2,189
2015	<div></div>	2,184

OPERATING PROFIT (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	(3)
2016	<div></div>	1
2015	<div></div>	11

MAJOR BUSINESSES

LOTTE Super/LOTTE My Super
LOTTE Market 999
e-Super Online Mall
LOTTE Premium Food Market
LOTTE freezia
(specializing in frozen foods)

2018 OUTLOOK AND PLANS

The South Korean economy is expected to recover slowly in 2018, due to a long-awaited increase in demand from shoppers. The country’s SSM industry should especially benefit from this trend, given the effects of a rise in the number of one- and two-person households, a rapidly aging society, and increased labor costs.

Lotte Super will sharpen its competitive edges by improving its product competitiveness and productivity, and pursuing structural reforms to its revenue and other bases. We will also increase our number of new-concept stores, like premium supermarkets, while revamping our online operations by opening additional delivery centers.

Business Review

LOTTE
HOME SHOPPING



2017 REVIEW

South Korea’s home shopping industry enjoyed solid growth in 2017. This happened despite a challenging business environment, including low consumer demand, a falloff in the number of TV channel viewers, and increasing competition among channels. The industry dealt with this situation through differentiated product strategies, diversified broadcasting content, and improved delivery services.

Lotte Home Shopping also took steps to enhance its product competitiveness, developing new products and launching more exclusive brands. In addition, we made improvements to our online and offline channels by utilizing big data and guarding our costs efficiently. Sales rose by 9.6% year-on-year to KRW 3,349.6 billion, while our operating profit climbed by 42.6% to KRW 115.4 billion.

We also enhanced our channel competitiveness, including TV home shopping, Internet and mobile shopping malls, data broadcasting, IPTV, and catalogues. Our “Lotte OneTV” home shopping service introduced a number of differentiated services on infotainment programs, while developing additional exclusive products and expanding its range of coverage.

Mobile shopping sales grew significantly, thanks to such new content as one-person broadcasts using SNS, a “Showroom” curation shopping service, and our “Mobile Shopping Go” live broadcasting program. We also upgraded our mobile apps, such as Lotte Home Shopping, Baro TV, and Lotte OneTV. Our omnichannel services were improved through the opening of the Seoul Station and Gimhae branches of our Studio Shop, at which customers can buy TV home shopping products and services. Our Smart Pick service was enhanced as well.

In addition, we developed exciting new products, launched a variety of new brands, and dramatically upgraded our entire range of offerings. Our fashion brands, such as GEORGES RECH and Anivee f., and our PB brands, like LBL (Life Better Life) proved to be very popular with value-conscious shoppers. In addition to introducing trend-setting life-

TOTAL SALES (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	3,350
2016	<div></div>	3,056
2015	<div></div>	2,988

OPERATING PROFIT (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	115
2016	<div></div>	81
2015	<div></div>	72

MAJOR BUSINESSES

TV and Web TV Shopping
Catalogue Shopping
Mobile Shopping
Online Shopping
T-Commerce

style products, such as premium household items and home furnishing products, we made a number of improvements to our delivery services, including introducing a safe delivery option for one-person households and female customers.

2018 OUTLOOK AND PLANS

South Korea’s home shopping industry is expected to fare well in 2018. This will be led by online channels, with their obvious appeal to more value-conscious consumers. Lotte Home Shopping will continue to bolster its TV operations by adding more PB brands and strengthening its relationship with other well-known ones. In the mobile arena, we will enhance customer convenience by introducing the UNISIZE online fitting and TV voice shopping, and by introducing a mobile content broadcasting system to meet the demands of younger customers. In addition, we will establish new platforms, by introducing 3D showrooms, launching a V-commerce program, and entering the multi-channel network (MCN) business.

Business Review

LOTTE
CINEMA



2017 REVIEW

South Korea's film industry grew slightly in 2017, with its number of viewers surpassing 200 million and an expanded secondary market. Overseas markets, including China and Vietnam, also enjoyed continuing growth. Lotte Cinema had KRW 709.0 billion in sales, up 6.6% from the previous year. This was mainly due to an aggressive strategy of new multiplex openings and other marketing strategies, a succession of box office hits, and strong growth in our overseas operations.

We opened two new multiplexes in South Korea, bringing our total there to 114. We also invested in a number of movies, including "The Sheriff in Town", "Midnight Runners", and "Along with the Gods: The Two Worlds". The number of people who watched "Along with the Gods: The Two Worlds" surpassed 14.41 million, placing it second in the nation's box office history.

Our commitment to providing state-of-the-art facilities is reflected in such specially-customized sites as Charlotte, Super Plex, and Super 4D. In addition, we introduced Super S, a world's-first LED cinema that does not require projectors, at the Lotte Cinema Lotte World Tower in Jamsil, Seoul. We also began offering a number of omnichannel services, including Baro Ticket, Baro Coupon, and Baro Popcorn.

In terms of our international operations, we focused on adding to our stable of multiplexes, strengthening relationships with our local business partners, and enhancing our competitiveness. We now operate twelve multiplex cinemas in China, and thirty-three in Vietnam.



SALES (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	709
2016	<div></div>	691
2015	<div></div>	662

OPERATING PROFIT (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	29
2016	<div></div>	35
2015	<div></div>	30

NO. OF OVERSEAS
CINEMAS/SCREENS
China 12/91
Vietnam 33/150

NO. OF CINEMAS/SCREENS
(SOUTH KOREA)
114/810

2018 OUTLOOK AND PLANS

The world's film industry is expected to continue its growth, led by an increasing number of viewers and growth in the secondary market, including videos and DVDs. Competition among related industries will also intensify. Lotte Cinema will cope with this situation by continuing to promote digitalization through AI and other technologies. We will also strengthen our online platform business through an aggressive marketing strategy, including omnichannel services and entering the Over The Top (OTT) business.

We will enhance our content sourcing operations and alliances with overseas studios, and continue producing box office hits. Overseas, we will increase our distribution, investment, and production activities in Vietnam and expand our operations by advancing into new countries. We will also raise our profitability by continuing to differentiate our currently existing cinemas.

Business Review

LOHB'S



2017 REVIEW

South Korea's retail industry was stagnant in 2017, due to reduced consumer confidence and intensifying competition. Despite this, the H&B sector continued its relatively high growth, thanks to shoppers' continuing fascination with trendy products, a pleasant shopping environment, and good prices. LOHB's enjoyed sales of KRW144.5 billion, up an impressive 56.6% from the previous year. This was largely attributable to ongoing store expansions and renewals, brand development, and various marketing activities.

LOHB's has been opening new stores continuously since its establishment in 2013. We opened sixteen new ones in 2017, bringing our total to ninety-six. Our branch in Dongseong-ro, Daegu is a new-format store, featuring an enhanced shopping environment and many more enticing products. It includes eye-catching interior colors, furnishings reflecting product categories, an entire section dedicated to "K-Dermo", and well-known brands seen on SNS.

We pursued a series of differentiated product strategies, including the development of exclusive products to meet and match new and ongoing consumption trends. Some outstanding examples were the introduction of the Stila department store brand, directly-imported Japanese color brands (including Cezanne and Mote Mascara), and offering by Bbi@ and Dr. Wonder. We also developed a large number of high-quality, reasonably-priced PB products to satisfy the tastes of young women, who form our major customer base. They include Ultru, Entia, and NOSE.

We strengthened our mobile and online operations. In July, we became the first player in the industry to launch an omni-app, called "LOHB's MALL". It allows customers to enjoy a wide range of membership benefits from both mobile shopping malls and offline stores; in addition, it integrates both online and offline purchases, letting customers check them all at the same time. "L. POINT" Lotte points and payments have also been integrated into it, resulting in enhanced user convenience.

SALES (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	145
2016	<div></div>	92
2015	<div></div>	47

OPERATING PROFIT (K-IFRS consolidated basis)		In billions of KRW
2017	<div></div>	(20)
2016	<div></div>	(22)
2015	<div></div>	(15)

NUMBER OF STORES
96

2018 OUTLOOK AND PLANS

South Korea's H&B sector is expected to enjoy healthy growth again in 2018, although competition will probably intensify. LOHB's will continue with its aggressive strategy of store openings and the development of dramatically new store formats.

We will broaden our range of new product categories, including F&B and general merchandise, introduce more SNS and online hit products, and revamp our current range of PB products. Other plans include selling national private brand (NPB) products and sourcing more brands from overseas. We will also strengthen our online operations, with a pronounced focus on mobile platforms.

6

CSR MANAGEMENT

CARING AND SHARING
BY FULFILLING OUR SOCIAL
RESPONSIBILITIES

Lotte Shopping will grow into a trusted and respected company by faithfully fulfilling its social responsibilities to customers, the environment, partners, and local communities, with an established philosophy and well-organized system for sustainable management.

LOTTE SHOPPING’S CSR

SUSTAINABLE MANAGEMENT FOCUS

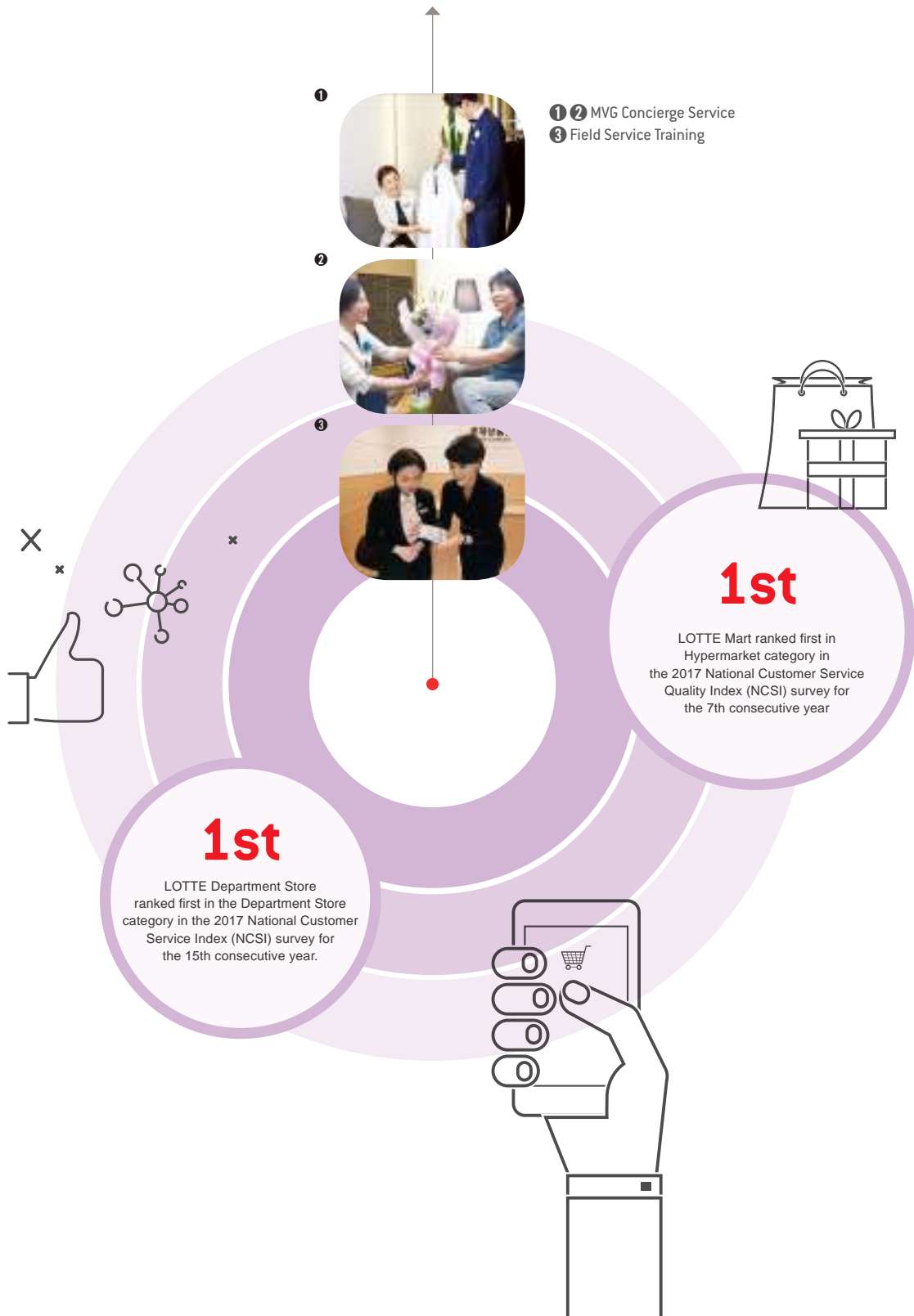


Our commitment to sustainable management encompasses the economy, environment, customers, society, ethics, employees, and partners. Among these, we have selected four areas – the economy, society, ethics, and environment – as the focus of our sustainability efforts.

Chaired by the CEO, our Sustainable Management Committee systematically manages every aspect of sustainability. Our focus on creating shared value is led by the CSR Team of the Office of External Collaboration. The team works to ensure that all our corporate social responsibility activities achieve their full potential.

1

WE ARE COMMITTED TO MAKING OUR CUSTOMERS’ LIVES HEALTHY AND ENRICHED THROUGH INNOVATIVE SERVICES AND THE MOST STRINGENT SAFETY AND SECURITY PRACTICES POSSIBLE.



CUSTOMER CENTERED MANAGEMENT

SERVICE EVALUATIONS

Lotte Shopping’s service evaluation system uses a wide range of indicators to measure the efficacy and efficiency of its services. For example, the Lotte Customer Satisfaction Index (LCSI) calculates customer satisfaction levels at each store. The results become part of our evaluation of each store to determine what improvements, in any, are needed. We also enhance our service levels in real time by conducting mobile evaluations. In addition, we hold employee service competitions to encourage voluntary improvements and the use of best practices at all our worksites.

VOICE OF CUSTOMERS

Customer compliments and complaints are handled by the customer service center of every Lotte Shopping store. We use them to deal with issues and problems as quickly as we can. Customers’ opinions that have been received on our online Voice of Customers (VOC) system are transferred to the employee in charge of them in real time, so they can be replied to within a three-hour window. We also share the opinions of our customers with our employees and our partner companies, allowing us to work together to make improvements. We add to the quality of our customer services by making improvements to our VOC system, sharing important examples and the feedback that arose from them, and attempting to anticipate customer complaints in advance. With regard to cases of VOCs arising from SNS channels, we analyze major examples and reflect them in improvement to our business sites.

PROFESSIONAL TRAINING FOR CUSTOMER-CENTERED SERVICE

Lotte Department Store is strengthening its level of branch training to enhance the quality of its customer-centered services. We reflect customer characteristics that have been analyzed by big data in this training to help us learn about new service trends as quickly as possible. In addition, we have developed “Sales Master” training to enhance our knowledge of our products and increase our sales expertise. We also focus on nurturing excellent “customer experts” by offering VIP customer courses.

HIGH-LEVEL CUSTOMER SERVICE

Lotte Department Store has been demonstrating its commitment to high-level customer service by carrying out a “greeting campaign” since 2014. Our treasured VIP customers enjoy an even wider variety of custom-tailored services, including shopping assistance and anniversary reminders from their very own concierge. We also developed a “Most Valuable Guest (MVG) Society” to assist our VIP customers with their cultural- and sports-oriented activities. In addition, our VVIP customers can take advantage of our LENITH service, which offers them such additional benefits as valet park-

ing, invitations to cultural events, and the exclusive use of VIP lounges at our overseas department stores.

PROTECTING CUSTOMERS’ PERSONAL INFORMATION

Lotte Shopping is committed to protecting customers’ personal information, or PI, from unauthorized disclosures. This includes ISO 27001 Information Security Management System, Korea Internet & Security Agency Information Security Management System (ISMS), and Personal Information Management System (PIMS) certifications, making our PI security management system a world leader. Our state-of-the-art security system includes an electronic content management system, a separate network for handling personal customer information, and a database encryption and access control system.

FOOD SAFETY AND HEALTH

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

WORKING COOPERATIVELY TO ENSURE FOOD SAFETY

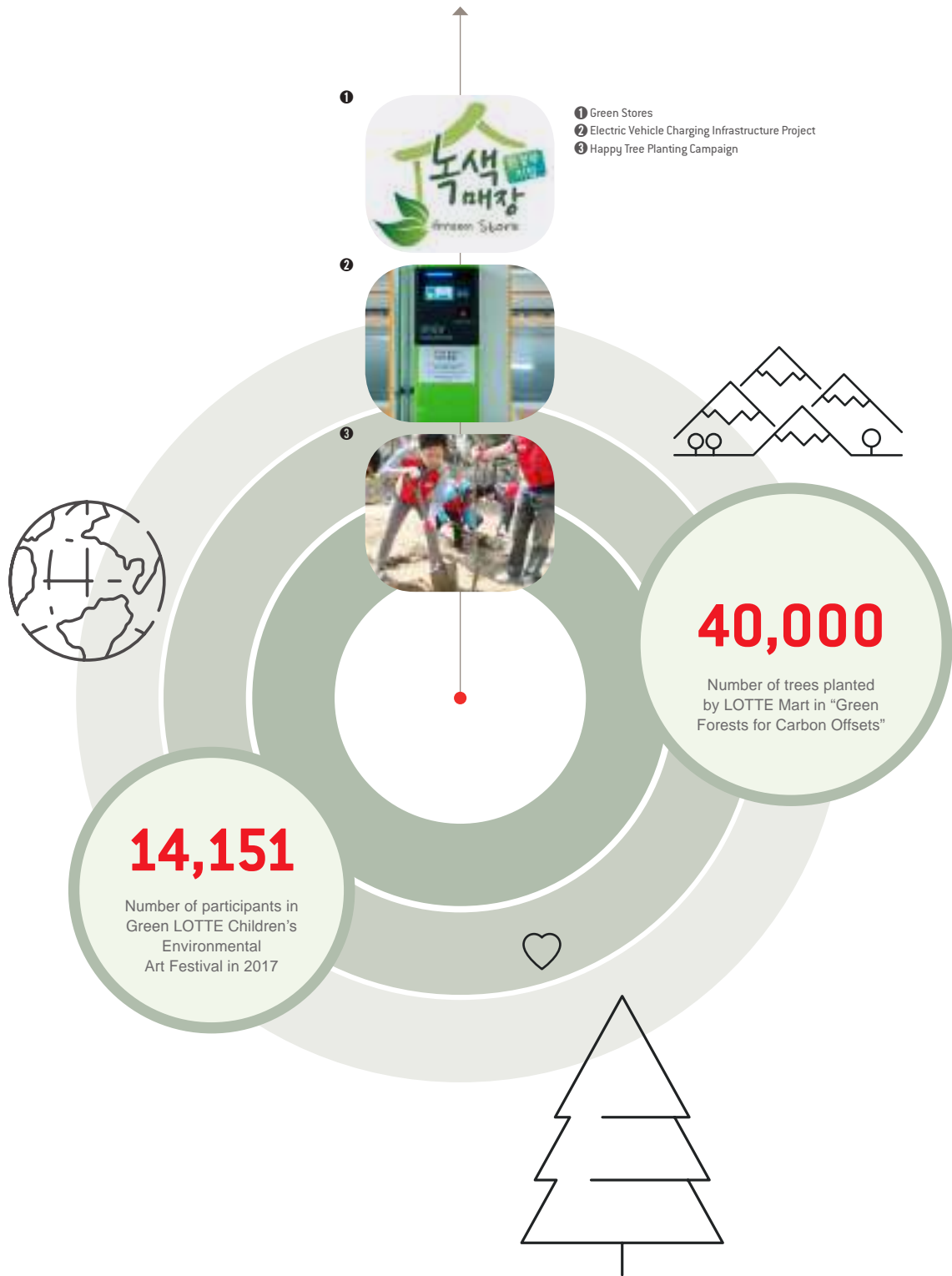
Lotte Mart works with government agencies and other food-related associations to ensure product safety. This includes the recent signing of an agreement with the Ministry of Environment regarding the safe management of chemicals that are used on household items. We also signed an MOU with the Korea Water and Wastewater Waterworks Association to distribute Korean Certification of Hygiene & Safety (KC)-certified water products. In addition, we are always on the lookout for products that may cause harm to consumers in our role as a member of the Regular Council of Retailers of the Korea Consumer Agency.

KEEPING STORES SAFE AND ACCIDENT-FREE

Lotte Shopping carries out monthly safety inspections of all its facilities. They include sales floor and back-office facilities, fire suppression facilities, gas-equipment-related facilities, escalators and elevators, construction sites, and hazardous materials. We also operate four-times-a-year safety and fire prevention clinics at our multi-use facilities. All our employees are expected to participate in safety education and training classes and to be familiar with information contained in our crisis response manual. This booklet includes step-by-step advice and recommendations for action in the event of fires, terrorist attacks, gas leaks, heavy rains, typhoons, and earthquakes.

2

LOTTE SHOPPING IS COMMITTED TO HELPING TO
KEEP THE ENVIRONMENT CLEAN AND HEALTHY. OUR
EFFORTS INCLUDE TAKING PART IN ENVIRONMENTAL
MANAGEMENT AND ECO-FRIENDLY CAMPAIGNS.



ENVIRONMENTAL MANAGEMENT

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

ECO SHOPS
Lotte Department Store's Eco Shops refer to eco-friendly multi-shops located at its main and Jamsil branches. Established in collaboration with the Korea Green Foundation, they encourage customers to adopt a sustainable lifestyle by buying environmentally friendly products, such as clothing made with eco-friendly materials, kitchen utensils and bath supplies sourced from natural products, and other items made from recycled materials. The proceeds from these sales are used to carry out a wide range of eco-friendly campaigns.

ENVIRONMENTAL MANAGEMENT POLICIES AND KEY INITIATIVES
Lotte Shopping has established a six-point environmental management policy to help protect the environment and promote eco-friendly, sustainable growth. Our commitment to environmental management is reflected in our "Green Lotte" slogan, and we are always striving to raise people's awareness of the importance of environmental values and the need for eco-friendly consumption. Lotte Mart carries out eco-friendly green management practices in three main areas: promoting green consumption, selling environmentally friendly products, and operating green stores.

GREEN STORES
We are constantly adding to our number of Lotte Department and Lotte Mart green stores, with an eventual goal of making all of them 100% environmentally friendly. This also leads to a reduction in our environmental quality improvement charges. "Green Stores" are designated by the Ministry of Environment and the Korea Environmental Industry & Technology Institute, and the term refers to retail outlets that have made significant contributions to a culture of eco-friendly consumption by means of environmentally friendly facilities, products, environmental awareness campaigns, and similar efforts. We currently operate one hundred such facilities.

Lotte Mart has spent KRW 23 billion installing solar power facilities at thirty-nine stores nationwide, producing 4,586 MW worth of electricity annually. We were also the first player in the nation's retail industry to participate in the Ministry of Environment's "Electric Vehicle Charging Infrastructure Project", taking the lead in expanding the supply of EV chargers for the future.

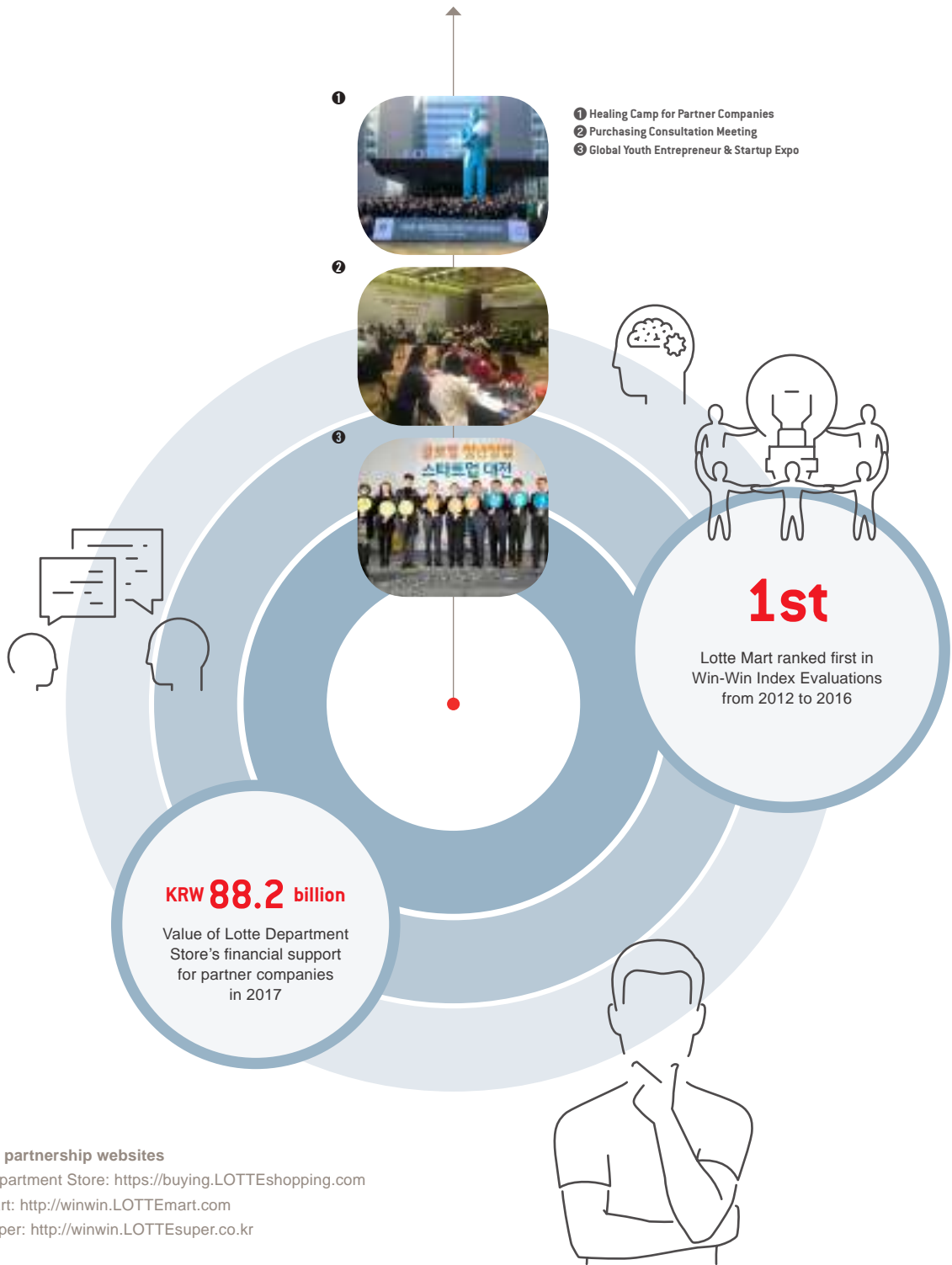
THE ENVIRONMENTAL DOOMSDAY CLOCK
Lotte Department Store installed an "environmental doomsday clock" in front of its main branch to raise people's awareness of the importance of a clean and healthy environment. The clock, which has been showing an ecological "doomsday time" since 2008, reminds people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

GREEN LOTTE CHILDREN'S ENVIRONMENTAL ART FESTIVAL
We have been sponsoring the Green Lotte Children's Environmental Art Festival, the largest of its kind, for the past thirty-eight years. The goal of the event is to make young people aware of the importance of a clean environment and the harm done by environmental pollution. 14,151 children participated in it in 2017.

HAPPY TREE PLANTING CAMPAIGN
Lotte Mart carries out a tree planting campaign to reduce air pollutants, such as fine dust and yellow dust, and to offset the production of greenhouse gases and carbon. In July 2014, we signed an MOU with the Ministry of Environment, the Korea Environmental Industry & Technology Institute, and Future Forests for a carbon offset forestation project, creating the first-ever "Green Forests for Carbon Offsets" near the Godeokcheon River in Seoul. This was followed by planting over 40,000 trees in the second, third, and fourth forests, with more than 1,000 customers assisting with the effort.

3

DEMONSTRATING NEW WAYS OF GROWING
TOGETHER WITH OUR PARTNER COMPANIES, YOUNG
ENTREPRENEURS, AND SMALL- AND MEDIUM-SIZED
ENTERPRISES



WIN-WIN PARTNERSHIPS

as well as buyers working for the company itself, with an opportunity to share common experiences and resolve mutual problems. The company also operates a Win-Win Growth Academy targeting the employees of its partner companies. It offers them both short- and long-term service and job training programs.

GLOBAL YOUTH & STARTUP BUSINESS
PROMOTION PROJECT

Lotte Shopping, in tandem with the Korea Institute of Startup & Entrepreneurship Development and the Korea Foundation for Co-operation of Large & Small Business and Rural Affairs, has been carrying out a “Global Youth & Startup Business Promotion Project” since 2015. It targets young entrepreneurs who have trouble finding markets for their products. In 2017, more than 150 of Lotte Group’s major affiliates helped support the sale of jewelry-like products made by young people. In addition, two hundred entrepreneurs and merchandisers engaged in cooperative mentoring activities to help make their products more attractive and share their sales knowledge. Some of Lotte Shopping’s other helping initiatives include holding sales promotions in Indonesia, Vietnam, and South Korea.

“YOUTH RESTAURANT” AND “YOUNG FARMER” PROJECTS

The “Lotte Mart Youth Restaurant” is an entrepreneurship incubation business that supports young entrepreneurs by allowing them to open stores within Lotte Mart sites. Lotte Mart provides full supports for these stores’ interiors, furnishings, equipment, and other expenses. The company also offers their operators advice regarding menu development and customer service.

The first Youth Restaurant, called “China & Tai,” opened in the Junggye store in 2016. It was followed by “Pan to Dish” in the Pyeongtaek store, “Chungmuro” in the Dongnae store, and “Chomyeon” in the Guri store in 2017. The restaurants posted sales of KRW 300 million in 2017. Lotte Super also carried out a “Young Farmer” assistance project with collaboration with the Ministry of Agriculture, Food and Rural Affairs and Chungcheongnam-do Province. It began selling “Youth Farm” eco-friendly products at its stores from the end of the year, providing their producers with assistance from production to marketing.

SME MARKETS AND JOB CREATION

Lotte Mart supports the development of locally-produced brands made by SMEs and companies operated by women. It also helped to raise people’s awareness of products made by disabled people by sponsoring the development of a brand called “MOASO” in 2014. In addition, it holds promotional events every year to support products made by vulnerable populations. Lotte Mart has also been promoting sales of a brand called “YEO:UM” to help create more employment opportunities for women. It began this project in 2017.

PROVIDING PARTNER COMPANIES WITH WORKING CAPITAL

Lotte Shopping participates in a number of financial support programs to help its partner companies manage their finances more efficiently. For example, Lotte Department Store operates a KRW 100 billion Win-Win Growth Fund that provides interest-free loans of up to KRW 400 million per partner. There is also a KRW 105 billion Shared Growth Fund that helps reduce their cost of borrowing from financial institutions. We also offer financial assistance to our partners for the purchase of raw and subsidiary materials, and work with the Industrial Bank of Korea to provide them with lines of credit. Lotte Mart operates a KRW 90 billion Shared Growth Fund that includes advance payments and family loan programs for SMEs. Lotte Super assists its partner companies through a KRW 23 billion Shared Growth Fund, interest-free advance payments, and other types of loans and assistance.

DREAM PLAZA, ENSURING MUTUALLY BENEFICIAL
GROWTH WITH SMES

Lotte Department Store provide SMEs with a stable market for their goods through its chain of Dream Plazas, South Korea’s first-ever outlets dedicated to offering SME-only products. The company currently operates four Dream Plazas, at its Main, Busan, Jamsil, and Yeongdeungpo branches. The company covers all the costs of the stores’ employees and their interior furnishings. The company also opened a Global Dream Plaza at its branch in Weihai, China in February 2017. It offers SMEs assistance in identifying new markets overseas by paying for their initial supply, transportation, customs clearance, and interior decorating expenses.

HELPING SMES IDENTIFY OVERSEAS MARKETS

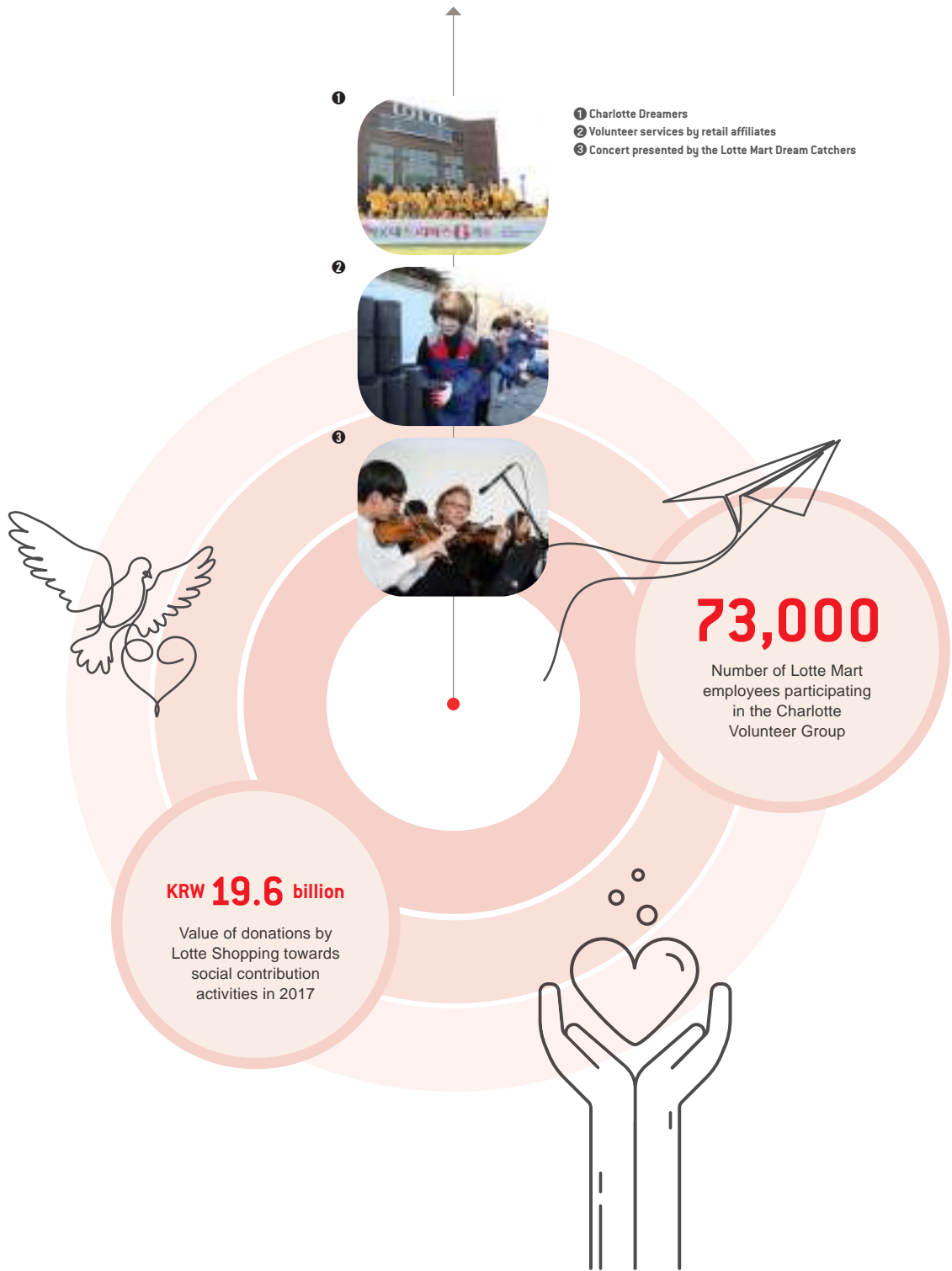
Lotte Department Store has a number of programs in place to help SMEs expand overseas. In 2017, the company hosted Overseas Purchase Consultation meetings in Ho Chi Minh City to help its SME partners find new markets abroad. Two hundred meetings were held, attended by twenty-one partner companies.

ENHANCING COMPETITIVENESS THROUGH
COMMUNICATIONS AND EDUCATION

Lotte Department Store has been enhancing communications with its partner companies through a “Healing Camp” program since 2015. The camp provides employees of the company’s partners,

4

HELPING TO DEAL WITH SOCIAL
ISSUES AND CREATE SHARED VALUES



SOCIAL CONTRIBUTION

VOLUNTEER ACTIVITIES

Lotte’s retail affiliates carried out a wide variety of social contribution activities in 2017. They included holding bazaars, visiting military units, and helping with the medical expenses of veterans’ families. In September, we held a “Jaemjaem Campaign” as part of a national blood donation program, and a “Jaemjaem Concert” to increase the public’s awareness of the continuing need for blood donations. In addition, we delivered a large number of blood donation certificates to the Severance Hospital, and assisted children suffering from cancer with their medical expenses. We also donated and delivered 500,000 charcoal briquettes to poor people and the underprivileged.

CAMPAIGNS TO HELP FUTURE GENERATIONS

Lotte Department Store carried out a series of social contribution campaigns in 2017, targeting elementary and college students. Working in groups of thirty “Charlotte Dreamers”, including college students and the children of employees of our partner companies, they participated in a number of volunteer activities in their role as public relations ambassadors for Lotte Department Store’s CSR activities.

The company helped train children as future environmental leaders by operating a “Lotte Department Store School on Board for Children”. The group, which was composed of thirty specially-selected children of our employees and our partner companies, learned about the history and cultures of East Asia and the importance of environmental protection. They also enjoyed a trip on a cruise ship to Russia and Japan.

HELPING NEIGHBORS IN NEED

Lotte Department Store has volunteer clubs at all its stores across the country. The clubs, whose members include store employees, the employees of our partner companies, and some highly-appreciated customers, carry out a wide range of volunteer activities, such as cleaning up the environment and helping people living in broken homes and sole-support senior citizens. They work in tandem with many organizations, such as local governments, NGOs, and social assistance facilities.

Lotte Super assists the communities in which it operates by engaging in a broad range of volunteer activities through its employee-based “Hanultari Volunteer Group”. This includes providing people in need with meals, working at blood donation clinics, and assisting in environmental maintenance activities.

HOPE FOR THE WORLD

Lotte Department Store works with Plan Korea to build “Lotte Schools” for kindergarten and elementary school children living in isolated regions of Vietnam. As of 2015, the company had helped build three Lotte Schools. It also paid for the installation of a 20-ton rainwater harvesting and treatment system to provide potable water to poor people living near Hanoi and Ho Chi Minh City. In addition, it helped install a 40-ton rainwater drinking facility in Jakarta, Indonesia in 2017.

DREAM CATCHERS: NURTURING THE TALENTS OF YOUNG MUSICIANS

Lotte Mart has been operating programs to nurture the talents of young musicians every year since 2011. In 2017, the “Dream Catchers” program selected thirty highly- promising future musicians for long-term support for a year or more. Their benefits include lessons by highly-regarded professionals, training in playing in ensembles and in concerts, and scholarships.

CHARLOTTE VOLUNTEER GROUP: CREATING BETTER FUTURES FOR CHILDREN

Lotte Mart founded the Charlotte Volunteer Group in 2011, with a slogan of “Future for Dream Trees”. Since then, 128 volunteer teams have formed one-on-one partnerships with an equal number of children’s social assistance facilities to carry out a variety of caring and sharing activities. As of 2017, 73,000 employees had volunteered an average of more than 1,500 hours a month, helping more than 6,500 children. Their efforts include supporting the children’s emotional development, helping them discover their talents and abilities, and assisting them with their studies and school supplies.

HELPING THE HUNGRY

Lotte Mart works with the Food Bank to donate food to social assistance facilities in the areas in which it operates. This is part of its strategy to develop “customized sharing” that meets the needs of both donors and beneficiaries. Donations in 2017 were worth a grand total of KRW 1.5 billion.



FINANCIAL REVIEW

With the transition into a holding company structure as momentum, Lotte Shopping is now able to focus more on improving its financial structure and generating earnings. This will allow us to deliver greater satisfaction and performance to our customers and shareholders by increasing our enterprise value.

Independent Aududors’ Report

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 at 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.

Consolidated Statements of Financial Position

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended 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
		6,295,311,076,552	16,932,314,925,387
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
		21,653,176,972,530	24,983,591,574,765
Total assets		27,946,488,049,082	41,915,906,500,152
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
		8,544,529,859,237	13,385,955,105,769
Non-current liabilities			
Borrowings and debentures, net of issuances 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
		6,052,605,867,573	11,265,909,501,706
Total liabilities		14,597,135,456,810	24,651,864,607,475
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		12,658,584,620,816	16,304,534,216,147
Non-controlling interest		692,767,971,456	959,507,676,530
Total equity		13,351,352,592,272	17,264,041,892,677
Total liabilities and equity		27,948,488,049,082	41,915,906,500,152

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

Consolidated Statements of Comprehensive Income(loss)

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in Korean won)

	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		7,636,212,676,604	7,871,619,643,971
Selling, general and administrative expenses	30,32,41	(7,106,353,540,813)	(7,108,293,437,561)
Operating profit		529,859,135,791	763,326,206,410
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		(170,082,790,328)	319,533,382,692
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		(20,636,693,242)	246,874,755,082
Other comprehensive income			
Items that will not be reclassified to profit or loss			
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		7,353,809,898	6,599,493,892
Items that may be subsequently reclassified to profit of loss			
Changes in the fair value of available-for-sale financial assets		(22,866,356,631)	(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 will not 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		(70,629,289,258)	(11,634,873,021)
Other comprehensive income for the year		(63,275,479,360)	(5,035,379,129)
Total comprehensive income (loss) for the year		(83,912,172,602)	241,839,375,953
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
		(136,395,172,880)	168,194,786,271
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
		115,758,479,638	78,679,968,811
		(20,636,693,242)	246,874,755,082
Total comprehensive income(loss) attributable to:			
Owners of the Parent Company			
Non-controlling interests		(182,926,701,489)	166,351,853,665
		99,014,528,887	75,487,522,288
		(83,912,172,602)	241,839,375,953
...

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

Consolidated Statements of Comprehensive Income(loss)

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in Korean won)

	Notes	2017	2016 (Unaudited)
Earnings (loss) per share	28		
Basic earnings (loss) per share (in won)			
From continuing operations		(19,184)	1,491
From discontinuing operations		14,082	3,766
Diluted earnings per share (in won)			
From continuing operations		(19,201)	1,491
From discontinuing operations		14,074	3,756

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

Consolidated Statements of Changes in Equity

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in Korean won)

	Share capital	Capital Surplus	Hybrid securities	Capital adjustments	Retained earnings	Accumuated other comprehensive in come(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	-	--	269,118,000,000	(37,021,389,821)	-	87,952,732,018	(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	-	(116,353,277,534)	11,933,964,242,662	-	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.

Consolidated Statements of Cash Flows

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in Korean won)

	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 operatings assets and liabilites	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)	-
...

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

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in Korean won)

	Notes	2017	2016
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			
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
Exchanges 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

Years Ended 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:

	Number of shares	Amount	NumPercentage 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
Total	28,122,047	140,610,235	100.00

(b) Subsidiaries

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

	2017			
Subsidiaries	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 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. ^(*)	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
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Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

	2017			
Subsidiaries	Location	Main business	Fiscal year end	Percentage of ownership (%)
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 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., LTD.	Vietnam	Distribution	Dec. 31	100.00
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%.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

Subsidiaries	2016			
	Location	Main business	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., Ltd.	Korea	Distribution	Dec. 31	100.00
Lotte Members Co., Ltd	Korea	Business support service	Dec. 31	93.88
LOTTE.COM INC	Korea	E-commerce business	Dec. 31	50.01
LOTTE PS NET	Korea	Financial support service	Dec. 31	63.64
Lotte Ulsan Development Co., Ltd.	Korea	Real estate business, Real estate lease	Dec. 31	94.84
Lotte (China) Management Co., Ltd.	China	Business management	Dec. 31	70.00
Lotte Shopping Holdings (Hong Kong) Co., Limited	Hong Kong	Holding company	Dec. 31	100.00
Qingdao LOTTE Mart Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
LOTTE MART COMPANY LIMITED	China	Distribution	Dec. 31	100.00
Liaoning LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart China Co., Ltd.	China	Distribution, Real estate development	Dec. 31	100.00
Swift Harvest Ltd. and its subsidiaries	Hong Kong	Distribution, Real estate development	Dec. 31	100.00
Hong Fung Ltd. and its subsidiaries	Hong Kong	Real estate development	Dec. 31	100.00
Nantong Meili Properties Limited	China	Real estate development	Dec. 31	100.00
Zhuji Decheng Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Yaodong Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fuhua Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Jinyou Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Branda Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Nantong Fortune Trade Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Spring Properties Limited	China	Real estate development	Dec. 31	100.00
Nantong Fine Port Properties Limited and its subsidiary	China	Real estate development	Dec. 31	100.00
Huai An Full Faith Properties Limited	China	Real estate development	Dec. 31	100.00
Jilin LOTTE Mart Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Mart (Chongqing) Commercial Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte Business Management (Tianjin) Co., Ltd.	China	Distribution	Dec. 31	100.00
Lotte 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 MART (CHENGDU) COMMERCIAL COMPANY LIMITED	China	Distribution	Dec. 31	100.00
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Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

Subsidiaries	2016			
	Location	Main business	Fiscal year end	Percentage of ownership (%)
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.

(*)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.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(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:

	2017						(in thousands of Korean won)
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	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 INDONESIA	286,978,227	155,111,527	131,866,700	857,311,840	11,510,661	(6,209,678)	
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.

	2016						(in thousands of Korean won)
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	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.

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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.)

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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:

2017			(in thousands of Korean won)
	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.

2016					(in thousands of Korean won)
	Woori Home Shopping & Television Co., Ltd. (*1)(*2)	LOTTE Himart 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.

Lotte Shopping Co., Ltd. and Subsidiaries

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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:

		2017					(in thousands of Korean won)
Subsidiaries	Transaction	Amount	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	Issuance of new shares	23,634,450	100.00%	100.00%	3,320,624	26,955,074	
Lotte Shopping Holdings (Hong Kong)Co., Limited		1,658,160	100.00%	100.00%	410,462,275	412,120,435	
LHSC Limited		40,793,530	100.00%	100.00%	(26,156,567)	14,636,964	
Swift Harvest Ltd. and its subsidiaries	Additional acquisition	12,189,816	91.14%	100.00%	(23,837,938)	(26,156,567)	
	Issuance of new shares	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.		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 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
- 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.

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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 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:

(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.

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(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 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 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

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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.

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

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.

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(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.

(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.

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.

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(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 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 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 ^(*)	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.

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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 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

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

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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

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.

(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

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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. 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 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.

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4.20. Revenue

(i) Sales of goods and rendering of services

The Group operates department stores, outlet stores, discount stores, consumer electronic retails, sup emarkets, 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.

(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.

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.

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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.

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

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.

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(a) Classification and Measurement of Financial Assets

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

Business model	The contractual cash flows characteristics	
	Solely represent payments of principal and interest	All other
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost ^{(*)1}	Recognized at fair value through profit or loss ^{(*)2}
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income ^{(*)1}	
Hold for sale	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.

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.

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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 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 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

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According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the relat-ed 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 Janu-ary 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 permit-ted. 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 Sub-stance of Transactions Involving the Legal Form of a Lease.

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

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

5. Trade and Other Receivables

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

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

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 addi-tion, 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 retro-spective application); or
- retrospectively with the cumulative effect of initially applying the standard recog-nized 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 esti-mates 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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6. Restricted Deposits

Restricted deposits included in short-term and long-term financial instruments as at December 31, 2017 and 2016, are as follows (in thousands of Korean won)

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

7. Fair Value of Financial Instruments

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

(in thousands of Korean won)

		2017			
		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.

(*)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.

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

	2017	2016
(in thousands of Korean won)		
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
	1,245,665,288	9,979,328,622
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
	1,702,498,327	2,319,321,553

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

	2017			2016	
	Number of shares	Percentage of ownership	Acquisition cost	Carrying amount	Carrying amount
(in thousands of Korean won)					
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
			101,732,174	270,711,624	280,519,592
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
			278,194,324	214,256,852	346,767,908
			379,926,498	484,968,476	627,287,500

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

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
(in thousands of Korean won)				
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 ^(*)				
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.

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

	2017	2016
(in thousands of Korean won)		
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
	504,089,415	626,344,936
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
	151,868,083	260,489,278

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(f) Fair value hierarchy

The fair value measurements classified by fair value hierarchy as at December 31, 2017 and 2016, are as follows: (in thousands of Korean won)

	2017			
	Level 1	Level 2	Level 3	Level 4
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
	270,711,624	35,043,834	174,871,018	480,626,476
Derivative liabilities	-	106,392,160	101,173	106,493,333
	-	106,392,160	101,173	106,493,333

	2016			
	Level 1	Level 2	Level 3	Level 4
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
	280,519,592	284,279,502	265,385,535	830,184,629
Derivative liabilities	-	5,189,519	26,281,467	31,470,986
	-	5,189,519	26,281,467	31,470,986

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.

(g) Level 3 Fair values

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

	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	174,769,845	239,104,068

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(h) 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

	Discount rate		Terminal growth rate	
	1% Decrease	1% Increase	1% Decrease	1% Increase
	11,050,281	(8,985,844)	2,918,924	6,170,074

(ii) Stock options (liability-classified)

	Discount rate		Stock price volatility	
	10% Decrease	1% Increase	10% Increase	1% Increase
	48,917	(48,881)	-	-

8. Inventories

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

	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
	1,403,613,128	(49,573,878)	1,354,039,250	3,356,711,931	(32,335,191)	3,324,376,740

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

(b) 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:

	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

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9. Other Non-financial Assets

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

(in thousands of Korean won)

	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
	193,161,093	322,866,076
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
	997,297,513	1,278,198,821
	1,190,458,606	1,601,064,897

10. Non-Current Assets Held For Sale

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

(in thousands of Korean won)

	2017	2016
Land ^(*1)	-	103,290
Buildings ^(*1)	-	2,163,987
Investment in joint venture ^(*2)	3,640,679	-
Total	3,640,679	2,267,277

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

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

(in thousands of Korean won)

Name of entity	2017			
	Location	Major operation	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
				370,316,131

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in thousands of Korean won)

Name of entity	2016			
	Location	Major operation	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
Coralis S.A.	Luxembourg	Holding company	45.00	1,242,209
Others ^(*1)	-	-	-	143,904,715
				1,236,881,806

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

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

(in thousands of Korean won)

	Beginning balance	Acquisition	2017	Share of profit (loss) of associates	Share of other comprehensive income of associate
			Dividends		
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)
	1,236,881,806	5,550,000	(50,647,583)	71,212,337	(26,791,980)

(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.	-	-	-	-
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.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(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
	(5,232,909)	(6,295,749)	(1,858,750)	1,236,881,806

(*)1 Changes in foreign currency translation and others are included.

(c) 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)

Company	2017							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income	Other comprehensive income	Total comprehensive income (loss)
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

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(in thousands of Korean won)

	2016							
	Current asset	Non-current asset	Current liabilities	Non-current liabilities	Sales	Operating income	Other comprehensive income	Total comprehensive income (loss)
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)

(*)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.

(d) 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)	-
Lotte GRS 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.

	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.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(e) Current and accumulated unrecognized equity method losses of associates as at December 31, 2017, are as follows: (in thousands of Korean won)

Description	Unrecognized losses for the year	Unrecognized accumulated losses
Coralis S.A.	(3,012,106)	(3,012,106)

12. Investments in Joint Venture

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

Name of entity	2017			
	Location	Major operation	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 Management Co., Ltd.	China	Cinema	49.00	747,972
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
				72,874,156

Name of entity	2016			
	Location	Major operation	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	-	-
				99,818,153

(*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.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

(b) 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
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)

	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.

	2016						
	Beginning balance	Acquisition	Dividends	Share of profit (loss) of associates	Share of othercomprehensive 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
	79,095,674	24,433,125	(4,393,613)	357,230	(1,732,628)	2,058,365	99,818,153

(*1) Changes in foreign currency translation and others are included.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

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

	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 shareholder

	2016							
	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.	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

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(d) 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
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.

(*)3 Transferred to the newly established corporation from spin-off during the year ended December

	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.

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13. Property, Plant and Equipment

(a) 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 losse	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
	21,450,257,296	(6,295,397,184)	(236,549,717)	14,918,310,395

(in thousands of Korean won)				
2016				
	Acquisition cost	Accumulated depreciation	Accumulated impairment losse	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
	22,433,081,895	(6,393,986,823)	(106,853,015)	15,932,242,057

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

(in thousands of Korean won)

2017								
	Beginning book amount	Acquisitions	Depreciation	Impairment	Disposals	Others ^(*)	Changes due to spin-off	Ending book amount
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
	15,932,242,057	846,438,707	(767,632,290)	(136,470,788)	(34,493,723)	(568,833,827)	(352,939,741)	14,918,310,395

(*) 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.

(in thousands of Korean won)

2016								
	Beginning book amount	Acquisitions	Increase from business combination	Depreciation	Impairment	Disposals	Others ^(*)	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
	15,759,106,916	1,179,132,914	1,606,710	(824,027,219)	(73,527,695)	(44,076,683)	(65,972,886)	15,932,242,057

(*) 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.

(c) 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	Impairment loss on property, plant and equipment		73,527,695
Impairment loss on intangible assets (excluding goodwill)		69,276,969	Impairment loss on intangible assets (excluding goodwill)		46,661,942
Impairment loss on goodwill		370,958,183	Impairment loss on goodwill		154,861,104
Impairment loss on other non-current assets		28,000,742	Impairment loss on other non-current assets		15,616,274
		604,706,682			290,667,015

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

(in thousands of Korean won)

2017					
Offered assets ^(*)	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.

(e) 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

(a) 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

(b) 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 ^(*)	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.

(in thousands of Korean won)

	2016				
	Beginning balance	Acquisitions	Depreciation	Others ^(*)	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.

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(c) 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:

	2017	2016
Rental income	106,760,565	75,182,970
Direct operating expense (including maintenance and repair expenses)	52,755,087	29,609,824

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

	Book amount	Fair value
Land and buildings	1,149,023,430	1,395,762,162

15. Goodwill and Intangible Assets

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

(in thousands of Korean won)

	2017				2016			
	Acquisition cost	Accumulated amortization	ccumulated 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

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

(in thousands of Korean won)

	2017							
	Beginning balance	Acquisition	Amortization	Impairment	Disposals	Others ^(*)	Changes due to spin-off	Ending balance
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
	3,356,698,015	72,864,880	(125,562,210)	(440,126,958)	(585,228)	(4,465,238)	(432,667,224)	2,426,156,037

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

(in thousands of Korean won)

	2016							
	Beginning balance	Acquisition	Business combination	Amortization	Impairment	Disposals	Others ^(*)	Ending balance
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
	3,578,389,147	76,477,843	36,523,771	(137,197,647)	(201,523,046)	(466,946)	4,494,893	3,356,698,015

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

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(c) 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:

	2017	2016
Department stores	192,600,753	198,463,619
Discount stores	81,636,940	326,632,037
Finance business ^(*)	-	113,319,928
Consumer electronics retail	1,242,973,285	1,242,973,285
Convenience stores ^(*)	-	202,948,489
Other ^(*)	406,692,663	507,613,101
	1,923,903,641	2,591,950,459

(*) 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).
- 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:

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

	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
	165,176,878	169,828,384

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:

	2017	2016
Trade payables	2,175,463,411	3,764,738,397
Other payables	1,318,970,294	2,020,613,480
	3,494,433,705	5,785,351,877

17. Borrowings and Debentures

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

	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)
	3,078,792,357	5,058,613,134
Non-current:		
Long-term borrowings	1,105,273,982	1,706,870,309
Discount on long-term borrowings	(6,037,489)	(790,586)
Discount on long-term debentures	3,497,263,515	7,729,855,000
Long-term debentures	(7,608,445)	(11,599,598)
Discount on debentures	4,588,891,563	9,424,335,125
	7,667,683,920	14,482,948,259

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(b) 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	403,000,000	687,500,000
			923,395,390	1,537,254,583

(c) 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
Subtotal			1,957,200,312	2,610,190,261
Less: Discount on borrowings			(6,042,456)	(877,580)
Subtotal			1,951,157,856	2,609,312,681
Less: Current portion of long-term borrowings, net of discount			(851,921,363)	(903,232,958)
			1,099,236,493	1,706,079,723

(d) 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 (foreign currency)	Jan. 29, 2019	3M USD Libor+0.02	107,140,000	120,850,000
70-1st placed	Apr. 04, 2019	1.77	100,000,000	100,000,000
70-2nd placed	Apr. 04, 2021	2.02	170,000,000	170,000,000
70-3rd placed	Apr. 04, 2026	2.48	70,000,000	70,000,000
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
...

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				2017	2016
Description	Maturity	Annual interest rate (%)			
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)	
			3,489,655,070	7,718,255,402	

(*)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.

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

	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
	1,957,200,312	4,801,043,515	6,758,243,827

18. Unearned Revenues

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

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

19. Provisions

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

	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
	68,755,478	184,291,884	(160,855,514)	(37,070,283)	55,121,565
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
	40,024,401	11,340,905	(2,362,046)	(45,700,626)	3,302,634
	108,779,879	195,632,789	(163,217,560)	(82,770,909)	58,424,199

(*)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.

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	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
	60,358,998	127,894,040	(119,497,560)	68,755,478
Non-current:				
Provision for unused credit card limits ^{(*)2}	27,290,568	6,269,499	-	33,560,067
Other provisions ^{(*)1}	5,166,992	2,590,627	(1,293,285)	6,464,334
	32,457,560	8,860,126	(1,293,285)	40,024,401
	92,816,558	136,754,166	(120,790,845)	108,779,879

(*) 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:

	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
	1,156,782,509	1,471,475,191
Non-current:		
Other liabilities	132,365,102	119,083,555
	132,365,102	119,083,555
	1,289,147,611	1,590,558,746

21. Employee Benefits

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

	2017	2016
Present value of defined benefit obligations	640,841,246	719,220,696
Fair value of plan assets	(659,357,789)	(706,365,385)
Net defined benefit liabilities (assets)	(18,516,543)	12,855,311

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

	2017	2016
Present value of other long-term employee benefits	53,230,383	56,052,147

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(c) Movements in the defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows: (in thousands of Korean won)

	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)
	(17,929,370)	(17,238,133)
Benefit payments	(64,299,912)	(48,388,976)
Others	3,197,192	4,385,401
Changes due to spin-off	(138,737,776)	-
Ending balance	640,841,246	719,220,696

(d) Movements in the plan assets for the years ended December 31, 2017 and 2016, are as follows: (in thousands of Korean won)

	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	(121,887,985)	-
Ending balance	659,357,789	706,365,385

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

(e) Plan assets as at December 31, 2017 and 2016, consist of: (in thousands of Korean won)

	2017	2016
Principal guaranteed insurance policies	659,205,954	706,190,859
Contributions to the National Pension Fund	151,835	174,526
	659,357,789	706,365,385

(f) Expenses recognized for the years ended December 31, 2017 and 2016, are as follows: (in thousands of Korean won)

	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
	115,606,723	119,556,323

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(g) The principal actuarial assumptions used as at December 31, 2017 and 2016, are as follows: (in thousands of Korean won)

	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%

(h) Sensitivity analysis

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

	Increase	Decrease
Discount rate (1% movement)	(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)

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

(i) The expected maturity analysis of the defined benefit obligation as at December 31, 2017, is as follows: (in thousands of Korean won)

	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

(a) 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 stocks or grants the right to sell preferred stocks 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.

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

Description	Type	2017		2016	
		Assets	Liabilities	Assets	Liabilities
Cash flow hedge	Currency swap	11,531,761	105,923,348	197,075,079	2,177,409
	Interest swap	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 option	-	101,173	1,312,363	26,281,467
		48,728,644	106,493,333	236,803,693	31,470,986

(c) Changes in the fair value of derivative instruments for the years ended December 31, 2017, are as follows:

Description	Type	Related accounts	Korean won (thousands)
Cash flow hedge	Currency swap	Loss on valuation of derivative instruments ^(*)	(137,100,000)
		Unrealized loss on valuation of derivative	(2,891,598)
	Interest swap	Unrealized gain on valuation of derivative instruments	4,117,760
		Unrealized gain on valuation of derivative instruments	312,828
Trade	Total return swap	Gain on valuation of derivative instruments	23,363,142
	Stock option	Loss on valuation of derivative instruments	(1,049,712)

(*) Fair value hedging is applied to currency rate swap portion of currency swaps.

23. Share Capital and Capital Surplus

(a) 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 ^(*)	140,610,235	157,454,460	

(*)1 Share capital decreased due to spin-off.

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

		(in thousands of Korean won)	
		2017	2016
Share premium ^(*)	3,381,364,716	3,786,431,052	
Others	124,320,816	124,320,816	
	3,505,685,532	3,910,751,868	

(*)1 Share capital decreased due to spin-off.

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24. Hybrid Securities

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

				(in thousands of Korean won)	
				2017	2016
	Date of issue	Date of maturity	Interest rate (%)		
Hybrid security 1-1 ^(*)	Nov.15, 2013	Nov.15, 2043	4.723	240,000,000	240,000,000
Hybrid security 1-2 ^(*)	Nov.15, 2013	Nov.15, 2043	4.723	30,000,000	30,000,000
Issuance cost				(882,000)	(882,000)
				269,118,000	269,118,000

(*) 1) Details of hybrid securities are as follows:

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

The Group holds the right to extend the maturity dates of the hybrid securities and to defer interest payments for the hybrid securities. If interest payments for the hybrid securities are deferred, the Group cannot declare or pay dividends attributable to 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.

25. Capital Adjustments

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

(*) 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:

		(in thousands of Korean won)	
		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	
	11,730,312,514	11,995,610,434	

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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:

	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)
	87,952,732	(52,392,606)	1,265,007	(119,553,432)	(82,728,299)

	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:

	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

	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:

	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

	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.

(c) Diluted weighted average number of ordinary 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 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

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

	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.

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(b) 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:

	2017	2016
(in thousands of Korean won)		
Contract assets		
Inventory expected for return	3,340,798	-
	3,340,798	-
Contract liabilities	63,116,532	69,002,091
Customer loyalty program	760,758,460	785,973,686
Gift vouchers	185,587,997	328,300,540
Other	1,009,462,989	1,183,276,317

(c) 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:

	2017
(in thousands of Korean won)	
Revenue	
Customer loyalty program	69,002,091
Other	302,301,831
	371,303,922
Collected	
Gift vouchers	325,874,234
	325,874,234

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

	1 year	Between 1-5 years	Over 5 years
(in thousands of Korean won)			
Book amount			
760,758,460	315,419,696	442,381,778	2,956,987

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:

	2017	2016
(in thousands of Korean won)		
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
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	2017	2016
(in thousands of Korean won)		
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
	7,106,353,541	7,108,293,438

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

	2017	2016
(in thousands of Korean won)		
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
	109,727,141	133,340,699

	2017	2016
(in thousands of Korean won)		
Other income:		
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
	734,162,938	462,993,764

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

32. Breakdown of Expenses by Nature

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

	2017	2016
(in thousands of Korean won)		
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
	17,650,011,965	23,351,002,589

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:

	2017	2016
(in thousands of Korean won)		
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
	361,908,735	196,018,851

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Years Ended December 31, 2017 and 2016

	2017	2016
(in thousands of Korean won)		
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
	505,780,747	371,049,030

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

	2017						
	Cash and cash equivalents	Loans and receivables	Available-for-sale financial assets	Financial assets and liabilities at fair value through profit or loss	Derivative assets and liabilities held for hedging	Financial liabilities based on amortized cost	Total
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)
	44,273,550	21,276,782	(9,165,221)	22,171,794	(167,698,800)	(65,735,182)	(154,877,077)
Recognized in other comprehensive income (loss) ^(*) :	-	-	(22,886,357)	-	-	-	(22,886,357)
Changes in the fair value of available-for-sale financial assets	-	-	-	-	1,538,990	-	1,538,990
Gain on valuation of derivative instruments	-	-	(22,886,357)	-	1,538,990	-	(21,347,367)
	44,273,550	21,276,782	(32,051,578)	22,171,794	(166,159,810)	(65,735,182)	(176,224,444)

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

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Years Ended December 31, 2017 and 2016

	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)
	45,316,278	665,329,392	2,471,204	13,401,032	66,573,583	(522,369,347)	270,722,142
Recognized in other comprehensive income (loss) ^{(*)1} :	-	-	(15,689,385)	-	-	-	(15,689,385)
Changes in the fair value of available-for-sale financial assets	-	-	-	-	4,760,001	-	4,760,001
Gain on valuation of derivative instruments	-	-	(15,689,385)	-	4,760,001	-	(10,929,384)
	45,316,278	665,329,392	(13,218,181)	13,401,032	71,333,584	(522,369,347)	259,792,758

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

34. Tax Expense

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

	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

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

	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.

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

	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
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	300,984,189	242,545,826
Effective tax rate	107.4%	49.6%

(d) 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.

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

	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)
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
	(1,273,747,991)	(40,792,155)	19,046,900	178,249,435	(1,117,243,811)

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	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
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
	(1,305,928,278)	28,944,799	3,235,488	(1,273,747,991)

(f) 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:

	2017		2016	
Investments in associates		260,175,535		321,551,841
Investments in subsidiaries		2,549,394,175		2,105,461,603
		2,809,569,710		2,427,013,444

35. Consolidated Statements of Cash Flows

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

	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
		2,626,243,926		2,269,177,234

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

	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	
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)	
	1,528,592,671		1,588,488,193	

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

	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)

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

	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	-

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

	Other assets	Liabilities from financing activities		Total
	Current derivative liabilities (assets) held for hedging	Short-term borrowings and debentures	Long-term borrowings and debentures	
Beginning balance	(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 ^(*)	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.

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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:

	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.

(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:

	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
	430,708,823	479,373,558

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:

	Emission (tCO ₂ -eq)
2015	860,971
2016	983,180
2017	945,425
	2,789,576

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.

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(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.

38. Operating Segment

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

	Department stores	Discount stores	Finance business ^(*)1)	Consumer electronics retail	Convenience stores ^(*)1)	Others
Main business	Retail stores for middle and higher-end merchandise	Retail and whole-sale stores for middle and discounted price merchandise	Credit financial services	Retail store for home appliance	General retail stores for mainly beverages and groceries	Others
Major products or services	Sales of merchandise and leasing	Sales of merchandise and leasing	Credit card and loan services	Sales of home appliance	Sales of merchandise and others	Sales of merchandise, leasing and others
Major customers	General consumers					

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

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

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

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

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

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

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(c) 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:

	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

	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

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

	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	7,354,760,503	3,202,592,688
	33,142,046,426	16,515,323,685
Elimination of inter-segment amounts	(5,193,558,377)	(1,918,188,228)
After consolidated adjustments	27,948,488,049	14,597,135,457

	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	7,341,040,793	2,987,128,467
	48,030,251,215	25,631,614,587
Elimination of inter-segment amounts	(6,114,344,715)	(979,749,980)
After consolidated adjustments	41,915,906,500	24,651,864,607

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

	2017	2016
(in thousands of Korean won)		
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:

		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

(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 manu- facturing amounts

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(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 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

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

Consolidated company				Type of
Subsidiaries ^(*1)	Provided by	Guarantee recipient	Guaranteed amount (thousands)	borrowings
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
		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'.

(b) 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.

(c) 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.

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41. Related Party Transactions

(a) 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.

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

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
Others^(*2):					
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
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
	328,911,125	2,438,902,091	323,066,847	30,232,415	722,228,924
Total^(*3)	514,260,427	2,641,006,614	385,377,738	30,925,458	1,101,709,184

(*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

Years Ended December 31, 2017 and 2016

Related parties	(in thousands of Korean won)				
	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
	147,035,671	277,780,990	380,043,591	918,310	370,859,750
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
	193,603,590	286,380,826	9,874,127	2,387,322	161,677,390
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
	144,447,162	2,658,393,959	63,906,977	20,294,431	526,727,192
Total	485,086,423	3,222,555,775	453,824,695	23,600,063	1,059,264,332

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.

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

Related parties ^(*1)	(in thousands of Korean won)				
	2017				
	Loans	Borrowings	Repayment	Capital increase	Capital deduction
Shareholders:					
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 MAN-AGEMENT CO.,LTD.	-	-	-	1,658,160	-
	-	-	-	11,068,227	-
Others^(*2):					
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.

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

Related parties	(in thousands of Korean won)			
	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
	20,000,000	21,125,278	31,608,468	6,295,749
Joint ventures:				
LOTTE JTB Co., Ltd.	-	-	10,000,000	-
PT. INDO LOTTE MAKMUR	-	-	14,433,125	-
	-	-	24,433,125	-
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	-	-
	25,394,226	5,415,035	27,054,868	-
	45,394,226	26,540,313	83,096,461	6,295,749

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

Related parties ^(*1)	(in thousands of Korean won)					
	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
Others^(*2):						
LOTTE Engineering & Construction Co.,Ltd	101,200	-	5,071,899	-	-	82,421,937
Lotte Confectionery Co., Ltd.(newly established corpora-tion) ^(*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

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

- (*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) 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 spining 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)					
2016					
Related parties	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
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
Total	23,011,722	470,745,919	338,440,270	150,335,421	469,545,346

(e) 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:

	Guarantee recipient	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	Working capital
Joint ventures:	The Export-Import Bank of Korea	USD 15,000,000	April 6, 2016 ~ April 6, 2019	
International Business Center Company Limited	Woori Bank	USD 4,000,000	April 6, 2017 ~ April 6, 2018	
Others:	The Export-Import Bank of Korea	USD 30,500,000	March 30, 2016 ~ March 30, 2019	
Lotte Properties (Shenyang) Limited	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	

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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.

(f) 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.

(g) 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 user	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	-
	LOTTE DEPARTMENT STORE MASAN CO.,LTD	6,000,000	1,015,054	816,812	198,242

- (*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

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

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:

	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
	5,932,282,835	14,931,471,174

(*)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:

	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
	3,327,519,823	16,951,973	20,684,455	3,365,156,251

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

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

	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
	12,482,979,465	228,020,248	249,456,297	12,960,456,010

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

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

	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	17,058,175	28,832,816

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

	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
Others	-	4,836
Changes due to spin-off	(210,881,849)	-
Ending balance	33,978	209,816,675

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

	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	3,592,302	4,621,074

Lotte Shopping Co., Ltd. and Subsidiaries

Years Ended December 31, 2017 and 2016

iii) Financial assets that are past due but nor impaired

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

(in thousands of Korean won)					
2017					
	Carrying amount	3 months or less	3 ~ 6 months	6 ~ 12 months	More than 1 year
Trade and other receivables	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.

(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	-	-	-	
	4,630,642,347	1,206,042,559	1,662,297,750	4,996,232,243	

(*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.

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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Years Ended December 31, 2017 and 2016

(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		
		Assets	Liabilities	
USD		5,661,773	1,755,032,286	35,930,637
EUR		230,345	1,620,287	33,650
JPY		4,433	94,911,000	145,245
HKD		5,104,927	-	13,462,922
CNY		7,210,297	26,274	40,936,143
VND		-	-	3,044
GBP		-	-	82
SGD		238	-	-
		18,212,013	1,851,589,847	90,511,723

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
USD		1,130.84	1,160.50	1,071.40
EUR		1,276.39	1,283.30	1,279.25
JPY		10.0852	10.6817	9.4911
HKD		145.13	149.51	137.07
CNY(*)1)		167.46	174.40	163.65
VND		-	0.0519	-
GBP		-	1,572.18	-
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.

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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:

	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
	(in thousands of Korean won)			
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.

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:

	2017	2016
	(in thousands of Korean won)	
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.

	2017		2016	
	100bp increase	100bp decrease	100bp increase	100bp decrease
	(in thousands of Korean won)			
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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Years Ended December 31, 2017 and 2016

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 as follows:

	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
	(in thousands of Korean won)			
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:

	2017	2016
	(in thousands of Korean won)	
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%

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

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

(in thousands of Korean won)

	2017
Current assets	
Cash and cash equivalents	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
	11,769,037,829
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
	2,243,236,967
Total assets	14,012,274,796
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
	5,624,265,282
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
	5,682,865,571
	11,307,130,853

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Years Ended December 31, 2017 and 2016

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	(3,064,342,284)	(3,953,571,846)
Gross profit	1,157,643,294	1,458,511,931
Selling, general and administrative expenses	(1,047,776,972)	(1,281,477,495)
Operating profit	109,866,322	177,034,436
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	2,002,303	518,802
Profit before income tax	72,886,797	169,887,198
Income tax expense	(27,521,281)	(47,571,751)
Profit for the year	45,365,516	122,315,447
Gain on settlement of spin-off	377,543,489	-
Profit from discontinued operations	422,909,005	122,315,447

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:

(in thousands of Korean won)

	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
	83,410,945	(2,655,089)

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.

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LOTTE SHOPPING ASPIRES TO BE A "LIFETIME VALUE CREATOR",
ADDING VALUE TO THE LIVES OF CUSTOMERS. FROM ENJOYABLE SHOPPING TO
DIVERSE EXPERIENCES, RELAXED LEISURE, AND HAPPY MEMORIES, WE ARE
CONSTANTLY OFFERING INNOVATIONS THAT MAKE CUSTOMERS' LIVES
MORE BEAUTIFUL AND ENRICHED.

IN ADDITION, WE WILL REMAIN DEDICATED TO CREATING A BROAD SPECTRUM OF
SOCIAL VALUES SO AS TO GROW TOGETHER WITH ALL OF OUR STAKEHOLDERS,
INCLUDING CUSTOMERS, SHAREHOLDERS, PARTNERS, AND LOCAL COMMUNITIES.
THROUGH THESE INITIATIVES, WE WILL CONTINUE TO WORK TOWARD THE FUTURE
OF RETAIL WHILE PROVIDING OUR CUSTOMERS WITH THE ULTIMATE IN
SHOPPING CONVENIENCE AND ENJOYMENT.